1. CORPORATE INFORMATION

The principal place of business of the Company is located at Room 704, 7th Floor, Aon China Building, 29 Queen's Road Central, Hong Kong.

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

- manufacture and sale of gynecological pharmaceutical products and feminine medicinal healthcare products
- trading of pharmaceutical products, healthcare products, and medical appliances and equipment
- research and development of pharmaceutical products

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice ("**SSAPs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2005. The results of the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 distribution 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investments 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.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates 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. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and an associate 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. In the case of an associate, any unamortised goodwill is included in the carrying amount thereof, rather than as a separate identified asset on the consolidated balance sheet.

On disposal of subsidiaries and an associate, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 and 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.

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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.

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 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.

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	20% to 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Technical know-how

The cost of acquiring the rights to technical know-how 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 know-how of a maximum of five years, commencing on the date when the products are put into commercial production.

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 commercial lives of the underlying products of a period up to a maximum of eight years, commencing on the date when the products are put into commercial production.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability and, at the time of the transaction and, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis, and are stated at cost less any provisions for impairment in values on an individual basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

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;

(b) rental income, on a time proportion basis over the lease terms; and

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Mainland China, 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 that 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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Dividends proposed or declared after the balance sheet date are not recognized as a liability at the balance sheet date.

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, a jointly-controlled entity and an associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, an associate and a jointly-controlled entity 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 difference 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 that arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand of 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 cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. 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 more than 90% of the Group's revenue is derived from customers based in Mainland China, and more than 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, naturally-sourced anti-tumour medicine and medicinal healthcare products for women in Mainland China; and

(b) the trading segment engages in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment.

4. SEGMENT INFORMATION (continued)

Business segments

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

Group

	Manufacturing		**Trading**		**Consolidated**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Sales to external customers	**383,618**	273,242	**218,303**	233,822	**601,921**	507,064
Segment profits	**147,092**	122,812	**345**	3,527	**147,437**	126,339
Interest income and unallocated gains					**5,279**	4,764
Unallocated expenses					**(17,398)**	(10,922)
Profit from operating activities					**135,318**	120,181
Finance costs					**(7,947)**	(5,692)
Share of losses of:						
Jointly-controlled entity					**–**	–
Associate					**(368)**	(32)
Amortisation of goodwill on acquisition of an associate					**(100)**	(100)
Impairment of goodwill on acquisition of an associate					**(300)**	–
Profit before tax					**126,603**	114,357
Tax					**(23,404)**	(18,126)
Profit before minority interests					**103,199**	96,231
Minority interests					**(1,126)**	(1,214)
Net profit from ordinary activities attributable to shareholders					**102,073**	95,017

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

	Manufacturing		Trading		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**801,630**	459,225	**115,698**	197,704	**917,328**	656,929
Investment in an associate					**100**	868
Investment in a jointly-controlled entity					**–**	–
Unallocated assets					**112,362**	66,334
Total assets					**1,029,790**	724,131
Segment liabilities	**72,875**	21,847	**48,161**	83,888	**121,036**	105,735
Unallocated liabilities					**206,748**	166,046
Total liabilities					**327,784**	271,781
Other segment information:						
Capital expenditure	**120,914**	9,960	**862**	3,438	**121,776**	13,398
Unallocated capital expenditure					**–**	15,299
					121,776	28,697
Depreciation and amortisation:	**10,204**	4,339	**3,718**	2,861	**13,922**	7,200
Unallocated depreciation and amortisation					**100**	709
					14,022	7,909
Other non-cash expense	**130**	223	**36**	313	**166**	536
Unallocated non-cash expense					**300**	–
					466	536
Surplus on revaluation recognised directly in equity	**4,820**	–	**1,061**	–	**5,881**	–

5. TURNOVER, REVENUE AND GAIN

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of turnover, other revenue and gain is as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
Sale of goods	**601,921**	507,064
Other revenue		
Interest income	**5,279**	3,765
Gross rental income	**1,155**	736
Other	**1,126**	3,168
	7,560	7,669
Gains		
Gain on divestment of a subsidiary *(note 33(b))*	**407**	–
	7,967	7,669

6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2005 HK$'000	2004 HK$'000
Cost of inventories sold		**241,930**	245,756
Staff costs (excluding directors' remuneration *(note 8)*)			
Wages and salaries		**18,433**	12,779
Retirement scheme contributions		**49**	51
		18,482	12,830
Depreciation	*13*	**10,648**	6,886
Amortisation of intangible assets*	*14*	**1,939**	1,507
Goodwill amortisation for the year**	*15*	**2,385**	566
Negative goodwill recognised as income during the year***	*15*	**(1,050)**	(1,050)
Auditors' remuneration		**1,934**	1,500
Minimum lease payments under operating leases for land and buildings		**2,131**	1,716
Research and development costs		**3,887**	1,092
Loss on write off/disposal of fixed assets**		**49**	430
Provision for doubtful debts**		**–**	106
Provision against inventories**		**117**	–

6. PROFIT FROM OPERATING ACTIVITIES (continued)

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

** The amortisation of goodwill, loss on write-off/disposal of fixed assets and provision for doubtful debts and provision against inventories for the year are included in "Administrative expenses" on the face of the consolidated profit and loss account.

