1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 28 August 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of Chinese and western pharmaceutical products, and anti-tumour medicine
- trading of pharmaceutical products, healthcare products, and medical appliances and equipment
- research and development of pharmaceutical products

In the opinion of the directors, the ultimate holding company of the Company is Bull's-Eye Limited ("BEL"), a company incorporated in the British Virgin Islands (the "BVI").

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

Group reorganisation

Pursuant to a reorganisation scheme to rationalise the structure of the Group, in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 December 2002, the Company became the holding company of the companies now comprising the Group (the "Subsidiaries") on 20 September 2002. This was accomplished by the Company acquiring the entire issued share capital of Intended Features Limited ("IFL"), a company incorporated in the BVI and the then holding company of the other subsidiaries as set out in note 15 to the financial statements, in consideration and in exchange for, among other consideration, the allotment and issue of a total of 1,000,000 shares of HK$0.10 each in the share capital of the Company, credited as fully paid, to the former shareholders of IFL (the "Group Reorganisation").

Further details of the Group Reorganisation are set out in note 28 to the financial statements and in the prospectus issued by the Company dated 28 November 2002 (the "Prospectus").

Basis of presentation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions", issued by the Hong Kong Society of Accountants, as a result of the Group Reorganisation completed on 20 September 2002. Under this basis, the Company has been treated as the holding company of the Subsidiaries, except for 貴州禾創投資有限公司("禾創投資") and 成都禾創藥業有限公司 (formerly known as 成都醫藥採購供應站) ("禾創藥業") which were acquired subsequent to the Group Reorganisation, for the financial years presented, rather than from the date of their acquisition. Accordingly, the consolidated/combined results of the Group for the years ended 30 June 2002 and 2003 include the results of the Subsidiaries with effect from 1 July 2001. The results of 禾創投資 and 禾創藥業 are consolidated from the date of their acquisition.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION (cont'd)

Basis of presentation (cont'd)

In the opinion of the directors, the consolidated financial statements of the Group prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice are effective for the first time for the current year's financial statements:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements due to the adoption of these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 33 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and jointly-controlled entities are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 4 to the financial statements below.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (cont'd)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 29 to the financial statements. These share option schemes disclosure are similar to those required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), which are now included in the notes to the financial statements as a consequence of the SSAP.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

In prior years, the Group's land and buildings were stated at cost less accumulated depreciation and any impairment losses. Following the listing of the Company's shares on the Stock Exchange during the year, the Group's land and buildings are stated at valuation less accumulated depreciation and any impairment losses which, in the opinion of the directors, are more appropriate in reflecting the fair value of the assets.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings outside Hong Kong	Over the lease terms
Leasehold improvements	25%
Plant and machinery	5% to 20%
Furniture, fixtures, office equipment and motor vehicles	12.5% to 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Technical knowhow

The cost of acquiring the rights to technical knowhow for the development and production of new pharmaceutical products is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated economic lives of the knowhow of a maximum of five years, commencing from the date when the products are put into commercial production.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Intangible assets (cont'd)

Research and development costs
All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Project development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected commercial lives of the underlying products of a period up to a maximum of eight years, commencing from the date when the products are put into commercial production.

Impairment of assets
An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Subsidiaries
A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of a period up to a maximum of 20 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint venture companies (cont'd)

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(ii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(iv) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Accounts receivable

Accounts receivable, which generally have credit terms up to 120 days, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Leased assets

Leases that transfer substantially all of the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies (cont'd)

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 3 to the financial statements, the profit and loss accounts of overseas subsidiaries and jointly-controlled entities and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAPs 11 and 15 has had no material effect on the financial statements.

Employee benefits

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant regulations in the People's Republic of China (the "PRC"), certain subsidiaries of the Company are required to participate in the employee retirement scheme administered by the relevant local government bureau in Mainland China, and to make contributions for their employees who are eligible to participate in the scheme. The contributions to be borne by the Group are calculated at a certain percentage of the salaries and wages for those eligible employees and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

5. SEGMENT INFORMATION

Detailed segment information is presented by way of the Group's primary segment reporting basis, which is by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the manufacturing segment engages in the manufacture and sale of Chinese and western pharmaceutical products, and anti-tumour medicine; and

(b) the trading segment engages in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment. The trading business was acquired in June 2003 and did not contribute any revenue and operating results to the Group for the year ended 30 June 2003.

