

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. There were no changes in the nature of the subsidiaries' principal activities during the year.

The Company is a subsidiary of Great Wall Investment Group Limited ("Great Wall Investment"), a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company as at the balance sheet date.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements of Hong Kong Companies Ordinance and the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties.

b) NEW ADOPTION OF THE STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted, for the first time, the following relevant SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 July 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency transaction
SSAP 15 (revised)	:	Cash flow statement
SSAP 34 (revised)	:	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 consolidated statement of changes in equity for the current period and the comparative figures have been presented in accordance with this revised SSAP.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) NEW ADOPTION OF THE STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

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.

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 consolidated cash flow statement for the current period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 34 (Revised) 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.

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.

Unless otherwise stated, the 2002 comparative figures presented herein have incorporated the effect of the adjustments, where applicable, resulting from the adoption of the new accounting standards above.

c) CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June of each year.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) SUBSIDIARIES

A subsidiary is an enterprise in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

e) JOINTLY-CONTROLLED ENTITIES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly-controlled entity is a contractual arrangement that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

Investment in jointly-controlled entity is stated at cost less provision, if necessary, for any impairment loss in value.

The Group's share of the post acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

f) GOODWILL

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired at the date of acquisition, is stated at cost and amortised by equal annual instalments over its estimated useful economic life of five years.

Unamortised goodwill is charged to the income statement upon disposal of the relevant subsidiaries.

The carrying amount of goodwill is reviewed annually by the directors and an impairment loss is recognised where considered necessary.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) FIXED ASSETS

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

Changes in the values of fixed assets are dealt with as movements in the fixed assets revaluation reserve. In the intervening years, the directors review the carrying amount of the properties and adjustment is made according to the valuation performed by independent valuers where there has been a material change in value. Increases in valuation are credited to the fixed assets revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations in respect of the same property and are thereafter debited to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

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

Leasehold land and buildings outside Hong Kong	Over the lease terms or 10 years, whichever is shorter
Land premium	Over the land-use-right period
Leasehold improvements	Over the lease terms or 5 years, whichever is shorter
Plant and machinery	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

Construction in progress represents costs incurred for buildings under construction, and plant and machinery pending installation. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on construction in progress. Construction in progress is transferred to fixed assets when it is capable of producing a saleable output on a commercial basis.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

h) INTANGIBLE ASSETS

The intangible assets represent the fair value of the rights to manufacture and sale of certain pharmaceutical products in the People's Republic of China (the "PRC") of subsidiaries ascribed to its net underlying assets acquired by the Group.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) INTANGIBLE ASSETS (Continued)

The intangible assets are amortised on the straight-line basis over the estimated useful commercial life of the pharmaceutical products of five years commencing from the date when the pharmaceutical products are put into commercial production. The intangible assets are stated at cost less accumulated amortisation, and any provision for impairment in value deemed necessary by the directors.

i) IMPAIRMENT

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Estimated recoverable amount of an asset is the greater of the estimated value from its future use and ultimate disposal, and its net selling price.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

j) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

k) TRADE RECEIVABLES

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

m) DEFERRED TAXATION

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

n) BORROWING COSTS

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

o) OPERATING LEASES

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases are charged to the income statement on the straight-line basis over the lease terms.

p) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably is technically feasible; the Company intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the Company, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) RESEARCH AND DEVELOPMENT COSTS (Continued)

Such development costs are recognised as an asset to the extent of the amount that, taken together with further development costs, related production costs, and selling and administrative costs directly incurred in marketing the product, is probable of being recovered from related future economic benefits. The excess amount is written off as incurred.

q) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits which can be reasonably estimated will be required to settle such obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

r) CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) REVENUE RECOGNITION

- i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- iii) Lease income for granting the rights to manufacture and sale of pharmaceutical products is recognised on a straight line basis over the period of the rights granted.

t) FOREIGN CURRENCIES

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

For the purpose of preparing consolidated financial statements, the income statements of overseas subsidiaries and jointly-controlled entity expressed in foreign currencies are translated at the average rates of exchange for the year. The balance sheets of overseas subsidiaries and jointly-controlled entity at expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with in the currency translation reserve.

u) EMPLOYEE BENEFITS

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Fund (“MPF”) Scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a state-sponsored retirement plan organised by municipal government as stipulated by the regulations of the PRC are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) RELATED PARTIES

Two 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.

w) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

3. TURNOVER AND OTHER REVENUE

Turnover represents the invoiced value of goods sold, net of trade discounts and returns. All the Group's turnover is principally derived in the PRC.