*** The movements in negative goodwill recognised in the consolidated profit and loss account for the year are included in "Administrative expenses" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans wholly repayable within five years	**7,942**	5,102
Convertible bonds	**4**	579
Finance lease	**1**	11
	7,947	5,692

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Non executive directors	**–**	–
Independent non-executive directors	**300**	200
	300	200
Other emolument:		
Basic salaries, housing benefits, other allowances and benefits in kind		
– Executive directors	**3,240**	600
– Non-executive directors	**–**	–
– Independent non-executive directors	**–**	–
	3,540	800

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Directors' remuneration (continued)

The remuneration of each director fell within the nil to HK$1,000,000 band for the years ended 30 June 2004 and 2005.

There was no arrangement under which a director waived or agreed to waive any remunerations during the year (2004: Nil).

(a) Independent non-executive directors

	2005	2004
	HK$'000	*HK$'000*
Hon Yiu Ming, Matthew	**100**	–
Kung Hsiang-Fu	**100**	100
Tsoi Wung-Wai	**100**	100
	300	200

(b) Executive directors

Basic salaries, housing benefit, other allowances and benefits in kind for the year ended 30 June 2005.

	2005	2004
	HK$'000	*HK$'000*
Zhang Peter Y.	**720**	144
Xu Peng	**720**	144
Deng Jie	**600**	120
Long Xian Feng	**600**	96
Wu Xian Peng	**600**	96
	3,240	600

During the year ended 30 June 2005, share options carrying the rights to subscribe for a total of 20,200,000 (2004: Nil) 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 31(b) to the financial statements. No value in respect of the share options granted during the year ended 30 June 2005 (2004: Nil) has been charged to the consolidated profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Five highest paid employees

The five highest paid employees during the year included two (2004: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2004: three), non-director, highest paid employees, each of which fell within the nil to HK$1,000,000 band, are set out as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**1,310**	1,100
Retirement scheme contributions	**46**	55
	1,356	1,155

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 (2004: Nil).

9. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil). 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. 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 Mainland Corporate Income Tax rate of 15% starting from 1 January 2002. In addition, pursuant to an approval received from the local tax bureau during 2003, 貴陽德昌祥藥業有限公司("DCX"), a subsidiary of the Company, was approved to enjoy a Mainland Corporate Income Tax rate of 15% from years 2003 to 2007 with respect to the preferential tax policy granted by the local government for the entity established in western Mainland China.

	2005	2004
	HK$'000	*HK$'000*
Group:		
Current – Mainland China	**(24,160)**	(18,126)
Share of tax attributable to:		
Jointly-controlled entity	**–**	–
Associate	**–**	–
	–	–
Deferred	**756**	–
Total tax charge for the year	**(23,404)**	(18,126)

9. **TAX** (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the regions in which the Company and the majority of its subsidiaries, an associate and a jointly-controlled entity are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2005

	Hong Kong	**Mainland China**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before tax	(18,104)	144,707	126,603
Tax at the applicable tax rate	3,168*	(47,753)**	(44,585)
Lower tax rate for specific provinces or local authority	–	26,275	26,275
Expenses not deductible for tax	(2,303)	(901)	(3,204)
Tax losses utilised from previous years	–	–	–
Estimated tax losses not recognised	(865)	(1,025)	(1,890)
Tax charge at the Group's effective rate	–	(23,404)	(23,404)

Group – 2004

	Hong Kong	**Mainland China**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before tax	(10,350)	124,707	114,357
Tax at the applicable tax rate	1,811*	(41,153)**	(39,342)
Lower tax rate for specific provinces or local authority	–	22,393	22,393
Income not subject to tax	–	479	479
Expenses not deductible for tax	(1,811)	(25)	(1,836)
Tax losses utilised from previous years	–	64	64
Estimated tax losses not recognised	–	116	116
Tax charge at the Group's effective rate	–	(18,126)	(18,126)

* The standard Hong Kong profits tax rate is 17.5% for the year ended 30 June 2005 (2004: 17.5%).

** The standard Mainland China Corporate Income Tax rate is 33% (2004: 33%).

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2005 dealt with in the financial statements of the Company, was HK$17,639,000 (2004: HK$13,975,000) *(note 32(b))*.

11. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Proposed final – HK2 cents (2004: HK2 cents per ordinary share)	**17,415**	13,167

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

12. 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$102,073,000 (2004: HK$95,017,000) and the weighted average of 691,346,066 (2004: 631,962,798) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the adjusted net profit from ordinary activities attributable to shareholders for the year of HK$102,077,000 (2004: HK$95,596,000) and on 721,718,024 (2004: 660,899,637) ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

A reconciliation of the earnings and the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

	2005	2004
	HK$'000	*HK$'000*
Earnings		
Net profit attributable to shareholders used in basic earnings per share calculation	**102,073**	95,017
Effects of dilutive convertible bonds	**4**	579
Adjusted net profit attributable to shareholders used in diluted earnings per share calculation	**102,077**	95,596

12. EARNINGS PER SHARE (continued)

Shares

	Number of shares	
	2005	2004
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**691,346,066**	631,962,798
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all pre-initial public offering ("IPO") share options outstanding during the year *(note 31(a))*	**–**	5,840,274
Assumed issued at no consideration on deemed exercise of all post-IPO share options outstanding during the year *(note 31(b))*	**24,427,565**	7,247,036
Assumed issued at no consideration on deemed exercise of all the subscription rights attached to convertible bonds outstanding during the year *(note 31(c))*	**–**	218,510
Assumed issued on deemed exercise of all convertible bonds outstanding during the year *(note 28)*	**5,944,393**	15,631,019*
Weighted average number of ordinary shares used in diluted earnings per share calculation	**721,718,024**	660,899,637

* As further explained in note 28 to the financial statements, the convertible bonds are convertible at a conversion price to be calculated in accordance with a pre-determined formula determined by the bondholder. The weighted average number of ordinary shares in respect of the deemed exercise of all convertible bonds was assumed to be converted at HK$1.4879 per ordinary share.

13. FIXED ASSETS

Group

	Medium term leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures, office equipment and motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
Cost or valuation:						
At beginning of year	89,277	4,996	30,072	15,174	–	139,519
Additions	19,738	389	11,360	1,423	4,215	37,125
Acquisition of subsidiaries *(note 33(a))*	75,884	212	292	1,254	–	77,642
Divestment of a subsidiary *(note 33(b))*	(729)	(507)	–	(2,636)	–	(3,872)
Disposal	–	(296)	–	(325)	–	(621)
Surplus on revaluation	(1,563)	–	–	–	–	(1,563)
At 30 June 2005	182,607	4,794	41,724	14,890	4,215	248,230
Analysis of cost or valuation:						
At cost	–	4,794	41,724	14,890	4,215	65,623
At 30 June 2005 valuation	182,607	–	–	–	–	182,607
	182,607	4,794	41,724	14,890	4,215	248,230
Accumulated depreciation:						
At beginning of year	2,622	846	6,104	4,873	–	14,445
Provided during the year	4,822	813	2,488	2,525	–	10,648
Divestment of a subsidiary *(note 33(b))*	–	(110)	–	(790)	–	(900)
Disposal	–	(296)	–	(185)	–	(481)
Reversal upon revaluation	(7,444)	–	–	–	–	(7,444)
At 30 June 2005	–	1,253	8,592	6,423	–	16,268
Net book value:						
At 30 June 2005	182,607	3,541	33,132	8,467	4,215	231,962
At 30 June 2004	86,655	4,150	23,968	10,301	–	125,074

13. FIXED ASSETS (continued)

All the Group's medium term leasehold land and buildings are located outside Hong Kong.

The medium term leasehold land and buildings situated outside Hong Kong for office and certain production premises were revalued by DTZ Debenham Tie Leung Limited ("DTZ"), a firm of independent professionally qualified valuers, at 30 June 2005 at HK$73,550,000 by open market value direct comparison basis. The Group's medium term leasehold land and buildings for certain of the Group's production and storage permises were revalued as at 30 June 2005 on a depreciated replacement cost basis at HK$109,057,000. In the current year, a total revaluation surplus of HK$5,881,000 representing the excess of the revalued amounts over the then carrying values of the revalued assets, on an individual asset basis, has been credited to the fixed assets revaluation reserve.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$149,014,000 (2004: HK$83,482,000).

Up to the date of this report, for certain of the Group's land and buildings in Mainland China with an aggregate net book value of HK$37,520,000 at 30 June 2005, the application of property certificates was in progress.

At 30 June 2005, the Group's land and buildings, and plant and machinery with carrying values of approximately HK$78,314,000 (2004: HK$81,534,000) and HK$6,579,000 (2004: HK$23,968,000), respectively, were pledged to secure certain banking 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 2005 amounted to HK$Nil (2004: HK$287,000).

14. INTANGIBLE ASSETS

Group

	Technical know-how	**Deferred development costs**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost:			
At beginning of year	10,233	5,674	15,907
Additions	3,271	–	3,271
At 30 June 2005	13,504	5,674	19,178
Accumulated amortisation:			
At beginning of year	821	3,012	3,833
Provided during the year	1,161	778	1,939
At 30 June 2005	1,982	3,790	5,772
Net book value:			
At 30 June 2005	11,522	1,884	13,406
At 30 June 2004	9,412	2,662	12,074

15. 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 subsidiaries, are as follows:

	Group	
	Goodwill	**Negative goodwill**
	HK$'000	*HK$'000*
Cost:		
At beginning of year	4,239	(37,997)
Acquisition of subsidiaries *(note 33(a))*	18,921	–
Divestment of a subsidiary *(note 33(b))*	(1,680)	–
At 30 June 2005	21,480	(37,997)
Accumulated amortisation/(recognisation as income):		
At beginning of the year	566	(1,050)
Amortisation provided/(recognised as income) during the year	2,385	(1,050)
Divestment of a subsidiary *(note 33(b))*	(336)	–
At 30 June 2005	2,615	(2,100)
Net book value:		
At 30 June 2005	18,865	(35,897)
At 30 June 2004	3,673	(36,947)

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**133,700**	133,700
Due from subsidiaries	**417,933**	102,068
	551,633	235,768

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and are repayable on demand.