5. SEGMENT INFORMATION (cont'd)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

	Manufacturing		Trading		Consolidated	
	2003 HK$'000	2002 HK$'000	**2003 HK$'000**	2002 HK$'000	**2003 HK$'000**	2002 HK$'000
Segment revenue						
Sales to external customers	**219,043**	173,176	**—**	—	**219,043**	173,176
Segment profits	**114,939**	98,515	**—**	—	**114,939**	98,515
Interest income					**928**	1,432
Unallocated expenses					**(6,085)**	(5,083)
Profit from operating activities					**109,782**	94,864
Finance costs					**(3,563)**	(2,842)
Profit before tax					**106,219**	92,022
Tax					**(17,186)**	(13,378)
Profit before minority interests					**89,033**	78,644
Minority interests					**(3,150)**	(2,775)
Net profit from ordinary activities attributable to shareholders					**85,883**	75,869

5. SEGMENT INFORMATION (cont'd)

Business segments (cont'd)

	Manufacturing		Trading		Consolidated	
	2003 HK$'000	2002 HK$'000	**2003 HK$'000**	2002 HK$'000	**2003 HK$'000**	2002 HK$'000
Segment assets	**250,388**	182,709	**53,911**	—	**304,299**	182,709
Investment in a jointly-controlled entity					**—**	—
Unallocated assets					**79,064**	13,469
Total assets					**383,363**	196,178
Segment liabilities	**86,616**	77,251	**36,541**	—	**123,157**	77,251
Unallocated liabilities					**2,464**	2,067
Total liabilities					**125,621**	79,318
Other segment information:						
Capital expenditure	**9,252**	14,641	**47,844**	—	**57,096**	14,641
Unallocated capital expenditure					**31**	5
					57,127	14,646
Depreciation and amortisation	**4,240**	2,508	**—**	—	**4,240**	2,508
Unallocated depreciation					**424**	422
					4,664	2,930
Other non-cash expense	**28**	204	**—**	—	**28**	204
Surplus on revaluation recognised directly in equity	**3,561**	—	**—**	—	**3,561**	—

6. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

7. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	**2003 HK$'000**	2002 HK$'000
Cost of inventories sold#		**77,999**	62,465
Staff costs (excluding directors' remuneration, note 9)			
Wages and salaries		**5,874**	5,273
Pension scheme contributions		**465**	340
		6,339	5,613
Depreciation	14	**3,790**	2,153
Amortisation of intangible assets*	17	**874**	777
Auditors' remuneration		**1,000**	900
Minimum lease payments under operating leases for land and buildings		**1,151**	1,679
Research and development costs		**1,146**	643
Loss on write off/disposal of fixed assets		**28**	204
Interest income on:			
Amount due from a related company		**—**	(946)
Bank balances		**(928)**	(486)

The cost of inventories sold includes HK$5,325,000 (2002: HK$3,667,000) relating to staff costs, depreciation, amortisation of intangible assets and minimum lease payments under operating leases for land and buildings, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

* The amortisation of intangible assets for the year is included in "Cost of sales" on the face of the consolidated profit and loss account.

8. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest expense on:		
Bank loans wholly repayable within five years	**3,538**	2,799
Finance lease	**25**	43
	3,563	2,842

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Fees:		
Executive directors	**—**	—
Independent non-executive directors	**200**	—
	200	—
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	**587**	523
	787	523

The remuneration of each director fell within the nil to HK$1,000,000 band for the years ended 30 June 2002 and 2003.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: Nil).

During the year, share options carrying the rights to subscribe for a total of 17,000,000 shares in the Company were granted to the directors in respect of their services to the Group, further details of which are set out in note 29(b) to the financial statements. No value in respect of the share options granted during the year has been charged to the consolidated profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (cont'd)

Five highest paid employees

The five highest paid employees during the year included two (2002: two) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining three (2002: three) highest paid, non-director employees, which fell within the nil to HK$1,000,000 band, are set out as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**1,026**	802
Pension scheme contributions	**29**	—
	1,055	802

During the year, no emoluments were paid by the Group to the directors, or the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2002: Nil).

During the year, share options to subscribe for a total of 7,000,000 shares in the Company were granted to two of the highest paid, non-director employees in respect of their services to the Group, further details of which are included in the disclosures in note 29(b) to the financial statements. No value in respect of the share options granted during the year has been charged to the consolidated profit and loss account, or is otherwise included in the above five highest paid employees' remuneration disclosures.

10. TAX

	Group	
	2003	2002
	HK$'000	HK$'000
Current year provision - outside Hong Kong	**17,186**	13,378

Hong Kong profits tax has not been provided (2002: Nil) as the Group had no 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 in respect thereof.