	2003 HK\$'000	2002 HK\$'000
Turnover		
Manufacture and distribution of pharmaceutical products	992,961	715,717
Other revenue		
Interest income	4,513	2,767
Waive of debts payable to a supplier	3,877	-
Lease income for granting the rights to manufacture and sale of pharmaceutical products	11,250	-
Exchange gain	124	519
Others	398	-
	<u>20,162</u>	<u>3,286</u>
Total revenue	<u>1,013,123</u>	<u>719,003</u>

4. SEGMENT INFORMATION

i) Business segments

The Group is principally engaged in the manufacture and distribution of pharmaceutical products.

An analysis of the Group's performance by business segments, namely 'Manufacture and distribution of pharmaceutical products' and 'Corporate and others' is as follows:

	Manufacture and distribution of pharmaceutical products		Corporate and others		Consolidated total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
External sales	992,961	715,717	-	- (a)	992,961	715,717
Segment results	231,285	181,353	2,347	(8,512) (b)	233,632	172,841
Interest income	4,492	2,703	21	64 (b)	4,513	2,767
Interest expense	(344)	-	(2,292)	(520)	(2,636)	(520)
Share of result of a jointly- controlled entity	-	(131)	-	-	-	(131)
Taxation	(52,682)	(36,395)	-	-	(52,682)	(36,395)
Minority interests					(7,787)	(3,823)
Profit attributable to shareholders					<u>175,040</u>	<u>134,739</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

4. SEGMENT INFORMATION (Continued)

i) Business segments (Continued)

	Manufacture and distribution of pharmaceutical products		Corporate and others		Consolidated total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Segment assets	<u>1,181,321</u>	<u>749,209</u>	<u>114,108</u>	<u>86,409</u>	<u>1,295,429</u>	<u>835,618</u>
Liabilities						
Segment liabilities	<u>110,825</u>	<u>132,924</u>	<u>297,169</u>	<u>1,805</u>	<u>407,994</u>	<u>134,729</u>
Other information						
Capital expenditure	3,502	16,007	191	712	3,693	16,719
Depreciation	20,569	14,371	248	216	20,817	14,587
Amortisation	9,558	3,210	-	-	9,558	3,210
Non-cash expenses other than depreciation and amortisation	1,415	1,631	15	203	1,430	1,834
Surplus on revaluation of leasehold land and building recognised directly in equity	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,000</u>	<u>-</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

4. SEGMENT INFORMATION (Continued)

i) Business segments (Continued)

a) Turnover

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Manufacture and distribution of:		
Anti-viral drugs	288,727	227,412
Chinese patent medicines	150,173	113,320
Antibiotics	138,780	87,243
Anti-hypotensive drugs	94,112	84,769
Vitamins	54,255	59,876
Analgesics	81,491	40,741
Chinese tonic liquor	4,773	29,591
Protein polysaccharide	40,896	–
Diagnostic kits	29,348	–
Alimentary system agents	31,306	–
Staple pharmaceuticals	42,183	–
Others	36,917	72,765
	<u>992,961</u>	<u>715,717</u>

b) Profit from operating activities

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Manufacture and distribution of:		
Anti-viral drugs	100,773	75,341
Chinese patent medicines	31,898	31,661
Antibiotics	29,819	18,066
Anti-hypotensive drugs	18,335	20,742
Vitamins	4,445	3,163
Analgesics	11,590	3,470
Chinese tonic liquor	146	9,246
Protein polysaccharide	2,651	–
Diagnostic kits	13,331	–
Alimentary system agents	6,008	–
Staple pharmaceuticals	8,964	–
Others	7,817	22,367
	<u>235,777</u>	<u>184,056</u>
Corporate and others	2,368	(8,448)
	<u>238,145</u>	<u>175,608</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

4. SEGMENT INFORMATION (Continued)

ii) Geographical segment

In determining the Group's geographical segments, revenues and results 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 and results are derived from customers based in the PRC.