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Intended Features Limited ("**IFL**")	British Virgin Island	US$375,875 Ordinary	100	100	–	Investment holding
Guizhou Hanfang Medicine Manufacture Co., Ltd. ("**GHMM**")	Mainland China	RMB27,000,000	100	–	100	Manufacture and sale of Chinese and western pharmaceutical products, and anti-tumour medicine
Guizhou Hanfang Xifeng Medical Industry Company Limited	Mainland China	RMB3,000,000	95	–	95	Property holding
貴州禾創經營管理有限公司 ("**Guizhou Co.**") *(note 1)*	Mainland China	RMB20,000,000	100	–	100	Investment holding
成都禾創藥業有限公司 ("**Chengdu Co.**") *(note 2)*	Mainland China	RMB21,000,000	100	–	100	Trading of pharmaceutical products, healthcare products, and medical appliances and equipment
深圳市新創生物醫藥創業投資有限公司 ("**SXBPI**")	Mainland China	RMB50,000,000	51	–	51	Investment holding
廣東群禾藥業有限公司 ("**Guangdong Qunhe**")	Mainland China	RMB10,000,000	70	–	70	Trading of medical healthcare products

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
廣州美即化妝品有限公司 ("**Guangzhou Magic**")	Mainland China	RMB1,000,000	49	–	70	Manufacture and sale of medical healthcare products
貴陽德昌祥藥業有限公司 ("**DCX**")	Mainland China	RMB8,344,915	93	–	93	Manufacture and sale of Chinese and western pharmaceutical products

GHMM is registered as a wholly-foreign owned enterprise under the law of Mainland China. Guizhou Hanfang Xifeng Medical Industry Company Limited, Guizhou Co., Chengdu Co., SXBPI, Guangdong Qunhe, Guangzhou Magic and DCX are registered as domestic enterprises under the law of Mainland China.

During the Year, the Group acquired DCX, Guangzhou Magic and Guangdong Qunhe. Further details of these acquisitions are included in note 33(a) to the financial statements.

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, in the opinion of the directors, result in particulars of excessive length.

Notes:

1. Pursuant to an agreement entered into between the Group and the minority equity holder of Guizhou Co., the minority equity holder agreed to waive its 10% entitlement of the results of and its voting right in Guizhou Co. in return for an aggregate annual fee of RMB1 commencing from 2003 when Guizhou Co. was acquired by the Group. The minority equity holder also confirmed in the agreement that the paid-up capital of Guizhou Co. attributable to the minority equity holder was contributed by the Group. Accordingly, the minority equity holder did not share of any assets and results of Guizhou Co..

2. Pursuant to an agreement entered into between the Group and the minority equity holder of Chengdu Co., the minority equity holder agreed to waive its 4.76% entitlement of the results of and its voting right in Chengdu Co. in return for an aggregate annual fee of RMB1 commencing from 2003 when Chengdu Co. was acquired by the Group. The minority equity holder also confirmed in the agreement that the paid-up capital of Chengdu Co. attributable to the minority equity holder was contributed by the Group. Accordingly, the minority equity holder did not share any assets and results of Chengdu Co..

17. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group 2005 HK$'000	2004 HK$'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	Research and development of Chinese and western medicine

In accordance with the joint venture agreement (the "JV Agreement") for GHMR, the Group is entitled to share the results of the jointly-controlled entity according to the Group's equity interest therein.

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 losses of GHMR is limited to its capital contribution to GHMR (2004: Nil).

18. INVESTMENT IN AN ASSOCIATE

	Group 2005 HK$'000	2004 HK$'000
Share of net assets	**100**	468
Goodwill on acquisition	**–**	400
	100	868

18. INVESTMENT IN AN ASSOCIATE (continued)

The amount of the goodwill remaining in interest in an associate as at 30 June 2005 arising from the acquisition of an associate is as follows:

	Goodwill
	HK$'000
Cost:	
At the beginning of the year and at 30 June 2005	500
Accumulated amortization and impairment:	
At the beginning of the year	100
Amortisation provided during the year	100
Impairment provided during the year	300
At 30 June 2005	500
Net book value:	
At 30 June 2005	–
At 30 June 2004	400

Particulars of the associate are as follows:

Name	**Business structure**	**Place of incorporation/ registration and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activity**
Tengen Lizhu Biotech Co. Limited ("TLB")	Corporate	Hong Kong	33	Dormant

The shareholding of the Company in TLB is held through a wholly-owned subsidiary of the Company.

