

## • NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2002 except that the Group has adopted the following new/revised SSAPs issued by HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statement
SSAP 34	:	Employee benefits

The adoption of these revised and new SSAPs has resulted in the adoption of the following revised and new accounting policies and changes in the presentation of cash flow statement and the statement of changes in equity.

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 11 (Revised) has eliminated the choice of translating the income statement of overseas subsidiaries at the closing rate for the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group's overseas subsidiaries are translated at the exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the Group's overseas subsidiary is disposed of.

**1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with this revised SSAP.

The adoption of these revised and new accounting policies had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

**2. SEGMENT INFORMATION**
**i) Business segments**

The Group reports its primary segment information on its principal business segments and details for the six months ended 31 December 2002 together with comparative figures for the corresponding period in 2001 are as follows:

	Manufacture and distribution of pharmaceutical products		Corporate and others		Consolidated Total	
	2002	2001	2002	2001	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
External sales	<u>458,656</u>	<u>282,338</u>	<u>-</u>	<u>-</u>	(a) <u>458,656</u>	<u>282,338</u>
Segment results	<u>123,781</u>	<u>69,377</u>	<u>(4,631)</u>	<u>(6,029)</u>	(b) <u>119,150</u>	<u>63,348</u>
Interest income	2,525	1,118	16	32	(b) 2,541	1,150
Interest expense	-	(105)	-	-	-	(105)
Share of result of a jointly-controlled entity	-	(131)	-	-	-	(131)
Taxation	(29,602)	(9,079)	-	-	(29,602)	(9,079)
Minority interests					<u>(4,424)</u>	<u>(601)</u>
Profit attributable to shareholders					<u>87,665</u>	<u>54,582</u>

**2. SEGMENT INFORMATION** *(continued)*
**a) Turnover**

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Manufacture and distribution of:		
Anti-viral drugs	<b>116,246</b>	107,407
Anti-inflammatory	<b>64,324</b>	-
Anti-hypotensive drugs	<b>45,907</b>	24,518
Antibiotics	<b>44,116</b>	54,697
Anti-infective	<b>28,065</b>	-
Vitamins	<b>27,659</b>	29,301
Analgesics	<b>21,295</b>	22,537
Chinese patent medicines	<b>17,701</b>	17,894
Protein polysaccharide	<b>16,338</b>	-
Antalgica	<b>14,870</b>	-
Diagnostic kits	<b>14,139</b>	-
Chinese tonic liquor	<b>3,505</b>	17,201
Others	<b>44,491</b>	8,783
	<b>458,656</b>	<b>282,338</b>

**2. SEGMENT INFORMATION** *(continued)*
**b) Profit from operating activities**

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Manufacture and distribution of:		
Anti-viral drugs	<b>36,476</b>	35,681
Anti-inflammatory	<b>20,867</b>	-
Anti-hypotensive drugs	<b>12,533</b>	5,266
Antibiotics	<b>7,978</b>	11,698
Anti-infective	<b>7,382</b>	-
Vitamins	<b>6,778</b>	2,171
Analgesics	<b>3,910</b>	1,959
Chinese patent medicines	<b>3,300</b>	5,718
Protein polysaccharide	<b>3,372</b>	-
Antalgica	<b>3,514</b>	-
Diagnostic kits	<b>5,750</b>	-
Chinese tonic liquor	<b>1,243</b>	6,017
Others	<b>13,203</b>	1,985
	<b>126,306</b>	70,495
Corporate and others	<b>(4,615)</b>	(5,997)
	<b>121,691</b>	64,498

**ii) Geographical segment**

In determining the Group's geographical segment, revenues and results are attributed to the segments based on the location of the customers. No geographical segment information is presented as over 90% of the Group's revenue and results are derived from customers based in the People's Republic of China ("PRC").

### 3. TURNOVER

Turnover represents the net invoiced value of goods sold, net of trade discount and returns.

### 4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation	<b>8,394</b>	5,801
Amortisation of intangible asset	<b>2,866</b>	908
Amortisation of goodwill	<b>513</b>	231
Loss on written off of fixed assets	<b>-</b>	275
	<b><u>          </u></b>	<b><u>          </u></b>

### 5. TAXATION

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2002</b>	2001
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Overseas taxation charge	<b>29,602</b>	9,079
	<b><u>          </u></b>	<b><u>          </u></b>

No provision for Hong Kong profits tax or overseas taxation has been provided for the period in respect of certain companies of the Group because these companies did not generate any assessable profits during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

**5. TAXATION** *(continued)*

Tax has not been provided by a jointly - controlled entity of the Group as no assessable profits were generated during the period (2001: Nil).

Deferred tax has not been provided because there were no significant timing differences at 31 December 2002 (2001: Nil).

No deferred tax has been provided on the revaluation surplus of the Group's properties situated in the PRC because the Group presently does not have any intention to dispose of such properties.

**6. DIVIDENDS**

<b>Six months ended</b>	
<b>31 December</b>	
<b>2002</b>	2001
<b>(Unaudited)</b>	(Unaudited)
<b>HK\$'000</b>	HK\$'000

Final dividend for year ended  
30 June 2002 at HK4.5 cents  
(year ended 30 June 2001: HK4 cents)  
per ordinary share

<b>22,902</b>	<b>14,297</b>
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The Board does not recommend to pay any interim dividend in respect of the six months ended 31 December 2002 (2001: Nil).