An analysis of the carrying amount of segment assets and additions to fixed assets by the geographical area in which the assets are located is as follows:

	2003		2002	
	Carrying amount of segment assets HK\$'000	Additions to fixed assets HK\$'000	Carrying amount of segment assets HK\$'000	Additions to fixed assets HK\$'000
The PRC, excluding Hong Kong	1,182,039	3,595	749,209	16,007
Hong Kong	113,390	98	86,409	712
	<u>1,295,429</u>	<u>3,693</u>	<u>835,618</u>	<u>16,719</u>

5. PROFIT FROM OPERATING ACTIVITIES

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

	2003 HK\$'000	2002 HK\$'000
Auditors' remuneration	1,303	808
Depreciation	20,817	14,587
Amortisation of intangible assets	8,462	2,747
Amortisation of goodwill	1,096	463
Loss on written off of fixed assets	60	237
Staff costs (excluding directors' remuneration, note 6):		
Wages and salaries	10,351	6,675
Contribution to MPF Scheme	78	70
Contribution to the PRC retirement scheme	1,223	1,208
	<u>11,652</u>	<u>7,953</u>
Operating lease rentals in respect of land and buildings	2,346	1,880
Provision for doubtful debts	670	1,063

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

6. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	–	–
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind to executive directors	5,672	5,727
Retirement benefits scheme contributions to executive directors	14	23
	<u>5,686</u>	<u>5,750</u>

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	3	4
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	2	2

There were no arrangements under which a director waived or agreed to waive any remuneration.

The five highest paid individuals during the year are all directors, details of whose remuneration are set out above.

No value is included in directors' remuneration in respect of share options granted during the year ended 30 June 2003 because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

During the year, no emoluments were paid by the Group to the directors (including five highest paid individuals) as an inducement to join, or upon joining the Group, or compensation for loss of office.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

7. FINANCE COSTS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest payable on:		
Bank loans wholly repayable within five years	2,636	–
Redeemable convertible bonds	–	520
	<u>2,636</u>	<u>520</u>

8. TAXATION

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Overseas taxation charge	<u>52,682</u>	<u>36,395</u>

No provision for Hong Kong profits tax has been provided for the year (2002: Nil) 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.

Tax has not been provided by a jointly-controlled entity of the Group as no assessable profits were generated during the year (2002: Nil).

Deferred tax has not been provided because there were no significant timing differences at 30 June 2003 (2002: 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 intend to dispose of such properties.

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is approximately HK\$41,744,000 (2002: HK\$23,237,000)

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

10. DIVIDENDS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Dividend paid		
– Final dividend for 2002 at HK4.5 cents (2001: HK4 cents) per ordinary share	<u>22,902</u>	<u>14,297</u>
Dividend proposed		
– Final dividend for 2003 at HK8 cents (2002: HK4.5 cents) per ordinary share	<u>40,715</u>	<u>22,902</u>
Total dividends in respect of the year	<u>40,715</u>	<u>22,902</u>

The amount of proposed final dividend is calculated based on 508,935,600 shares (2002: 508,932,000 shares) in issue as at the date of approval of these financial statements.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Earnings:		
Profit attributable to shareholders and earnings for the purposes of basic earnings per share	175,040	134,739
Effect of dilutive potential shares:		
Redeemable convertible bonds – interest expenses	–	520
Profit attributable to shareholders and earnings for the purposes of diluted earnings per share	<u>175,040</u>	<u>135,259</u>
	2003	2002
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	508,932,602	402,331,726
Effect of dilutive potential shares:		
Share options	15,648,762	16,192,057
Redeemable convertible bonds	–	12,035,976
Weighted average number of shares for the purposes of diluted earnings per share	<u>524,581,364</u>	<u>430,559,759</u>

The computation of diluted earnings per share for the year ended 30 June 2003 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 year.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

12. EMPLOYEE RETIREMENT SCHEME

The Group operates a defined contribution MPF retirement benefits scheme (the “Hong Kong Scheme”) under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong 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 Hong Kong Scheme.