19. LONG TERM INVESTMENT

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted equity investments outside Hong Kong, at cost	**11,969**	–

19. LONG TERM INVESTMENT (continued)

Long term investment represented the Group's interest in 湖北康萊醫藥有限公司 ("Kanglai Medicine"). SXBPI held a 41.72% equity interest in Kanglai Medicine at 30 June 2005. On 20 October 2004, SXBPI entered into an agreement in respect of the disposal of 10% (equivalent to the Group's effective interest of 5%) of its equity interest in Kanglai Medicine to an independent third party for a consideration of RMB2.9 million. In addition, SXBPI has been offered an option to dispose of its remaining 41.72% in Kanglai Medicine within two years for a consideration of RMB12.1 million, subject to adjustment for future operating results. Pursuant to the agreement, the Group's appointed representatives would retire from the board of directors of Kanglai Medicine. The Group also waived its right to appoint representatives to the board of directors of Kanglai Medicine and its right of voting in Kanglai Medicine. As a result, Kanglai Medicine ceased to be a subsidiary of the Group and has been accounted for as a long term investment since 20 October 2004.

20. LONG TERM DEPOSITS

The long term deposits represent deposits paid in respect of:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Purchases of fixed assets	**3,749**	–
Purchases of technical knowhow	**3,734**	3,745
	7,483	3,745

21. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**5,758**	2,790
Work in progress	**1,027**	–
Finished goods	**14,795**	46,670
	21,580	49,460

At the balance sheet date, no inventories were stated at net realisable value (2004: Nil).

22. ACCOUNTS RECEIVABLE

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 90 days	**143,969**	131,714
91 to 180 days	**78,034**	54,768
181 to 365 days	**19,467**	11,125
	241,470	197,607

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables as at 30 June 2004 was a deposit of approximately HK$46.9 million paid by the Group for the acquisition of DCX during the year.

24. CASH AND BANK BALANCES AND PLEDGED DEPOSIT

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**474,000**	271,365	**1,168**	44,806
Time deposit	**–**	20,049	**–**	20,049
	474,000	291,414	**1,168**	64,855
Less: Pledged time deposit for long term bank loans	**–**	(20,049)	**–**	(20,049)
Cash and cash equivalents	**474,000**	271,365	**1,168**	44,806

At 30 June 2005, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$360,853,000 (2004: HK$226,240,000). The 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.

25. ACCOUNTS PAYABLE

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 90 days	**41,605**	64,478
91 to 180 days	**6,791**	11,649
181 to 365 days	**4,780**	4,151
Over 1 year	**4,168**	941
	57,344	81,219

26. BANK AND OTHER LOANS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans:				
Secured	**197,046**	142,235	**100,000**	–
Unsecured	**–**	738	**–**	–
	197,046	142,973	**100,000**	–
Bank loans repayable:				
Within one year	**117,887**	85,074	**28,500**	–
In the second year	**36,159**	57,899	**28,500**	–
In the third to fifth years, inclusive	**43,000**	–	**43,000**	–
	197,046	142,973	**100,000**	–
Portion classified as current liabilities	**(117,887)**	(85,074)	**(28,500)**	–
Long term portion	**79,159**	57,899	**71,500**	–

26. BANK AND OTHER LOANS (continued)

At 30 June 2005, 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$78,314,000 and HK$6,579,000 respectively *(note 13)*;

(b) corporate guarantees executed by a subsidiary of the Company;

(c) the personal guarantees from Zhang Peter Y. and Xu Peng, directors and beneficial shareholders of the Company; and

(d) the pledge of equity interests in certain subsidiaries held by the Group.

Details of the covenants undertaken by Bull's-Eye Limited are set out under the heading "Disclosures pursuant to Rule 13.21 of the Listing Rules" in the Report of the Directors. Zhang Peter Y. and Xu Peng are directors and shareholders of the Company.

27. FINANCE LEASE PAYABLE

During the year, the Group leased its motor vehicle under a finance lease for an initial lease term of four years. This lease was classified as a finance lease.

27. FINANCE LEASE PAYABLE (continued)

At 30 June 2005, 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	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**–**	41	**–**	40
In the second year	**–**	–	**–**	–
Total minimum finance lease payments	**–**	41	**–**	40
Future finance charges	**–**	(1)		
Total net finance lease payables	**–**	40		
Portion classified as current liabilities	**–**	(40)		
Long term portion	**–**	–		

28. CONVERTIBLE BONDS

On 22 July 2003, the Company and Credit Suisse First Boston (Hong Kong) Limited ("**CSFB**"), 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 (the "**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 in the Original Tranche 1 Bonds (the "**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 (the "**Tranche 2 Bonds**"). All the convertible bonds bear interest at a rate of 2.5% per annum and are due on 22 July 2006.

28. CONVERTIBLE BONDS (continued)

On 22 July 2003 and 5 September 2003, the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds of US$3,500,000 (equivalent to approximately HK$27,284,000) and US$4,500,000 (equivalent to approximately HK$35,077,000), respectively, were issued to CSFB.

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) HK$1.4879 per share 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.