Pursuant to an approval received from 貴州省科學技術廳 on 25 December 2000, Guizhou Hanfang Medicine Manufacture Co., Ltd. ("GHMM"), a subsidiary of the Company, was classified as one of the approved "High and New Technology Enterprises" in Mainland China. Accordingly, GHMM is entitled to a preferential PRC corporate income tax rate of 15% effective from 1 January 2002. Prior to 1 January 2002, GHMM was entitled to a 50% relief from PRC corporate income tax under the Income Tax Law of the PRC. The tax rate applicable to GHMM during the period from 1 July 2001 to 31 December 2001, after the above-mentioned 50% relief, was 12%.

The revaluation of the Group's medium term leasehold land and buildings outside Hong Kong (note 14) does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Deferred tax has not been provided because the Company and the Group had no significant timing differences at the balance sheet date (2002: Nil).

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2003 dealt with in the financial statements of the Company was HK$12,749,000 (2002: Nil).

12. DIVIDENDS

	2003 HK$'000	2002 HK$'000
Interim	—	62,823
Proposed final - HK2 cents per ordinary share (2002: Nil)	12,411	—
	12,411	62,823

The interim dividends for the year ended 30 June 2002 were distributed by IFL to its then shareholders prior to the Group Reorganisation and listing of the Company's shares on the Stock Exchange. The rates of the dividends and the number of shares ranking for these dividends are not presented as the directors consider that such information is not meaningful for the purpose of these financial statements.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share, on a consolidated basis, is based on the net profit from ordinary activities attributable to shareholders for the year of HK$85,883,000 (2002: HK$75,869,000) and the weighted average of 525,244,000 (2002: 468,600,000) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the earnings per share for the year ended 30 June 2002 includes the pro forma issued share capital of the Company, comprising the 1,000,000 shares issued nil paid on incorporation of the Company, the 1,000,000 shares issued as consideration for the acquisition of the entire issued share capital of IFL and the capitalisation issue of 466,600,000 shares as further detailed in note 28 to the financial statements. The weighted average number of shares used to calculate the earnings per share for the year ended 30 June 2003 comprises the above shares and the weighted average of the 99,400,000 shares issued upon the listing of the Company's shares on 10 December 2002.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$85,883,000. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the 525,244,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 658,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all pre-initial public offering ("IPO") share options (note 29(a)) outstanding during the year. The exercise price of post-IPO share options (note 29(b)) granted on 16 May 2003, which were outstanding during the year, was higher than the average market price of the Company's shares and, accordingly, there was no dilutive effect on the basic earnings per share.

Diluted earnings per share amount for the year ended 30 June 2002 has not been shown as there were no diluting events existed during that year.

14. FIXED ASSETS

Group

	Medium term leasehold land and buildings outside Hong Kong HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At 1 July 2002	23,560	876	29,135	5,403	58,974
Additions	402	4	514	1,414	2,334
Acquisition of subsidiaries (note 31(a))	46,287	—	—	1,557	47,844
Write off	—	(3)	—	(53)	(56)
Surplus on revaluation	938	—	—	—	938
At 30 June 2003	71,187	877	29,649	8,321	110,034
Analysis of cost or valuation:					
At cost	—	877	29,649	8,321	38,847
At 30 June 2003 valuation	71,187	—	—	—	71,187
	71,187	877	29,649	8,321	110,034
Accumulated depreciation:					
At 1 July 2002	1,614	305	2,375	2,468	6,762
Provided during the year	1,009	176	1,858	747	3,790
Write off	—	(1)	—	(27)	(28)
Write back on revaluation	(2,623)	—	—	—	(2,623)
At 30 June 2003	—	480	4,233	3,188	7,901
Net book value:					
At 30 June 2003	71,187	397	25,416	5,133	102,133
At 30 June 2002	21,946	571	26,760	2,935	52,212

14. FIXED ASSETS (cont'd)

All of the Group's medium term leasehold land and buildings were revalued as at 30 June 2003, by DTZ Debenham Tie Leung Limited, a firm of independent professionally qualified valuers, on a depreciated replacement cost basis.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$67,626,000 (2002: HK$21,946,000).

At 30 June 2003, the Group's land and buildings, and plant and machinery with carrying values of approximately HK$71,187,000 (2002: buildings of HK$20,535,000) and HK$25,416,000 (2002: HK$26,760,000), respectively, were pledged to secure certain banking and other loan facilities granted to the Group (note 26).

The net book value of a motor vehicle held under a finance lease included in the total amount of fixed assets at 30 June 2003 amounted to HK$459,000 (2002: HK$630,000).

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	**133,700**	—

The amounts due from subsidiaries are unsecured, interest-free and are repayable on demand.