Pursuant to the relevant regulations of the PRC government, subsidiaries of the Company operating in the PRC have participated in a local municipal government retirement benefits scheme (the “PRC Scheme”) whereby the subsidiaries are required to contribute 20% of the basic salaries of their employees to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme. Contributions under the PRC Scheme are charged to the income statement as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

13. FIXED ASSETS

	Leasehold land and buildings HK\$'000	Land premium HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Group								
Cost or valuation								
At 1/7/2002								
At cost	-	-	6,422	58,056	1,184	1,753	-	67,415
At professional valuation	47,950	17,904	-	-	-	-	-	65,854
	47,950	17,904	6,422	58,056	1,184	1,753	-	133,269
Acquisition of subsidiaries	34,939	-	-	15,082	185	1,277	2,030	53,513
Additions	434	-	24	673	350	911	1,301	3,693
Disposal	(606)	-	-	(48)	-	(24)	-	(678)
Transfer	2,218	-	-	-	-	-	(2,218)	-
Revaluation surplus	18,000	-	-	-	-	-	-	18,000
Reclassification	17,904	(17,904)	-	-	-	-	-	-
At 30/6/2003	120,839	-	6,446	73,763	1,719	3,917	1,113	207,797
Accumulated depreciation								
At 1/7/2002	4,286	269	4,979	16,293	460	1,136	-	27,423
Provided during the year	7,047	-	1,069	11,991	253	457	-	20,817
Written back on disposal	(320)	-	-	(6)	-	(18)	-	(344)
Reclassification	269	(269)	-	-	-	-	-	-
At 30/6/2003	11,282	-	6,048	28,278	713	1,575	-	47,896
Net book value								
At 30/6/2003	109,557	-	398	45,485	1,006	2,342	1,113	159,901
At 30/6/2002	43,664	17,635	1,443	41,763	724	617	-	105,846
An analysis of cost or valuation of the fixed assets held by the Group at 30 June 2003 is as follows:								
At cost	-	-	398	45,485	1,006	2,342	1,113	50,344
At professional valuation	109,557	-	-	-	-	-	-	109,557
	109,557	-	398	45,485	1,006	2,342	1,113	159,901

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

13. FIXED ASSETS (Continued)

The Group's leasehold land and buildings are all situated outside Hong Kong and are held under medium term leases. All the leasehold land and buildings were revalued by BMI Appraisals Limited, an independent firm of professional valuers, at 30 June 2003 at approximately HK\$109,557,000 on a depreciated replacement cost basis. A surplus of HK\$18,000,000 arising therefrom and representing the excess of the revalued amounts over the then carrying values of the revalued assets, on an individual assets basis, has been credited to the fixed assets revaluation reserve (*note 27*).

Had the Group's leasehold land and buildings and land premium been stated at costs less accumulated depreciation, they would have been included in the financial statements at approximately HK\$82,271,000 (2002: HK\$51,806,000).

14. GOODWILL

	Group <i>HK\$'000</i>
Cost	
At 1/7/2002	2,319
On acquisition of subsidiaries	3,368
	<hr/>
At 30/6/2003	5,687
	<hr/>
Amortisation	
At 1/7/2002	618
Provided for the year	1,096
	<hr/>
At 30/6/2003	1,714
	<hr/>
Net book value	
At 30/6/2003	3,973
	<hr/>
At 30/6/2002	1,701
	<hr/>

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

15. INTANGIBLE ASSETS

	Group <i>HK\$'000</i>
Cost	
At 1/7/2002	39,988
On acquisition of subsidiaries	48,459
At 30/6/2003	88,447
Amortisation	
At 1/7/2002	2,747
Provided for the year	8,462
At 30/6/2003	11,209
Net book value	
At 30/6/2003	77,238
At 30/6/2002	37,241

As at 30 June 2003, the products in respect of which certain intangible assets amounted to approximately HK\$21,674,000 have not yet been put into commercial production and accordingly, no amortisation has been provided for relevant intangible assets acquired during the year.