**7. EARNINGS PER SHARE** *(continued)*

The computation of diluted earnings per share for the period ended 31 December 2002 does not assume the conversion of the Company's outstanding warrants since its exercise would result in an increase in earnings per share for the period.

**8. FIXED ASSETS**

The changes in fixed assets for the six months ended 31 December 2002 are analysed as follows:

	(Unaudited) HK\$'000
At 1 July 2002	105,846
On acquisition of subsidiaries	40,992
Additions	209
Depreciation	(8,394)
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<b>At 31 December 2002</b>	<b><u><u>138,653</u></u></b>

**9. GOODWILL**

The changes in goodwill for the six months ended 31 December 2002 are analysed as follows:

	(Unaudited) HK\$'000
At 1 July 2002	1,701
On acquisition of subsidiaries	3,368
Amortisation	(513)
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<b>At 31 December 2002</b>	<b><u><u>4,556</u></u></b>

## 10. INTANGIBLE ASSET

The changes in intangible asset for the six months ended 31 December 2002 are analysed as follows:

	(Unaudited) HK\$'000
At 1 July 2002	37,241
On acquisition of subsidiaries	68,706
Amortisation	(2,866)
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<b>At 31 December 2002</b>	<b>103,081</b>
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## 11. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable is as follows:

	<b>31 December 2002 (Unaudited) HK\$'000</b>	30 June 2002 (Audited) HK\$'000
Outstanding balances aged:		
30 days or less	<b>81,708</b>	88,071
31 days to 60 days	<b>81,378</b>	79,440
61 days to 180 days	<b>24,054</b>	10,323
Over 180 days	<b>478</b>	-
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Total	<b>187,618</b>	177,834
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**11. ACCOUNTS RECEIVABLE** *(continued)*

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for established customers when the terms are extended to 90 days. Each customer has a maximum credit limit, which is granted and approved by senior management. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. Accounts receivable are recognised and carried at their original invoiced amounts less any provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**12. ACCOUNTS PAYABLE**

The aged analysis of the Group's accounts payable is as follows:

	<b>31 December 2002 (Unaudited) HK\$'000</b>	30 June 2002 (Audited) HK\$'000
Outstanding balances aged:		
30 days or less	<b>42,631</b>	65,004
Over 30 days	<b>17,129</b>	952
	<b>59,760</b>	65,956

**13. SHARE CAPITAL**

	<b>31 December 2002 (Unaudited) HK\$'000</b>	30 June 2002 (Audited) HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each (30 June 2002: 1,000,000,000 ordinary shares of HK\$0.10 each)	<u><b>100,000</b></u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
508,932,000 ordinary shares of HK\$0.10 each (30 June 2002: 508,932,000 ordinary shares of HK\$0.10 each)	<u><b>50,893</b></u>	<u>50,893</u>

**14. ACQUISITION**

The assets and liabilities arising from the acquisition of the subsidiaries during the period are analysed as follows:

	<b>Six months ended 31 December 2002 (Unaudited) HK\$'000</b>
Fixed assets and construction in progress	41,901
Intangible assets	68,706
Bank loans	(27,572)
Minority interests	(4,680)
Other assets less liabilities	<u>4,769</u>
Fair value of net assets	83,124
Goodwill	<u>3,368</u>
Total purchase consideration	<u><b>86,492</b></u>

## 15. COMMITMENTS

As at 31 December 2002, the Group had the following commitments:

- a) Outstanding commitments not provided for in the financial statements:

	<b>31 December 2002 (Unaudited) HK\$'000</b>	30 June 2002 (Audited) HK\$'000
Contracted for:		
Purchase of fixed assets	<b><u>9,329</u></b>	<u>-</u>

- b) Total future aggregate minimum lease payments under operating leases in respect of land and buildings as follows:

	<b>31 December 2002 (Unaudited) HK\$'000</b>	30 June 2002 (Audited) HK\$'000
Within one year	<b>2,230</b>	2,230
In the second to fifth year inclusive	<b><u>2,083</u></b>	<u>3,198</u>
	<b><u>4,313</u></b>	<u>5,428</u>

## 16. CONTINGENT LIABILITIES

	<b>31 December 2002 (Unaudited) HK\$'000</b>	30 June 2002 (Audited) HK\$'000
Guarantees for bank loans granted to certain parties	<b><u>2,262</u></b>	<u>-</u>

## 17. RELATED PARTY TRANSACTIONS

During the six months ended 31 December 2002, the Group had the following transactions with related companies:

	Notes	Six months ended 31 December	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Advertising expenses	(i)	5,668	7,251
Purchases of packing materials	(ii)	33,433	33,268
Rental expenses	(iii)	676	670

Notes:

- (i) The advertising expenses were charged by 福建德勝廣告有限公司, a related company beneficially owned by Mr. Cai Chong Zhen, a director of the Company, based on the actual costs incurred by 福建德勝廣告有限公司 plus a mark-up of 10%.
- (ii) The directors consider that the purchases of packing materials from 福州德勝印刷有限公司, a related company beneficially owned by Mr. Chen Ching Ken, a director of the Company, were made on similar terms obtained from other suppliers of the Group and were carried out in the ordinary and usual course of business of the Group. The amount due to 福州德勝印刷有限公司 is unsecured, interest-free and has no fixed terms of repayment.
- (iii) The rental expenses were charged by 福建德勝實業有限公司 (the "Landlord"), a related company beneficially owned by Mr. Cai Chong Zhen. The rental was determined between the Landlord and the Group with reference to the prevailing market conditions.