During the year ended 30 June 2004, certain of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds in the aggregate amount of US$5,500,000 issued to CSFB were converted into 38,552,000 ordinary shares of HK$0.10 each in the Company (note 30(b)).

Pursuant to the Subscription Agreement, the Company has also granted subscription rights (the "Subscription Rights") to CSFB to subscribe for a further 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 conversion 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) and 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 per share for each of the shares to be subscribed for under the Subscription Rights in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds. The Subscription Rights have not been exercised by CSFB as at the date of this report.

The exercise in full of the Subscription Rights, based on those convertible bonds during the year, would result in the issue of 54,423 additional shares of the Company.

During the year ended 30 June 2005, the convertible bonds issued to CSFB with an aggregate principal amount of US$2,450,000 were converted into 29,200,000 ordinary shares of HK$0.1 each *(note 30(c))*.

As at 30 June 2005, convertible bonds with an aggregate principle amount of US$50,000 (equivalent to HK$390,000) remained outstanding.

29. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

2005

	Fair value adjustment arising from acquisition of subsidiaries *HK$'000*	**Revaluation of land and buildings** *HK$'000*	**Total** *HK$'000*
At 1 July	–	1,175	1,175
Arising from acquisition of subsidiaries	16,177	–	16,177
Deferred tax debited to equity during the year	–	1,854	1,854
Deferred tax credited to profit and loss account during the year *(note 9)*	(756)	–	(756)
As 30 June	15,421	3,029	18,450

2004

	Revaluation of land and buildings *HK$'000*
At 1 July 2003 and 30 June 2004	1,175

The Group has no tax losses available for offsetting against future taxable profits.

At 30 June 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. SHARE CAPITAL

Shares

	Company	
	2005	2004
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 (2004: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
870,734,400 (2004: 656,302,000) ordinary shares of HK$0.10 each	**87,073**	65,630

The following movements in the Company's authorised and issued share capital took place during the years ended 30 June 2004 and 2005:

(a) On various dates during the year ended 30 June 2004, a total of 48,000,000 shares and 1,750,000 shares in the Company of HK$0.10 each were allotted and issued pursuant to the exercise of pre-IPO share options and post-IPO share options at subscription prices of HK$0.77 per share *(note 31(a))* and HK$1.19 per share *(note 31(b))*, respectively, for a total cash consideration, before expenses, of HK$39,042,000.

(b) On various dates during the year ended 30 June 2004, convertible bonds in the amount of US$5,500,000 issued to CSFB were converted into 38,552,000 ordinary shares of HK$0.10 each in the Company.

(c) On various dates during the year ended 30 June 2005, convertible bonds with a total principle amount of US$2,450,000 were converted into 29,200,000 shares of the Company of HK$0.10 each.

(d) On various dates during the year ended 30 June 2005, a total of 52,000,000 shares in the Company of HK$0.10 each were allotted and issued pursuant to the exercise of share option at a subscription price of HK$0.64 per share *(note 31(b))* for a total cash consideration of HK$33,231,000.

(e) On 4 June 2005, the Company entered into a subscription agreement with Haw Par Pharmaceutical Holdings Pte Limited ("Haw Par"), a company incorporated in Singapore and independent to the Group, to subscribe for 133,232,400 shares of HK$0.10 each in the Company at HK$0.86 per share.

The proceeds of approximately HK$114,580,000 in cash before share issue expenses, are expected to be used as general working capital of the Group.

30. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements in the Company's authorised and issued share capital is as follows:

	Notes	Number of authorised shares ('000)	Number of issued shares ('000)	Nominal value of shares issued HK$'000
At 1 July 2003		2,000,000	568,000	56,800
Shares issued upon exercise of share options	(a)	–	49,750	4,975
Shares issued upon conversion of convertible bonds	(b)	–	38,552	3,855
At 30 June 2004 and 1 July 2004		2,000,000	656,302	65,630
Shares issued upon conversion of convertible bonds	(c)	–	29,200	2,920
Shares issued upon exercise of share options	(d)	–	52,000	5,200
Share issued upon allotment	(e)	–	133,232	13,323
At 30 June 2005		2,000,000	870,734	87,073

Share options

Further details of the Company's share option schemes are included in note 31 to the financial statements.

31. SHARE OPTION SCHEMES

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

(a) Pre-IPO share options scheme

The pre-IPO share options were granted to certain minority shareholders of IFL (the "**Private Investors**") prior to the group reorganisation completed in 2002 (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, have 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.

All pre-IPO share options were exercised by the Private Investors during the year ended 30 June 2004 which resulted in the issue of 48,000,000 additional ordinary shares of the Company, an additional share capital of HK$4,800,000, and a share premium of HK$32,160,000 (before issue expenses) *(note 30(a))*.

(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 who provide research, development and technological support to the Group, minority shareholders of the Company's subsidiaries and advisers to the 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.

31. SHARE OPTION SCHEMES (continued)

(b) Post-IPO share option scheme (continued)

Any 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 or 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.