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	-	-
Amount due from a jointly-controlled entity	534	534
	534	534
Less: Provision for impairment	(534)	(534)
	-	-

Particulars of the jointly-controlled entity are set out below:

Name	Business structure	Place of establishment and operation	Paid-up registered capital	Ownership interest	Percentage of Voting power	Principal activity
上海邁迪生物技術研究有限公司	Corporate	People's Republic of China	RMB200,000	70%	70%	Research and development

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	135,015	105,015
Due from subsidiaries	541,331	287,593
	676,346	392,608

The balances due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are set out below:

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up share/ registered capital	Equity interests attributable to the Company		Principal activities
			2003	2002	
Held directly					
Far East Global Group Limited ("FEGG")	British Virgin Islands	US\$1,001	100%	100%	Investment holding
Held indirectly					
Fujian Desheng Pharmaceuticals Company Limited ("Desheng")	People's Republic of China	RMB105,518,000	100%	100%	Manufacture and distribution of pharmaceutical products
Global Profit Far East Limited	Hong Kong	HK\$2	100%	100%	Investment holding
Fujian Yannian Pharmaceutical Company Limited ("Yannian")	People's Republic of China	RMB23,880,000	85%	85%	Manufacture and distribution of pharmaceutical products
First Sight Technology Group Limited	British Virgin Islands	USD1	100%	–	Investment holding

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment/ and operations	Nominal value of issued and paid-up share/ registered capital	Equity interests attributable to the Company		Principal activities
			2003	2002	
Held indirectly					
Boomtown Ventures Limited	British Virgin Islands	USD10	100%	–	Investment holding
Desheng Pharmaceutical Technology (Shenzhen) Company Limited	People's Republic of China	RMB3,183,000	100%	–	Not yet commence business
Xiamen Talent Biotech Company Limited	People's Republic of China	RMB8,000,000	100%	–	Manufacture and distribution of pharmaceutical products
Shanghai Penta Ocean Medical and Health Care Food Co. Ltd.	People's Republic of China	RMB114,710,175	95.8%	–	Manufacture and distribution of pharmaceutical products
上海德勝科技集團 (安慶)制藥 有限公司	People's Republic of China	RMB10,000,000	90%	–	Manufacture and distribution of pharmaceutical products

18. DEPOSITS FOR LAND USE RIGHT AND CONSTRUCTION IN PROGRESS

The Group has entered into an agreement with the Land Administration Bureau of the Qingpu District, Shanghai City, the PRC (the "LAB") in respect of the purchase of a parcel of land in Qingpu District, Shanghai City, the PRC for the purposes of establishment of drug production facilities and its related auxiliary facilities. The cost payment amounting to approximately HK\$56,540,000 of the land use right was paid. The land use right certificate of the land has not been obtained as certain legal and registration procedures are still in progress. The deposit payments for construction on the relevant production facilities and its related auxiliary facilities were amounted to approximately HK\$39,744,000.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

19. INVENTORIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	52,729	31,780
Work in progress	2,226	253
Finished goods	18,117	14,670
	<u>73,072</u>	<u>46,703</u>

No inventories were stated at net realisable value at 30 June 2003 (2002: Nil).

20. ACCOUNTS RECEIVABLE

The aging of the Group's accounts receivable is analysed as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
30 days or less	98,771	88,071
31 days to 60 days	70,157	79,440
61 days to 180 days	19,467	10,323
Over 180 days	589	-
Total	<u>188,984</u>	<u>177,834</u>

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.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

21. LOANS TO OFFICERS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
Name – 沈立忠, marketing manager of a subsidiary		
Balance as at year ended	<u>254</u>	<u>–</u>
Maximum balance during the year	<u>254</u>	<u>–</u>
Name – 張錫明, sale manager of a subsidiary		
Balance as at year ended	<u>254</u>	<u>–</u>
Maximum balance during the year	<u>254</u>	<u>–</u>
Total	<u>508</u>	<u>–</u>

The balances are unsecured, interest free and repayable on demand.