15. INVESTMENTS IN SUBSIDIARIES (cont'd)

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued share/ registered capital**	**Percentage of equity attributable to the Company**	**Principal activities**
Directly held				
Intended Features Limited	BVI	US$375,875 Ordinary	100	Investment holding
Indirectly held				
Lavish Ruby Limited	BVI/ Mainland China	US$10,000 Ordinary	100	Distribution of pharmaceutical products
Guizhou Hanfang Medicine Manufacture Co., Ltd. (Note 1)	Mainland China	RMB27,000,000 (2002: RMB3,000,000)	100 (2002: 96.65)	Manufacture and sale of Chinese and western pharmaceutical products, and anti-tumour medicine
Guizhou Hanfang Xifeng Medical Industry Company Limited ("GHXF") (Note 2)	Mainland China	RMB3,000,000	95 (2002: 91.82)	Property holding
成都禾創藥業有限公司 (Note 3)	Mainland China	RMB11,659,653	100	Trading of pharmaceutical products, healthcare products, and medical appliances and equipment

15. INVESTMENTS IN SUBSIDIARIES (cont'd)

Notes:

1. GHMM is a wholly foreign owned enterprise established in the PRC with an operating period of 20 years commencing from 4 July 1992. On 30 June 2003, the Group acquired the remaining 3.35% equity interest in GHMM from Guiyang Headboy Kids Accessories Company Limited ("Headboy Kids"). As a result, GHMM was converted from a sino-foreign equity joint venture to a wholly foreign owned enterprise and became a wholly-owned subsidiary of the Group (note 33(a)). Headboy Kids is beneficially owned by Mr. Deng Jie ("Mr. Deng") and Mr. Long Xian Feng ("Mr. Long"), two of the directors of the Company.

2. GHXF was established by GHMM as a limited liability company for an unlimited operating period commencing from 19 March 1996. The remaining 5% equity interest in GHXF is beneficially owned by Headboy Kids.

3. 禾創藥業 is a limited liability company established in the PRC. Prior to its acquisition by the Group during the year, 禾創藥業 was a state-owned enterprise (note 31(a)).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would be, in the opinion of the directors, result in particulars of excessive length.

16. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net assets	—	—

Particulars of the jointly-controlled entity are as follows:

Name	**Business structure**	**Place of registration and operations**	**Percentage of equity attributable to the Group**	**Principal activities**
Guizhou Hanfang Medicine Research Co., Ltd. ("GHMR")	Corporate	Mainland China	50 (2002: 48.33)	Research and development of Chinese and western medicine

In accordance with the joint venture agreement (the "JV Agreement"), the Group is entitled to share the results of the jointly-controlled entity according to the Group's equity interests therein. In addition, the Group has the right to, and has appointed, two representatives out of the five directors on the board of directors of GHMR.

During the year, the Group did not share any of the losses of GHMR as, according to the JV Agreement, the Group's share of the losses of GHMR is limited to its capital contribution to GHMR (2002: Nil).

17. INTANGIBLE ASSETS

Group

	Technical knowhow HK$'000	Deferred development costs HK$'000	Total HK$'000
Cost:			
At 1 July 2002	—	5,674	5,674
Additions	6,949	—	6,949
At 30 June 2003	6,949	5,674	12,623
Accumulated amortisation:			
At 1 July 2002	—	1,452	1,452
Provided during the year	92	782	874
At 30 June 2003	92	2,234	2,326
Net book value:			
At 30 June 2003	6,857	3,440	10,297
At 30 June 2002	—	4,222	4,222

18. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of additional interests/interests in subsidiaries, are as follows:

	Group	
	Goodwill HK$'000 (note 33(a))	Negative goodwill HK$'000 (note 31(a))
Cost:		
Acquisition of additional interests/interests in subsidiaries during the year ended and at 30 June 2003	2,559	(37,997)
Accumulated amortisation:		
Amortisation provided/(recognised as income) during the year and at 30 June 2003	—	—
Net book value:		
At 30 June 2003	2,559	(37,997)

The above acquisitions were completed in June 2003 and, accordingly, no amortisation has been provided for/recognised as income during the year.

19. LONG TERM DEPOSITS

The long term deposits represent deposits paid in respect of:

	Group	
	2003	2002
	HK$'000	HK$'000
Purchases of technical knowhow	**6,967**	1,920
Purchases of plant and machinery	**2,336**	—
	9,303	1,920

20. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**3,988**	1,621
Work in progress	**234**	—
Finished goods	**11,184**	1,056
	15,406	2,677

At the balance sheet date, no inventories were stated at net realisable value (2002: Nil).