The following post-IPO share options were outstanding under the Scheme during the year:

	Number of Post-IPO share options									
Name or category of participants	At 1 July 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2005	Date of grant of post-IPO share options	Exercise period of post-IPO share options	Exercise price of share options*	Price of the Company's share at the date of grant of options**	Price of the Company's share at date of exercise of options**
								HK$	*HK$*	*HK$*
Directors										
Executive										
Mr. Zhang Peter Y.	500,000	600,000	–	(500,000)	600,000	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	–
Mr. Xu Peng	500,000	600,000	–	(500,000)	600,000	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	–
Mr. Deng Jie	5,000,000	6,000,000	(6,000,000)	(5,000,000)	–	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	1.00

31. SHARE OPTION SCHEMES (continued)

(b) Post-IPO share option scheme (continued)

Name or category of participants	Number of Post-IPO share options: At 1 July 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2005	Date of grant of post-IPO share options	Exercise period of post-IPO share options	Exercise price of share options* HK$	Price of the Company's share at the date of grant of options** HK$	Price of the Company's share at date of exercise of options** HK$
Mr. Long Xian Feng	5,000,000	6,000,000	(6,000,000)	(5,000,000)	–	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	1.00
Mr. Wu Xian Peng	5,000,000	6,000,000	(6,000,000)	(5,000,000)	–	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	1.00
Independent non-executive										
Professor Kung Hsiang-Fu	250,000	500,000	(500,000)	(250,000)	–	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	0.96
Professor Tso Wung Wai	–	500,000	(500,000)	–	–	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	0.71
	16,250,000	20,200,000	(19,000,000)	(16,250,000)	1,200,000					
Other employees ***										
In aggregate	25,100,000	30,900,000	(25,500,000)	(25,100,000)	5,400,000	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	0.79
Others										
In aggregate	13,500,000	14,500,000	(7,500,000)	(13,500,000)	7,000,000	1 September 2004	1 September 2004 to 31 August 2006	0.64	0.64	0.98
	54,850,000	65,600,000	(52,000,000)	(54,850,000)	13,600,000					

* The exercise price of the post-IPO share options is subject to adjustment in the case of rights or bonus issues, 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 price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

*** Other employees include employees of the Group (other than the directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Cap. 57, Laws of Hong Kong).

31. SHARE OPTION SCHEMES (continued)

(b) Post-IPO share option scheme (continued)

The post-IPO share options exercised during the year ended 30 June 2005 resulted in the issue of 52,000,000 ordinary shares of the Company of HK$0.10 each and new share capital of HK$5,200,000 and share premium of HK$28,031,000, before issue expenses, as detailed in note 30(d) to the financial statements.

At the balance sheet date, the Company had 13,600,000 share options outstanding under the Scheme, which represented approximately 1.6% of the Company's shares in issue as at that date. The exercise in full of the post-IPO share options would, under the present capital structure of the Company, result in the issue of 13,600,000 additional ordinary shares of the Company and a share premium of HK$7,344,000, before issue expenses.

(c) Subscription rights attaching to the convertible bonds

As detailed in note 28 to the financial statements, the Company has granted Subscription Right to CFSB.

32. 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 pages 40 and 41 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 regulations in Mainland China, each of the Group's subsidiaries in Mainland China 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.

32. RESERVES (continued)

(b) Company

		Reserves				
		Share premium account	**Retained profits**	**Sub-total**	**Proposed final dividend**	**Total**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2003		131,677	338	132,015	12,411	144,426
Final 2003 dividend declared		–	–	–	(12,411)	(12,411)
Issue of shares upon exercise of share options	*30(a)*	34,067	–	34,067	–	34,067
Issue of shares upon conversion of convertible bonds	*30(b)*	39,011	–	39,011	–	39,011
Share issue expenses		(4,361)	–	(4,361)	–	(4,361)
Net profit for the year		–	13,975	13,975	–	13,975
Proposed final dividend	*11*	–	(13,167)	(13,167)	13,167	–
At 30 June 2004 and 1 July 2004		200,394	1,146	201,540	13,167	214,707
Final 2004 dividend declared	*11*	–	–	–	(13,167)	(13,167)
Issue of shares upon conversion of convertible bonds	*30(c)*	28,031	–	28,031	–	28,031
Issue of shares upon exercise of share options	*30(d)*	16,185	–	16,185	–	16,185
Issue of shares upon allotment		101,257	–	101,257	–	101,257
Share issue expenses	*30(e)*	(5,388)	–	(5,388)	–	(5,388)
Net profit for the year		–	17,639	17,639	–	17,639
Proposed final dividend	*11*	–	(17,415)	(17,415)	17,415	–
At 30 June 2005		340,479	1,370	341,849	17,415	359,264

