NOTES TO FINANCIAL STATEMENTS

30 June 2006

1. CORPORATE INFORMATION

Hua Han Bio-Pharmaceutical Holdings Limited is a limited liability company incorporated in the Cayman Islands. 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 medical health care products
- trading of pharmaceutical products, healthcare products, and medical appliances and equipment
- research and development of pharmaceutical products

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which also include Hong Kong Accounting Standards ("**HKASs**") 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 certain buildings which have been measured at fair value. These financial statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investment in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Except for those discussed below, the adoption of HKFRSs above has had no material impact on the accounting policies of the Group and of the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at valuation, less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is classified as prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

The Group has restated the comparative amounts to reflect the reclassification retrospectively for the earliest period presented in the financial statements. The effects of the above changes are summarised in note 2.4 to the financial statements.

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior years, the Group classified its non-trading unlisted equity investment intended to be held on a long term basis as long term investment, which was stated at cost less any impairment losses. Upon the adoption of HKAS 39, the unlisted equity investment was designated as available-for-sale equity investment under the transitional provisions of HKAS 39, and accordingly was stated at cost less impairment, as the related equity instrument does not have a quoted market price in an active market and its fair value cannot be reliably measured.

The adoption of HKAS 39 has not resulted in any change in the measurement of the unlisted equity investment.

(ii) Convertible bonds

In prior years, convertible bonds were stated at amortised cost. Upon the adoption of HKAS 39, convertible bonds are bifurcated into a debt component and an embedded derivative component.

The effects of the above change are summarised in note 2.4 to the financial statements.

In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

Goodwill arising on acquisitions on or after 1 July 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amoritsable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill (the "Negative Goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 July 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 July 2005 the carrying amount of Negative Goodwill against retained profits.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium account were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("**equity-settled transactions**"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(d) HKFRS 2 – Share-based Payment (continued)

The main impact of HKFRS 2 on the Group is the requirement for the recognition of the cost of employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 July 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 30 June 2005 but had not yet vested as at 1 July 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 30 June 2004 and at 30 June 2005. There were no share options granted to employees (including directors) after 1 July 2005. Accordingly, the adoption of HKFRS 2 has had no impact to the current year's income statement.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs that are not mandatory for these financial statements. The Group has not early applied these HKFRSs in these financial statements. The following new and revised HKFRSs, although not early adopted by the Group, are applicable to the Group's financial statements in the period of initial application. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on 1 July 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

HKAS 1 Amendment shall be applied by the Group for annual periods beginning on 1 July 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied by the Group for annual periods beginning on 1 July 2007.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a)(i) Effect on the consolidated balance sheets

	Effect of adopting				
	HKAS 17#	HKAS 39*	HKFRS 3*	HKFRS 3*	
Effect of new policies	Prepaid land lease payments	Convertible bonds and embedded derivative financial instruments	Derecognition of Negative Goodwill	Discontinuation of amortisation of goodwill	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2005					
Increase/(decrease) in assets					
Property, plant and equipment	(106,964)	–	–	–	(106,964)
Prepaid land lease payments	98,838	–	–	–	98,838
Current portion of prepaid land lease payments included in prepayments, deposits and other receivables	2,261	–	–	–	2,261
Negative Goodwill	–	–	35,897	–	35,897
Decrease/(increase) in liabilities/equity					
Deferred tax liabilities	1,721	–	–	–	1,721
Asset revaluation reserve	3,223	–	–	–	3,223
Share premium account	–	(13,306)	–	–	(13,306)
Retained profits	646	13,306	(35,897)	–	(21,945)
Minority interests	275	–	–	–	275
					–

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a)(i) Effect on the consolidated balance sheets (continued)