21. ACCOUNTS RECEIVABLE

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 90 days	**70,572**	36,242
91 to 180 days	**31,839**	15,833
181 to 365 days	**4,843**	6,440
	107,254	58,515

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables are the deposits of HK$18,691,000 (2002: Nil) and HK$14,019,000 (2002: Nil) paid by the Group for certain potential investment purpose. These deposits were fully refunded to the Group subsequent to the balance sheet date.

23. CASH AND BANK BALANCES

At 30 June 2003, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$60,260,000 (2002: HK$58,680,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Within 90 days	**19,837**	1,821
91 to 180 days	**2,932**	129
181 to 365 days	**1,578**	300
Over 1 year	**1,746**	—
	26,093	2,250

25. DUE TO A SHAREHOLDER

The amount due to a shareholder was unsecured, interest-free and was fully settled during the year.

26. BANK AND OTHER LOANS

	Group	
	2003	2002
	HK$'000	HK$'000
Bank loans:		
Secured	**69,982**	46,803
Unsecured	**879**	—
	70,861	46,803
Bank loans repayable:		
Within one year	**52,169**	31,009
In the second year	**18,692**	15,794
	70,861	46,803
Portion classified as current liabilities	**(52,169)**	(31,009)
Long term portion	**18,692**	15,794

At 30 June 2003, the Group's bank loans were supported by the following:

(a) the pledge of the Group's land and buildings, and plant and machinery of HK$24,900,000 (2002: buildings of HK$20,535,000) and HK$25,416,000 (2002: HK$26,760,000), respectively; and

(b) a corporate guarantee from a subsidiary of the Company.

The bank loans for the year ended 30 June 2002 were also supported by corporate guarantees executed by 貴州漢方(集團)有限公司("漢方(集團)"), a related company in which Mr. Zhang Peter Y. ("Mr. Zhang"), Mr. Deng and Mr. Long, certain directors of the Company, have beneficial interests, and two unrelated companies. The guarantees executed by 漢方(集團) and the two unrelated companies were released during the years ended 30 June 2002 and 2003, respectively.

In addition, the Group's banking facility of HK$50,000,000, which had not been utilised at 30 June 2003, is supported by the following:

(a) a corporate guarantee from the Company;

(b) the personal guarantees from Mr. Zhang and Mr. Xu Peng, two of the directors and beneficial shareholders of the Company; and

(c) the pledge of a bank deposit of HK$20,000,000 (2002: Nil).

26. BANK AND OTHER LOANS (cont'd)

At 30 June 2003, the above bank deposit of HK$20,000,000 was not yet pledged to the bank as the related banking facility had not been utilised.

Details of the covenants undertaken by BEL and a company beneficially owned by a sister of Mr. Zhang are set out under the heading "Practice Note 19 of the Listing Rules" of the Report of the Directors.

Other loans, which were acquired by the Group through the acquisition of 禾創藥業, were interest-free and secured by certain of the Group's land and buildings of HK$46,287,000 (2002: Nil). Other loans of HK$12,149,000 (2002: Nil) were fully settled subsequent to the balance sheet date.

27. FINANCE LEASE PAYABLES

The Group leases its motor vehicle under a finance lease for an initial lease term of four years. This lease is classified as a finance lease and has a remaining lease term of 14 months.

At 30 June 2003, the total future minimum lease payments under the finance lease and their present values were as follows:

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**245**	245	**234**	233
In the second year	**41**	245	**40**	221
In the third to fifth years, inclusive	**—**	41	**—**	40
Total minimum finance lease payments	**286**	531	**274**	494
Future finance charges	**(12)**	(37)		
Total net finance lease payables	**274**	494		
Portion classified as current liabilities	**(234)**	(219)		
Long term portion	**40**	275		

28. SHARE CAPITAL

Shares

	Company	
	2003 **HK$'000**	2002 HK$'000
Authorised:		
2,000,000,000 (2002: 1,000,000) ordinary shares of HK$0.10 each	**200,000**	100
Issued and fully paid:		
568,000,000 ordinary shares of HK$0.10 each (2002: 1,000,000 nil paid ordinary shares of HK$0.10 each)	**56,800**	—

The following movements in the Company's authorised and issued share capital took place during the period from 28 August 2000 (date of incorporation) to 30 June 2003:

(a) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares of HK$0.10 each, all of which were allotted and issued nil paid on 28 August 2000.

(b) On 20 September 2002, the authorised share capital of the Company was increased from HK$100,000 to HK$200,000 by the creation of a further 1,000,000 shares of HK$0.10 each. On 25 November 2002, the authorised share capital of the Company was further increased from HK$200,000 to HK$200,000,000 by the creation of a further 1,998,000,000 shares of HK$0.10 each.