22. CASH AND BANK BALANCES

As at 30 June 2003, the Group's cash and bank balances denominated in Renminbi ("RMB") amounted to approximately HK\$226,661,000 (2002: HK\$381,563,000). RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

23. ACCOUNTS PAYABLE

The aging of the Group's accounts payable is analysed as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
Outstanding balances with ages:		
30 days or less	49,062	65,004
31 days to 60 days	1,433	156
61 days to 180 days	2,279	–
Over 180 days	8,751	796
	<u>61,525</u>	<u>65,956</u>

24. DUE TO A RELATED COMPANY

The balance is unsecured, interest-free and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

25. BANK LOANS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unsecured bank loans				
– Amounts repayable within 1 year	2,648	–	–	–
– Amounts repayable within 2 to 5 years	23,400	–	23,400	–
	<u>26,048</u>	–	<u>23,400</u>	–
Unsecured syndicated loan				
– Amounts repayable within 1 year	–	–	–	–
– Amounts repayable within 2 to 5 years	241,800	–	241,800	–
	<u>241,800</u>	–	<u>241,800</u>	–
Total bank loans	<u>267,848</u>	–	<u>265,200</u>	–
Short-term bank loan	2,648	–	–	–
Current portion of bank and syndicated loans	–	–	–	–
Non-current portion of bank and syndicated loans	<u>265,200</u>	–	<u>265,200</u>	–
	<u>267,848</u>	–	<u>265,200</u>	–

The syndicated loan of USD31,000,000 (equivalent to HK\$241,800,000) is interest bearing at London Inter-Bank Offered Rate plus 1.5% per annum and repayable by 7 quarterly instalments commencing from 18 months after the date of the relevant loan agreement of 7 May 2003.

26. SHARE CAPITAL

	Company	
	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each (2002: 1,000,000,000 ordinary shares of HK\$0.10 each)	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
508,935,600 ordinary shares of HK\$0.10 each (2002: 508,932,000 ordinary share of HK\$0.10 each)	<u>50,894</u>	<u>50,893</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

26. SHARE CAPITAL (Continued)

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

	Number of share issued	Par value HK\$'000
Share capital as at 1 July 2001	344,000,000	34,400
Shares issued on conversion of redeemable convertible bonds	70,482,000	7,048
Shares issued on placements	80,000,000	8,000
Shares issued on exercise of share options	14,450,000	1,445
Share capital as at 30 June 2002 and 1 July 2002	508,932,000	50,893
Shares issued on exercise of warrants	3,600	1
Share capital as at 30 June 2003	508,935,600	50,894

At the extraordinary general meeting of the Company held on 27 October 2003, an ordinary resolution approving the subdivision of each of the existing issued and unissued shares of HK\$0.10 each in the share capital of the Company be subdivided (the "Share Subdivision") into four shares of HK\$0.025 each (the "Subdivided Shares") was passed. Immediately following the implementation of the Share Subdivision, (i) the authorised share capital of the Company will be HK\$100,000,000 which is divided into 4,000,000,000 Subdivided Shares and (ii) 2,035,742,400 Subdivided Shares will be in issue.

(a) Share options

The Company operates a share option scheme, further details of which are set out under the heading "Share option" in the Report of the Directors.

Details of share options are as follows:

Name of category of participant	Date of grant	Exercise period	Exercise price per share HK\$	Balance at 1/7/2002	Granted during the year	Exercised during the year	Balance at 30/6/2003
Directors	19/1/2001	19/1/2001 to 18/1/2011	0.652	4,000,000	-	-	4,000,000
	27/3/2001	27/3/2001 to 26/3/2011	0.7696	21,000,000	-	-	21,000,000
Employees	21/1/2002	9/1/2002 to 8/1/2012	2.185	27,000,000	-	-	27,000,000
				52,000,000	-	-	52,000,000