	Effect of adopting				
	HKAS 17#	HKAS 39*	HKFRS 3*	HKFRS 3*	
Effect of new policies	**Prepaid land lease payments**	**Convertible bonds and embedded derivative financial instruments**	**Derecognition of Negative Goodwill**	**Discontinuation of amortisation of goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 June 2006					
Increase/(decrease) in assets					
Property, plant and equipment	(113,008)	–	–	–	(113,008)
Prepaid land lease payments	100,502	–	–	–	100,502
Goodwill	–	–	–	2,385	2,385
Current portion of prepaid land lease payments included in prepayments, deposits and other receivables	2,261	–	–	–	2,261
Negative Goodwill	–	–	34,847	–	34,847
Decrease/(increase) in liabilities/equity					
Deferred tax liabilities	3,051	–	–	–	3,051
Asset revaluation reserve	5,588	–	–	–	5,588
Share premium account	–	(13,306)	–	–	(13,306)
Retained profits	760	13,306	(34,847)	(2,385)	(23,166)
Minority interests	617	–	–	–	617
Exchange fluctuation reserve	229	–	–	–	229
					–

The effects of adopting new and revised HKFRSs on the consolidated balance sheet of the Group at 30 June 2005 are set out in effects of adopting HKAS 17 – Prepaid land lease payments on the Group's consolidated balance sheet at 1 July 2005 above.

* Adjustments taken effect prospectively from 1 July 2005

\# Adjustments/presentation taken effect retrospectively

(a)(ii) Effect on the balance sheets of the Company

Effect of adopting HKAS 39 – Convertible bonds and embedded derivative financial instruments*

	HK$'000
At 1 July 2005 and 30 June 2006	
Increase in share premium account	13,306
Decrease in retained profits	(13,306)
	–

* Adjustments taken effect prospectively from 1 July 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the balances of consolidated equity at 1 July 2004 and at 1 July 2005

	Effect of adopting			
	HKAS 17#	HKAS 39*	HKFRS 3*	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Convertible bonds and embedded derivative financial instruments**	**Derecognition of Negative Goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2004				
Asset revaluation reserve	(1,265)	–	–	(1,265)
Minority interests	(67)	–	–	(67)
				(1,332)
At 1 July 2005				
Asset revaluation reserve	(3,223)	–	–	(3,223)
Share premium account	–	13,306	–	13,306
Retained profits	(646)	(13,306)	35,897	21,945
Minority interests	(275)	–	–	(275)
				31,753

Adjustments taken effect retrospectively

* Adjustments taken effect prospectively from 1 July 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(c) Effect on the consolidated income statements for the years ended 30 June 2006 and 2005

	Effect of adopting			
Effect of new policies	**HKAS 17 Prepaid land lease payments**	**HKFRS 3 Discontinuation of amortisation of goodwill**	**HKFRS 3 Derecognition of Negative Goodwill**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 30 June 2006				
Increase/(decrease) in administrative expenses	114	(2,385)	1,050	(1,221)
Decrease/(increase) in basic earnings per share	HK0.01 cent	HK(0.27) cent	HK0.12 cent	HK(0.14) cent
Decrease/(increase) in diluted earnings per share	HK0.01 cent	HK(0.27) cent	HK0.12 cent	HK(0.14) cent
Year ended 30 June 2005				
Increase in administrative expenses	646	–	–	646
Decrease in basic earnings per share	HK0.09 cent	–	–	HK0.09 cent
Decrease in diluted earnings per share	HK0.09 cent	–	–	HK0.09 cent

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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 entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

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

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

(c) 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's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that 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 income statement and consolidated reserves, respectively. The Group's interests 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.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, 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 income statement 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 associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or before 31 December 2004

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill on acquisitions for which the agreement date is on or before 31 December 2004 (continued)

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.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of an associate, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

The Group has adopted the transitional provision detailed in note 2.2 to account for goodwill arising from acquisitions of which the agreement date is before 1 January 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative Goodwill

Applicable to business combinations for which the agreement date is on or before 31 December 2004

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 income statement 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 income statement 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 income statement and any relevant reserves as appropriate.

Applicable to business combinations for which the agreement date is on or after 1 January 2005

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously the Negative Goodwill), after reassessment, is recognised immediately in the income statement.