(c) On 20 September 2002, as part of the Group Reorganisation detailed in note 2 to the financial statements, the Company issued an aggregate of 1,000,000 shares of HK$0.10 each, credited as fully paid, to the former shareholders of IFL, in partial consideration for the acquisition of the entire issued share capital of IFL. The excess of the fair value of the shares of IFL, determined on the basis of the consolidated net asset value of IFL and its then subsidiaries at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK$133,600,000, was credited to the Company's share premium account as set out in note 30(b) to the financial statements.

(d) On 20 September 2002, an amount of HK$100,000, being a portion of the amount credited to the share premium account of the Company on the issue of shares in exchange for the shares of IFL as set out in (c) above, was applied to pay up in full at par the 1,000,000 shares allotted and issued nil paid on 28 August 2000.

(e) On 5 December 2002, the Company allotted and issued 466,600,000 shares to the holders of the shares whose names appeared on the register of members of the Company on 25 November 2002, in proportion to their then holdings, by way of the capitalisation of the sum of HK$46,660,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the Company's new shares issued to the public.

28. SHARE CAPITAL (cont'd)

(f) On 5 December 2002, 99,400,000 shares of HK$0.10 each were issued to the public and institutional investors at HK$0.77 each for a total cash consideration, before related issue expenses, of HK$76,538,000.

The following is a summary of the above movements in the authorised and issued share capital of the Company:

	Notes	**Number of authorised shares ('000)**	**Number of issued shares ('000)**	**Nominal value of shares issued HK$'000**
On incorporation, shares allotted and issued nil paid	(a)	1,000	1,000	—
Share capital as at 30 June 2002		1,000	1,000	—
Increase in authorised share capital	(b)	1,999,000	—	—
On acquisition of IFL:				
Shares issued as consideration	(c)	—	1,000	100
Application of share premium to pay up nil paid shares	(d)	—	—	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company to be credited as a result of the Company's shares offered to the public	(e)	—	466,600	—
Pro forma share capital as at 30 June 2002		2,000,000	468,600	200
New issue on public listing	(f)	—	99,400	9,940
Capitalisation of the share premium account as set out above	(e)	—	—	46,660
Share capital as at 30 June 2003		2,000,000	568,000	56,800

Subsequent to the balance sheet date, on 25 July 2003 and 15 August 2003, a total of 20,000,000 shares in the Company were allotted and issued pursuant to the exercise of the pre-IPO share options (note 29(a)), and in September 2003, a total of US$4,500,000 convertible bonds were converted into 32,528,000 shares of the Company of HK$0.10 each (note 34).

As a result of the above subsequent events, the issued share capital of the Company increased to HK$62,052,800 comprising 620,528,000 ordinary shares of HK$0.10 each.

29. SHARE OPTION SCHEMES

The particulars of the Company's pre-IPO share option and post-IPO share option schemes are disclosed below:

(a) Pre-IPO share options

The pre-IPO share options were granted by the Company to certain minority shareholders of IFL (the "Private Investors") prior to the Group Reorganisation and the listing of the Company's shares on the Stock Exchange in order to recognise their significant contribution to the Group.

On 20 September 2002, the Company granted pre-IPO share options to the Private Investors at a consideration of HK$1 paid by each of them which would entitle them to subscribe for a total of 48,000,000 shares of the Company. The subscription price for the shares under the pre-IPO share options is equal to the offer price of HK$0.77 per share in connection with the listing of the Company's shares on the Stock Exchange. The exercise price of the pre-IPO share options is subject to adjustment if the shares in the Company by reason of any consolidation or subdivision become of a different nominal amount. The pre-IPO share options are exercisable during a period of one year commencing from 11 June 2003, six months from the date of commencement of dealings in the shares on the Stock Exchange.

No pre-IPO share options were exercised by the Private Investors during the year ended 30 June 2003. As at 30 June 2003, the number of shares issuable under the pre-IPO share options granted was 48,000,000, which represented approximately 8.5% of the Company's shares in issue as at that date. The exercise in full of the pre-IPO share options would, under the present capital structure of the Company, result in the issue of 48,000,000 additional ordinary shares of the Company and additional share capital of HK$4,800,000 and share premium of HK$32,160,000 (before issue expenses).

The pre-IPO share options do not confer rights on the holders to dividends or to vote at the shareholders' meetings.

Subsequent to the balance sheet date, on 25 July 2003 and 15 August 2003, a total of 20,000,000 shares in the Company were allotted and issued pursuant to the exercise of the pre-IPO share options by certain Private Investors at a subscription price of HK$0.77 per share.