(b) Warrants

By an ordinary resolution passed at an extraordinary general meeting of the Company on 29 April 2002, the Company issued warrants conferring the warrant holders rights to subscribe for shares in the Company between 7 May 2002 and 6 May 2003 (both days inclusive) on the basis of one warrant for every five shares in the Company then held. Each of the warrant entitles the registered holders to subscribe for new share of HK\$0.1 each in the Company at an initial subscription price of HK\$2.62 per share. During the year, 3,600 units of warrants were exercised and rights allocated to the remaining warrants expired after 6 May 2003.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

27. RESERVES

	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Fixed assets revaluation reserve	Currency translation reserve	Capital reserve	Retained profits	Total
	HK\$'000	Note (a) HK\$'000	Note (b) HK\$'000	HK\$'000	HK\$'000	Note (c) HK\$'000	HK\$'000	HK\$'000
Group								
At 1/7/2001	55,478	15,605	7,554	11,303	-	11,022	153,867	254,829
Transfer from retained profits to reserves	-	12,082	-	-	-	-	(12,082)	-
Net profit for the year	-	-	-	-	-	-	134,739	134,739
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	1,593	-	-	1,593
Minority interests thereon - note 28(a)	-	-	-	-	(10)	-	-	(10)
Issue of shares	281,268	-	-	-	-	-	-	281,268
Share issue expenses	(2,364)	-	-	-	-	-	-	(2,364)
Expenses for redeemable convertible bonds	(10,794)	-	-	-	-	-	-	(10,794)
Dividend paid	-	-	-	-	-	-	(14,297)	(14,297)
At 30/6/2002 and 1/7/2002	323,588	27,687	7,554	11,303	1,583	11,022	262,227	644,964
Transfer from retained profits to reserves	-	18,196	-	-	-	-	(18,196)	-
Net profit for the year	-	-	-	-	-	-	175,040	175,040
Revaluation surplus	-	-	-	18,000	-	-	-	18,000
Minority interests thereon - note 28(a)	-	-	-	(755)	-	-	-	(755)
Issue of shares	9	-	-	-	-	-	-	9
Dividend paid	-	-	-	-	-	-	(22,902)	(22,902)
At 30/6/2003	323,597	45,883	7,554	28,548	1,583	11,022	396,169	814,356
Representing:								
The Company and subsidiaries	323,597	45,883	7,554	28,548	1,583	11,022	396,300	814,487
Jointly-controlled entity	-	-	-	-	-	-	(131)	(131)
	323,597	45,883	7,554	28,548	1,583	11,022	396,169	814,356

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

27. RESERVES (Continued)

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Representing:		
Reserves	773,641	622,062
Proposed dividend	40,715	22,902
	<u>814,356</u>	<u>644,964</u>

	Share premium <i>HK\$'000</i>	Capital reserve <i>Note (c)</i> <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company				
At 1/7/2001	55,478	104,915	16,568	176,961
Net profit for the year	-	-	23,237	23,237
Issue of shares	281,268	-	-	281,268
Share issue expenses	(2,364)	-	-	(2,364)
Expenses for redeemable convertible bonds	(10,794)	-	-	(10,794)
Dividend paid	-	-	(14,297)	(14,297)
At 30/6/2002 and 1/7/2002	<u>323,588</u>	<u>104,915</u>	<u>25,508</u>	<u>454,011</u>
Net profit for the year	-	-	41,744	41,744
Issue of shares	9	-	-	9
Dividend paid	-	-	(22,902)	(22,902)
At 30/6/2003	<u>323,597</u>	<u>104,915</u>	<u>44,350</u>	<u>472,862</u>

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Representing:		
Reserves	432,147	431,109
Proposed dividend	40,715	22,902
	<u>472,862</u>	<u>454,011</u>

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

27. RESERVES (Continued)

Notes:

- (a) Subsidiaries of the Company established in the PRC and foreign investment enterprises are required to transfer 10% of their profit after tax (after offsetting prior years losses) calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.
- (b) Subsidiaries of the Company established in the PRC are required to transfer 5% to 10% of their profit after tax (after offsetting prior years losses) calculated in accordance with the PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure incurred for staff welfare facilities. The statutory public welfare reserve is not available for distribution, except upon liquidation of the subsidiaries.
- (c) The capital reserve of the Group represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired, pursuant to the reorganisation scheme which rationalising the structure of the Group for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and completed on 26 July 2002 ("Group Reorganisation"), over the nominal value of the share capital of the Company issued in exchange therefor.