The Group has adopted the transitional provision detailed in note 2.2 to account for Negative Goodwill arising from business combinations of which the agreement date is before 1 January 2005.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment 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 income statement. Any subsequent revaluation surplus is credited to the income statement 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 item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	Over the lease terms or 2% to 10%, whichever is shorter
Leasehold improvements	Over the lease terms or 20% to 25%, whichever is shorter
Plant and machinery	5% to 20%
Furniture, fixtures, equipment and motor vehicles	12.5% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Construction in progress represents leasehold improvements and renovation works in progress, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Technical knowhow

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

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. 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 from the date when the products are ready for use.

Leases

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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Applicable to the year ended 30 June 2005

The Group classified its equity investment, other than subsidiaries, as a long term investment.

Long term investment

Long term investment is non-trading investment in unlisted equity securities intended to be held on a long term basis, and is 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 income statement in 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 income statement to the extent of the amount previously charged.

Applicable to the year ended 30 June 2006

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 30 June 2006 (continued)

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale investments are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

Applicable to the year ended 30 June 2006

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Applicable to the year ended 30 June 2006 (continued)

Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

Applicable to the year ended 30 June 2006

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Applicable to the year ended 30 June 2006 (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible bonds

Applicable to the year ended 30 June 2005

Convertible bonds were stated at amortised cost.

Applicable to the year ended 30 June 2006

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On the issue of the convertible bonds, the fair value of the conversion option is determined using an option pricing model; and this amount is carried as liabilities (embedded derivative financial instrument) and remeasured to its fair value in subsequent balance sheet dates with the changes in fair value recognised in the income statement. The remainder of the proceeds is allocated to host contract liability component; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The carrying amount of embedded derivative financial instrument is remeasured in subsequent years.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

Applicable to the year ended 30 June 2006

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

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.

Cash and cash equivalents

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

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

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 income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, 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 credits 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 credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination 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 and an associate, 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.

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 reassessed at each balance sheet date and 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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;

(c) services income, when the services have been provided; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 July 2005 and to those granted on or after 1 July 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Staff retirement 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 income statement 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.

The employees of the subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to make contributions for its employees who are registered as permanent residents in Mainland China. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Dividends

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries and an associate are currencies other than Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement which has the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or whether the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value, or such an event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could have a material effect on the net present value used in the impairment test.

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 over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

4. SEGMENT INFORMATION (continued)

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.

Business segments

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

	Manufacturing		**Trading**		**Consolidated**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
				(Restated)		(Restated)
Segment revenue:						
Sales to external customers	**465,237**	383,618	**162,688**	218,303	**627,925**	601,921
Other income and gain	**1,848**	899	**281**	1,789	**2,129**	2,688
	467,085	384,517	**162,969**	220,092	**630,054**	604,609
Segment results	**170,910**	147,092	**821**	(301)	**171,731**	146,791
Interest income and unallocated income					**5,845**	5,279
Unallocated expenses					**(11,754)**	(17,398)
Finance costs					**(11,300)**	(7,947)
Share of losses of:						
Associate					**–**	(368)
Amortisation of goodwill on acquisition of an associate					**–**	(100)
Impairment of goodwill on acquisition of an associate					**–**	(300)
Profit before tax					**154,522**	125,957
Tax					**(27,135)**	(23,404)
Profit for the year					**127,387**	102,553

4. SEGMENT INFORMATION (continued)

Business segments (continued)

	Manufacturing		Trading		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)		(Restated)
Segment assets	**1,009,176**	796,808	**130,272**	114,655	**1,139,448**	911,463
Investment in an associate					**100**	100
Investment in a jointly-controlled entity					**–**	–
Unallocated assets					**42,264**	112,362
Total assets					**1,181,812**	1,023,925
Segment liabilities	**50,820**	72,875	**53,726**	48,161	**104,546**	121,036
Unallocated liabilities					**199,245**	205,027
Total liabilities					**303,791**	326,063
Other segment information:						
Capital expenditure	**11,336**	120,914	**136**	862	**11,472**	121,776
Unallocated capital expenditure					**13**	–
					11,485	121,776
Depreciation and amortisation	**13,074**	10,204	**1,098**	3,718	**14,172**	13,922
Unallocated depreciation and amortisation					**998**	100
					15,170	14,022
Other non-cash expenses	**4**	130	**606**	36	**610**	166
Unallocated non-cash expenses					**–**	300
					610	466
Surplus/(deficit) on revaluation recognised directly in equity	**–**	2,239	**(16)**	409	**(16)**	2,648
Deficit on revaluation recognised in income statement	**–**	–	**114**	646	**114**	646