29. SHARE OPTION SCHEMES (cont'd)

(b) Post-IPO share option scheme

The Company operates a post-IPO share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons that provide research, development and technological support to the Group, minority shareholders of the Company's subsidiaries and advisers to business development of the Group. The Scheme became effective on 25 November 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from 25 November 2002, the date on which the Scheme was conditionally adopted.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options to be granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options to be granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences from the date of acceptance of the grant of options and ends on a date which is not later than 10 years from the date of the grant of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of a share of the Company; (ii) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

The post-IPO share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

29. SHARE OPTION SCHEMES (cont'd)

(b) Post-IPO share option scheme (cont'd)

The following post-IPO share options were granted under the Scheme during the year and remained outstanding at 30 June 2003:

Name or category of participants	Number of post-IPO share options granted during the year and at 30 June 2003	Date of grant of post-IPO share options	Exercise period of post-IP share options	Exercise price of post-IPO share options* HK$	Price of the Company's shares at the date of options granted** HK$
Directors					
Executive					
Mr. Zhang Peter Y.	500,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
Mr. Xu Peng	500,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
Mr. Deng Jie	5,000,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
Mr. Long Xian Feng	5,000,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
Mr. Wu Xian Peng	5,000,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
Independent non-executive					
Professor Kung Hsiang-Fu	500,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
Professor Tso Wung-Wai	500,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
Other employees					
In aggregate	25,100,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
Others					
In aggregate	14,500,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19
	56,600,000				

29. SHARE OPTION SCHEMES (cont'd)

(b) Post-IPO share option scheme (cont'd)

* The exercise price of the post-IPO share options is subject to adjustment in the case of rights or bonus issue, or other similar changes in the Company's share capital.

** The price of the Company's shares disclosed as at the date of the grant of the post-IPO share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

The exercise in full of the post-IPO share options would, under the present capital structure of the Company, result in the issue of 56,600,000 additional ordinary shares of the Company and additional share capital of HK$5,660,000 and share premium of HK$61,694,000 (before issue expenses).

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

The share premium account of the Group includes shares issued at a premium; and the difference between the nominal value of the aggregate share/registered capital of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

In accordance with the PRC regulations, each of the Group's subsidiaries in the PRC is required to transfer part of its profits after tax to its statutory reserve fund, until the reserve reaches 50% of the registered capital, before profit distributions are made. The statutory reserve funds are non-distributable. The amount of transfer is subject to the approval of the boards of directors of these companies in accordance with their articles of association.

30. RESERVES (cont'd)

(b) Company

	Notes	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2001, 30 June 2002 and 1 July 2002		—	—	—
Arising on acquisition of IFL	28(c)	133,600	—	133,600
Applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation	28(d)	(100)	—	(100)
Capitalisation on issue of shares	28(e)	(46,660)	—	(46,660)
Issue of shares to public	28(f)	66,598	—	66,598
Share issue expenses		(21,761)	—	(21,761)
Net profit for the year		—	12,749	12,749
Proposed final dividend	12	—	(12,411)	(12,411)
At 30 June 2003		131,677	338	132,015

The share premium account of the Company includes shares issued at a premium; and the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor pursuant to the Group Reorganisation.

Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	Notes	2003 HK$'000	2002 HK$'000
Net assets acquired:			
Fixed assets	14	**47,844**	—
Inventories		**8,640**	—
Accounts receivable		**30,695**	—
Prepayments, deposits and other receivables		**2,362**	—
Cash and bank balances		**2,367**	—
Accounts payable		**(21,069)**	—
Accrued liabilities and other payables		**(2,444)**	—
Bank loans	26	**(879)**	—
Other loans	26	**(12,149)**	—
		55,367	—
Negative goodwill on acquisition	18	**(37,997)**	—
		17,370	—
Satisfied by:			
Cash		**17,370**	—

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK$'000	2002 HK$'000
Cash consideration paid	**(17,370)**	—
Cash and bank balances acquired	**2,367**	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(15,003)**	—

In June 2003, the Group acquired the entire equity interest in 禾創投資, which holds the entire equity interest in 禾創藥業, from certain independent third parties. 禾創投資 is an investment holding company established in the PRC. 禾創藥業 is engaged in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment. The results of the subsidiaries acquired during the year had no significant impact on the Group's consolidated turnover or profit after tax.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Major non-cash transactions

During the year ended 30 June 2002, dividends of HK$2,177,500 declared by GHMM to its then minority equity holder were settled through current account with a related company. In addition, dividends of HK$62,822,500 declared by IFL to its then shareholders were settled as to HK$61,440,500 and HK$1,382,000 through the current accounts with a related company and with an ultimate shareholder, respectively.