The capital reserve of the Company arose as a result of the same Group Reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

a) Analysis of changes in financing during the year

	Share capital and share premium <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Redeemable convertible bonds <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1/7/2001	89,878	–	–	1,199
Minority shareholder's share of:				
Currency translation reserve – <i>note 27</i>	–	–	–	10
Net profit for the year	–	–	–	3,823
Net cash inflow from financing	191,057	–	93,546	–
Conversion of redeemable convertible bonds	93,546	–	(93,546)	–
At 30/6/2002 and 1/7/2002	374,481	–	–	5,032
Arising on acquisition of subsidiaries	–	27,572	–	4,680
Minority shareholder's share of:				
Fixed asset revaluation reserve – <i>note 27</i>	–	–	–	755
Net profit for the year	–	–	–	7,787
Capital contribution	–	–	–	3,931
Bank loans raised	–	265,200	–	–
Repayment of bank loans	–	(24,924)	–	–
Net cash inflow from financing	10	–	–	–
At 30/6/2003	374,491	267,848	–	22,185

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

b) Acquisition of subsidiaries

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	53,513	–
Intangible assets	48,459	–
Inventories	10,211	–
Accounts receivable	12,812	–
Prepayment, deposits and other receivables	14,381	–
Tax recoverable	30	–
Cash and bank balances	20,471	–
Accounts payable	(15,742)	–
Accrued liabilities, deposits received and other payables	(28,759)	–
Bank loans	(27,572)	–
Minority interests	(4,680)	–
	<u>83,124</u>	–
Goodwill on acquisition	3,368	–
	<u>86,492</u>	–
Satisfied by:		
Cash consideration	<u>86,492</u>	–

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash consideration	86,492	–
Cash and bank balances acquired	(20,471)	–
	<u>66,021</u>	–

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

29. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions with related companies:

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Advertising expenses paid	<i>(i)</i>	17,508	16,520
Purchases of packing materials	<i>(ii)</i>	83,308	75,470
Rental expenses paid	<i>(iii)</i>	1,351	1,351

Notes:

- (i) Advertising expenses paid to 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, were charged based on the actual costs incurred 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 third party suppliers of the Group and were carried out in the ordinary course of business of the Group. The balance due to 福州德勝印刷有限公司 amounted to approximately HK\$9,216,000 at 30 June 2003. (2002: approximately HK\$9,740,000)
- (iii) The rental expenses were paid to 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.

30. CONTINGENT LIABILITIES

As at 30 June 2003, the Group had contingent liabilities not provided for as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Guarantees for banking and loan facilities granted to third parties	4,523	–

NOTES TO FINANCIAL STATEMENTS

Year ended 30 June 2003

31. COMMITMENTS

As at 30 June 2003, the Group had the following commitments:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
(a) Capital commitments contracted but not provided for in respect of		
– construction contracts on production plant and facilities	133,010	–
– purchase of machinery and equipment	15,287	–
	<u>148,297</u>	<u>–</u>
(b) Capital commitments authorised but not contracted in respect of purchase of land use right	<u>84,810</u>	<u>–</u>
(c) Future aggregate minimum lease payments under operating leases in respect of land and buildings		
– within one year	2,230	2,230
– in the second to fifth year inclusive	968	3,198
	<u>3,198</u>	<u>5,428</u>

32. FUTURE MINIMUM RENTAL PAYMENTS RECEIVABLE

As at 30 June 2003, the Group had future minimum rental payments receivable in respect of granting the rights to manufacture and sale of pharmaceutical products as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	16,500	–
In the second to fifth year inclusive	21,250	–
	<u>37,750</u>	<u>–</u>