5. REVENUE AND OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gain is as follows:

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**627,925**	601,921
Other income		
Interest income	**4,882**	5,279
Gross and net rental income	**1,131**	1,155
Others	**1,961**	1,126
	7,974	7,560
Gain		
Gain on divestment of a subsidiary *(note 32(b))*	**–**	407
	7,974	7,967

6. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest expense on:		
Bank loans wholly repayable within five years	**11,290**	7,942
Convertible bonds	**10**	4
Finance lease	**–**	1
	11,300	7,947

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Cost of inventories sold		**215,174**	241,930
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**24,956**	18,433
Retirement scheme contributions		**54**	49
		25,010	18,482
Depreciation	*13*	**8,859**	8,289
Amortisation of prepaid land lease payments	*14*	**2,261**	2,359
Amortisation of intangible assets*	*15*	**4,050**	1,939
Goodwill amortisation for the year**	*16*	**–**	2,385
Negative Goodwill recognised as income***	*16*	**–**	(1,050)
Auditors' remuneration		**1,800**	1,934
Minimum lease payments under operating leases in respect of land and buildings		**1,667**	2,131
Research and development costs		**2,984**	3,887
Loss on write-offs/disposals of items of property, plant and equipment**		**159**	49
Deficit on revaluation of leasehold buildings		**114**	646
Impairment of accounts and bills receivables**		**451**	–
Provision against inventories		**–**	117

* The amortisation of intangible assets for the year is included in "Cost of sales" on the face of the consolidated income statement.

** Included in "Administrative expenses" on the face of the consolidated income statement.

*** The Negative Goodwill recognised as income for last year was included in last year's "Administrative expenses" on the face of the consolidated income statement.

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 Hong Kong Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees:		
Independent non-executive directors	**300**	300
Non-executive directors	**200**	–
	500	300
Other emoluments:		
Salaries, allowances and benefits in kind	**600**	600
Performance related bonuses	**2,640**	2,640
Retirement scheme contributions	**12**	–
	3,252	3,240
	3,752	3,540

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	HK$'000	*HK$'000*
Professor Kung Hsiang Fu	**100**	100
Professor Tso Wung Wai	**100**	100
Mr. Hon Yiu Ming, Matthew	**100**	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

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

Directors' remuneration (continued)

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
30 June 2006					
Executive directors:					
Mr. Zhang Peter Y.	–	144	956	4	1,104
Mr. Xu Peng	–	144	–	–	144
Mr. Deng Jie	–	120	880	4	1,004
Mr. Long Xian Feng	–	96	804	4	904
Mr. Wu Xian Peng	–	96	–	–	96
	–	600	2,640	12	3,252
Non-executive directors:					
Mr. Wee Ee Lim	100	–	–	–	100
Mr. Han Ah Kuan	50	–	–	–	50
Mr. Tarn Sien Hao	50	–	–	–	50
	200	–	–	–	200
	200	600	2,640	12	3,452
30 June 2005					
Executive directors:					
Mr. Zhang Peter Y.	–	144	576	–	720
Mr. Xu Peng	–	144	576	–	720
Mr. Deng Jie	–	120	480	–	600
Mr. Long Xian Feng	–	96	504	–	600
Mr. Wu Xian Peng	–	96	504	–	600
	–	600	2,640	–	3,240
Non-executive directors:					
Mr. Wee Ee Lim	–	–	–	–	–
Mr. Han Ah Kuan	–	–	–	–	–
	–	–	–	–	–
	–	600	2,640	–	3,240

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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

Five highest paid employees

The five highest paid employees during the year included three (2005: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2005: 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	
	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**504**	1,310
Retirement scheme contributions	**19**	46
	523	1,356

During the year, no emoluments were paid by the Group to the directors, or the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2005: 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 (2005: 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 China Corporate Income Tax rate of 15% effective from 1 January 2002. In addition, pursuant to an approval received from the local tax bureau during 2003, Guiyang De Chang Xiang Pharmaceutical Company Limited ("**DCX**"), a subsidiary of the Company, was approved a Mainland China Corporate Income Tax rate of 15% effective from year 2003 to 2010 with respect to the preferential tax policy granted by the local government for the entity established in the western part of Mainland China.

