

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Pension scheme (Cont'd)

The Company's subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to this scheme.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets similar in nature to cash, which are not restricted as to use.

2. CORPORATE INFORMATION AND RELATED PARTY TRANSACTIONS

The principal activity of the Company is investment holding. During the year, the Group was involved in the following principal activities:

- marketing and distribution of pharmaceutical products, health care and nutritional products, and medical appliances and equipment; and
- development, manufacture and distribution of pharmaceutical products.

During the year, the Group paid rental expenses amounting to HK\$703,000 and nil (2000: HK\$703,000 and HK\$579,000) to Extrawell Holdings Limited ("EHL") for the leasing of properties in Hong Kong and the PRC, respectively, for use as office premises. EHL is a related company of the Group in which Messrs. Ho Chin Hou, Ho Yeong Fan, Ho Yu Ling and Li Qiang, certain of the directors and/or beneficial shareholders of the Company, have beneficial interests. The rental expenses were determined by the directors with reference to the then market conditions.

During the year ended 31 March 2000, the Group acquired its existing office premises in the PRC from EHL at a consideration of HK\$18,000,000, which represented the then market value of the property as confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers.

3. TURNOVER

Turnover represents the invoiced value of goods sold, net of trade discounts and returns, and after elimination of all significant intra-group transactions.

An analysis of the Group's turnover by principal activity disclosed pursuant to Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") is as follows:

	2001 HK\$'000	2000 HK\$'000
Products distributed by the Group:		
Pharmaceutical products	63,739	69,978
Health care and nutritional products	6,466	15,026
Medical appliances and equipment	6,901	13,862
Products manufactured by the Group	58,053	28,112
	<u>135,159</u>	<u>126,978</u>

The Group's turnover was derived from sales to customers based in the PRC.

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	73,743	85,102
Staff costs (excluding directors' remuneration, note 6)	11,178	9,603
Depreciation	3,468	2,320
Amortisation of intangible assets	864	—
Provision for bad and doubtful debts	4,324	987
Auditors' remuneration	740	720
Loss/(gain) on disposal of fixed assets	(5)	2
Operating lease rentals in respect of land and buildings	1,268	2,103
Exchange losses, net	641	1,895
Interest income on bank balances	(793)	(1,052)

The pension scheme contributions for the two years ended 31 March 2001 were insignificant.

Cost of inventories sold includes HK\$4,202,000 (2000: HK\$1,617,000) relating to staff costs and depreciation, which is also included in the respective total amounts disclosed separately above for these types of expenses.

5. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest expense on:		
Bank overdrafts and loans wholly repayable within five years	1,236	1,043
Other loans	530	551
	<u>1,766</u>	<u>1,594</u>

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Details of the remuneration of the Company's directors disclosed pursuant to Appendix 16 of the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive	20	—
Independent non-executive	—	—
	<u>20</u>	<u>—</u>
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	3,940	4,644
	<u>3,960</u>	<u>4,644</u>

The remuneration of each of the directors fell within the nil - HK\$1,000,000 band for each of the two years ended 31 March 2001.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

Five highest paid employees

The five highest paid employees during the year included four (2000: Four) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining highest paid, non - director employee, which fell within the nil - HK\$1,000,000 band (2000: One) are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	455	455

During the year, no emoluments were paid by the Group to the directors, or the highest paid, non-director employee as an inducement to join, or upon joining, the Group, or as compensation for loss of office (2000: Nil).

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 March 2001 and 2000.

7. TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Current:		
Hong Kong	—	18
Overseas	3,313	1,970
Tax charge for the year	3,313	1,988

Hong Kong profits tax has not been provided (2000: Provided at 16%) as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits of subsidiaries operating overseas during the year have been calculated at the rates of taxes applicable in the respective jurisdictions, based on existing legislation, interpretations and practices.

No deferred tax has been provided (2000: Nil) as the Company and the Group had no significant timing differences at the balance sheet date.

8. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company amounted to HK\$3,923,000 (2000: Profit of HK\$9,962,000).

9. DIVIDEND

	2001 HK\$'000	2000 HK\$'000
Interim dividend — Nil (2000: HK0.53 cents) per ordinary share	—	10,000

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$20,540,000 (2000: HK\$14,043,000) and the weighted average of 1,900,000,000 (2000: 1,900,000,000) ordinary shares in issue during the year.

Diluted earnings per share for the two years ended 31 March 2001 have not been calculated as no diluting events existed during these two years.

11. FIXED ASSETS

Group

	Leasehold land and buildings outside Hong Kong HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At 1 April 2000	30,232	13,523	6,181	1,810	51,746
Additions	18,000	33	227	477	18,737
Disposals	—	—	(121)	(447)	(568)
At 31 March 2001	48,232	13,556	6,287	1,840	69,915
Accumulated depreciation:					
At 1 April 2000	1,314	1,587	1,824	1,196	5,921
Provided during the year	1,184	1,445	662	177	3,468
Disposals	—	—	(31)	(417)	(448)
At 31 March 2001	2,498	3,032	2,455	956	8,941
Net book value:					
At 31 March 2001	45,734	10,524	3,832	884	60,974
At 31 March 2000	28,918	11,936	4,357	614	45,825

An analysis of the Group's cost of land and buildings outside Hong Kong at the balance sheet date is as follows:

	2001 HK\$'000	2000 HK\$'000
Leasehold land and buildings held under:		
Medium term leases	45,448	27,448
Short term leases	2,784	2,784
	48,232	30,232