32. COMMITMENTS

The Group had the following commitments as at the balance sheet date:

(a) contracted commitments of HK$3,099,000 (2002: HK$4,626,000) in respect of purchases of technical knowhow; and

(b) contracted commitments of HK$2,467,000 (2002: Nil) in respect of purchases of plant and machinery.

The Company had no significant commitments as at 30 June 2003 (2002: Nil).

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) During the year, the Group acquired the remaining 3.35% equity interest in GHMM (the "GHMM Acquisition") from Headboy Kids for a consideration of HK$9.8 million. The consideration for the GHMM Acquisition was determined by the directors with reference to the net asset value and operating results of GHMM, and the price earnings multiple of the Company.

Further details of the GHMM Acquisition are included in a press announcement of the Company dated 30 June 2003.

(b) During the year, a banking facility of HK$50,000,000 was granted to GHMM. Details of the securities arrangement in respect of the banking facility are set out in note 26 to the financial statements and under the heading "Practice Note 19 of the Listing Rules" of the Report of the Directors.

During the year ended 30 June 2002, the Group received interest income of HK$946,000 from an amount advanced to 漢方(集團). The amount due from 漢方(集團) was unsecured, bore interest at commercial rates and was fully settled during the year ended 30 June 2002.

34. POST BALANCE SHEET EVENT

On 22 July 2003, the Company and Credit Suisse First Boston (Hong Kong) Limited ("CSFB"), then an independent third party, entered into a subscription agreement in relation to the subscription of unlisted and unsecured redeemable convertible bonds of the Company (the "Subscription Agreement").

Under the Subscription Agreement, among other things, (i) the Company agreed to issue and CSFB agreed to purchase convertible bonds of US$50,000 each with an aggregate principal amount of US$3,500,000 ("Original Tranche 1 Bonds"); (ii) the Company granted to CSFB an option to require the Company to issue additional convertible bonds with an aggregate principal amount of up to US$4,500,000 on substantially the same terms as those of the Original Tranche 1 Bonds ("Additional Tranche 1 Bonds"); and (iii) CSFB granted to the Company an option during a limited period after the conversion of all the Original Tranche 1 Bonds, to issue and to require CSFB to subscribe and pay for convertible bonds with an aggregate principal amount of up to US$4,000,000 ("Tranche 2 Bonds"). All the convertible bonds bear interest at 2.5% per annum and are due on 22 July 2006.

The unsecured redeemable convertible bonds of the Company are convertible into ordinary shares of HK$0.10 each in the Company at the option of CSFB at a conversion price equal to either (i) at HK$1.4879 in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds; a price to be determined by reference to the closing prices of the shares prior to the date on which the Tranche 2 Bonds are issued in respect of the Tranche 2 Bonds, both subject to adjustment; or (ii) at 93% of the average of the closing prices per share for any four consecutive days as selected by CSFB during the 30 consecutive business days immediately prior to the date on which the conversion notice of CSFB is received by the Company in respect of the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and the Tranche 2 Bonds.

Pursuant to the Subscription Agreement, the Company has also granted subscription rights ("Subscription Rights") to CSFB to subscribe for up to 20% of the number of shares which may fall to be issued by the Company pursuant to the exercise of each of the conversion rights attached to the Original Tranche 1 Bonds, the Additional Tranche 1 Bonds and the Tranche 2 Bonds, respectively and the number of the convestion shares which may fall to be issued shall be calculated on the basis of a base price determined with reference to the average closing price per share of the Company for certain number of days prior to the day on which the Original Tranche 1 Bonds were issued (in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds) on the day on which the Tranche 2 Bonds will be issued (in respect of the Tranche 2 Bonds). The subscription price is HK$1.3094 for each of shares to be subscribed for under the Subscription Rights in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds, and 110% of the average price of the Company's shares for the 30 consecutive business days immediately prior to the date on which the Tranche 2 Bonds are issued in respect of the Tranche 2 bonds. The Subscription Rights have not been exercised by CSFB as at the date of this report.

34. POST BALANCE SHEET EVENT (cont'd)

Subsequent to the balance sheet date, on 22 July 2003 and 5 September 2003, the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds of US$3,500,000 and US$4,500,000, respectively, were issued to CSFB for general working capital purposes. Up to the date of this report, 32,528,000 shares of the Company had been allotted and issued pursuant to the exercise of the Subscription Rights attaching to the Tranche 1 Bonds and the Additional Tranche 1 Bonds.

Further details of the unsecured redeemable convertible bonds are set out in the press announcements of the Company dated 22 July 2003, 8 August 2003 and 5 September 2003.

35. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 October 2003.