9. TAX (continued)

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current – Mainland China	**(27,135)**	(24,160)
Deferred tax credited to the income statement *(note 28)*	**–**	756
Total tax charge for the year	**(27,135)**	(23,404)

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 are domiciled to the tax charge at the effective rate is as follows:

Group

	Hong Kong	**Mainland China**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	(Restated)
2006			
Profit/(loss) before tax	(10,020)	164,542	154,522
Tax at the statutory tax rates	1,754*	(54,299)**	(52,545)
Lower tax rate for specific provinces or local authority	–	28,460	28,460
Expenses not deductible for tax	(1,103)	(813)	(1,916)
Estimated tax losses not recognised	(651)	(483)	(1,134)
Tax charge at the Group's effective rate	–	(27,135)	(27,135)
2005			
Profit/(loss) before tax	(18,104)	144,061	125,957
Tax at the statutory tax rates	3,168*	(47,540)**	(44,372)
Lower tax rate for specific provinces or local authority	–	26,275	26,275
Expenses not deductible for tax	(2,303)	(1,114)	(3,417)
Estimated tax losses not recognised	(865)	(1,025)	(1,890)
Tax charge at the Group's effective rate	–	(23,404)	(23,404)

9. TAX (continued)

* The standard Hong Kong profits tax rate is 17.5% for the year ended 30 June 2006 (2005: 17.5%).

** The standard Mainland China Corporate Income Tax rate is 33% (2005: 33%).

During the year, certain deferred tax assets of HK$9,247,000 were derecognised. The deferred tax assets were indemnified by the directors of the Company, further details of which are set out in note 28 to the financial statements.

There were no profits tax attributable to the jointly-controlled entity and the associate of the Group as the jointly-controlled entity and the associate did not generate any assessable profits during the year (2005: Nil).

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net profit from ordinary activities attributable to equity holders of the Company for the year ended 30 June 2006 dealt with in the financial statements of the Company, was HK$30,559,000 (2005: HK$17,639,000) *(note 31(b))*.

11. DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK2 cents (2005: HK2 cents per ordinary share)	**17,615**	17,415

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 ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the year attributable to equity holders of the Company of HK$123,146,000 (2005: HK$101,427,000 (restated)) and the weighted average of 872,723,364 (2005: 691,346,066) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount is based on the adjusted profit for the year attributable to ordinary equity holders of the Company of HK$123,156,000 (2005: HK$101,431,000 (restated)) and on 877,211,808 (2005: 721,718,024) ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (continued)

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:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Profit attributable to equity holders of the Company used in basic earnings per share calculation	**123,146**	101,427
Effects of dilutive convertible bonds	**10**	4
Adjusted profit attributable to equity holders of the Company used in diluted earnings per share calculation	**123,156**	101,431

Shares

	Number of shares	
	2006	2005
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**872,723,364**	691,346,066
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all post-IPO share options outstanding during the year *(note 30(a))*	**3,916,034**	24,427,565
Assumed issued on deemed conversion of all convertible bonds outstanding during the year *(note 27)*	**572,410**	5,944,393
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**877,211,808**	721,718,024

* As further explained in note 27 to the financial statements, the convertible bonds were convertible at a conversion price to be calculated in accordance with a pre-determined formula determined by the bondholder. The calculation of the weighted average number of ordinary shares in respect of the deemed conversion of all convertible bonds assumed that all the convertible bonds were converted at the lowest possible conversion price during the Year.