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 6 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 and when they fall due in the ordinary course of business.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	Notes	**2005 HK$'000**	2004 *HK$'000*
Net assets acquired:			
Fixed assets	*13*	**77,642**	1,573
Inventories		**5,886**	24,593
Accounts receivable		**12,558**	7,706
Prepayments, deposits and other receivables		**1,475**	21,214
Cash and bank balances		**2,868**	37,927
Due from group companies		**9,065**	–
Accounts payable		**(4,574)**	(33,163)
Accrued liabilities and other payables		**(13,096)**	(2,805)
Bank loans		**–**	(477)
Due to group companies		**(2,449)**	–
Tax payable		**(315)**	–
Deferred tax liabilities	*29*	**(16,177)**	–
Minority interests		**(7,232)**	(34,416)
		65,651	22,152
Goodwill on acquisition	*15*	**18,921**	1,680
		84,572	23,832
Satisfied by:			
Cash		**84,572**	23,832

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(a) Acquisition of subsidiaries (continued)

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

	2005	2004
	HK$'000	*HK$'000*
Cash consideration	**(84,572)**	(23,832)
Cash and bank balances acquired	**2,868**	37,927
	(81,704)	14,095
Deposits paid in prior year	**46,953**	–
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	**(34,751)**	14,095

During the year, the Group acquired a 93% interest in DCX, a 70% interest in Guangdong Qunhe and a 49% interest in Guangzhou Magic. The principal activities of DCX, Guangdong Qunhe and Guangzhou Magic are set out in note 16 to the financial statements.

Since the acquisition, DCX, Guangdong Qunhe and Guangzhou Magic contributed HK$78,253,000 to the Group's turnover and HK$8,862,000 to the consolidated profit after tax and before minority interests for the year ended 30 June 2005.

In October 2003, the Group acquired a 51% interest in SXBPI from an independent third party. SXBPI is an investment holding company established in Mainland China which held a 51.72% interest in Kanglai Medicine at the time of acquisition. The principal activity of SXBPI is investment holding. Kanglai Medicine is engaged in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment.

Since their acquisition, SXBPI and Kanglai Medicine contributed HK$124,981,000 to the Group's turnover and HK$1,480,000 to the consolidated profit after tax and before minority interests for the year ended 30 June 2004.

In the case of Kanglai Medicine which has been reclassified as a long term investment during the current year, the turnover and profit after tax of the Group exclude Kanglai Medicine's contribution from when it ceased to be a subsidiary of the Group.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Divestment of subsidiary

	Notes	2005 HK$'000	2004 HK$'000
Net assets disposed of:			
Fixed assets	13	2,972	–
Goodwill	15	1,344	–
Cash and bank balances		16,390	–
Accounts receivables		17,481	–
Prepayments, deposits and other receivables		7,609	–
Inventories		32,222	–
Accounts payable		(46,048)	–
Accrued liabilities and other payables		(4,535)	–
Minority interests		(13,163)	–
		14,272	–
Gain on divestment of a subsidiary	5	407	–
		14,679	–
Satisfied by:			
Cash		2,710	–
Reclassification as a long term investment		11,969	–
		14,679	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2005 HK$'000	2004 HK$'000
Cash consideration	2,710	–
Cash and bank balances disposed of	(16,390)	–
Net outflow of cash and cash equivalents in respect of the divestment of a subsidiary	(13,680)	–

The results of the subsidiary divested during the year ended 30 June 2005 contributed HK$78,460,000 and HK$896,000 to the Group's consolidated turnover or profit after tax for that year.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Major non-cash transactions

As further detailed in note 28 to the financial statements, during the year, 29,200,000 shares of the Company had been allotted and issued upon conversion of the convertible bonds and did not result in any cash flow.

During the year ended 30 June 2004, the Group paid deposits of HK$46,953,000 for the acquisition of DCX. All the deposits paid were regarded as part of the consideration for the acquisition of DCX in (a) above.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its leasehold land and buildings under operating lease arrangements, with leases negotiated for terms of one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As 30 June 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**2,147**	707
In the second to fifth years, inclusive	**2,677**	1,260
	4,824	1,967

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from four to ten years.

34. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

At 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**952**	645
In the second to fifth years, inclusive	**43**	2,708
After five years	**–**	1,947
	995	5,300

35. COMMITMENTS

As at 30 June 2005, the Group had contracted commitments of HK$3,703,000 (2004: HK$3,049,000) in respect of the purchase of technical know-how.

In addition, as at 30 June 2005, the Group had contracted commitment of HK$1,823,000 (2004: Nil) in respect of construction in progress.

The Company had no significant commitments as at 30 June 2005 (2004: Nil).

36. CONNECTED AND 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 ended 30 June 2005, a banking facility of HK$100,000,000 was granted to the Company. Details of the securities arrangement in respect of the banking facilities are set out in note 26 to the financial statements and under the heading "Disclosures pursuant to Rule 13.21 of the Listing Rules" in the Report of the Directors.

Pursuant to a deed dated on 28 October 2005, Deng Jie and Zhang Peter Y, two directors and shareholders of the Company, indemnify the Company against the recoverability of certain deferred tax assets of HK$8.9 million in relation to accumulated losses of a subsidiary (the "Subsidiary"). The indemnified amount have been offset against a corresponding amount of deferred tax liability of a Subsidiary

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 October 2005.