** The Subscription Rights, as further detailed in note 27 to the financial statements, outstanding during the current year and last year had an anti-dilutive effect on the basic earnings per share for the current year and last year.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000 (Restated)	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
30 June 2006						
Cost or valuation:						
At 1 July 2005						
As previously reported	182,607	4,794	41,724	14,890	4,215	248,230
Prior year adjustment	(106,964)	–	–	–	–	(106,964)
As restated	75,643	4,794	41,724	14,890	4,215	141,266
Additions	124	–	494	326	6,658	7,602
Deficit on revaluation	(2,742)	–	–	–	–	(2,742)
Transfers	–	–	10,528	–	(10,528)	–
Write-offs	–	(143)	(11)	(284)	–	(438)
Exchange realignment	2,938	166	1,630	632	164	5,530
At 30 June 2006	75,963	4,817	54,365	15,564	509	151,218
Accumulated depreciation:						
At 1 July 2005	–	1,253	8,592	6,423	–	16,268
Provided during the year	2,612	595	3,625	2,027	–	8,859
Write-offs	–	–	(7)	(272)	–	(279)
Write-back upon revaluation	(2,612)	–	–	–	–	(2,612)
Exchange realignment	–	28	344	309	–	681
At 30 June 2006	–	1,876	12,554	8,487	–	22,917
Net carrying amount:						
At 30 June 2006	75,963	2,941	41,811	7,077	509	128,301
At 30 June 2005	75,643	3,541	33,132	8,467	4,215	124,998
Analysis of cost or valuation:						
At cost	–	4,817	54,365	15,564	509	75,255
At 30 June 2006 valuation	75,963	–	–	–	–	75,963
	75,963	4,817	54,365	15,564	509	151,218

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings *HK$'000* (Restated)	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures, equipment and motor vehicles *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000* (Restated)
30 June 2005						
Cost or valuation:						
At 1 July 2004						
As previously reported	89,277	4,996	30,072	15,174	–	139,519
Prior year adjustment	(51,654)	–	–	–	–	(51,654)
As restated	37,623	4,996	30,072	15,174	–	87,865
Additions	19,738	389	11,360	1,423	4,215	37,125
Acquisition of subsidiaries *(note 32(a))*	20,803	212	292	1,254	–	22,561
Divestment of a subsidiary *(note 32(b))*	(729)	(507)	–	(2,636)	–	(3,872)
Disposals	–	(296)	–	(325)	–	(621)
Surplus upon revaluation	(1,792)	–	–	–	–	(1,792)
At 30 June 2005	75,643	4,794	41,724	14,890	4,215	141,266
Accumulated depreciation:						
At 1 July 2004						
As previously reported	2,622	846	6,104	4,873	–	14,445
Prior year adjustment	(1,291)	–	–	–	–	(1,291)
As restated	1,331	846	6,104	4,873	–	13,154
Provided during the year	2,463	813	2,488	2,525	–	8,289
Divestment of a subsidiary *(note 32(b))*	–	(110)	–	(790)	–	(900)
Write-back on disposals	–	(296)	–	(185)	–	(481)
Write-back upon revaluation	(3,794)	–	–	–	–	(3,794)
At 30 June 2005	–	1,253	8,592	6,423	–	16,268
Net carrying amount:						
At 30 June 2005	75,643	3,541	33,132	8,467	4,215	124,998
At 1 July 2004	36,292	4,150	23,968	10,301	–	74,711
Analysis of cost or valuation:						
At cost	–	4,794	41,724	14,890	4,215	65,623
At 30 June 2005 valuation	75,643	–	–	–	–	75,643
	75,643	4,794	41,724	14,890	4,215	141,266

All the Group's buildings are located outside Hong Kong and held are under medium term leases.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The 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, on the open market value direct comparison basis on 30 June 2006, at HK$6,720,000. The Group's leasehold buildings for certain of the Group's production and storage premises were revalued by DTZ on 30 June 2006 on a depreciated replacement cost basis at HK$69,243,000. In the current year, revaluation deficits of HK$16,000 (2005: surplus of HK$2,648,000 (restated)) and HK$114,000 (2005: HK$646,000 (restated)) have been charged to the asset revaluation reserve and the income statement, respectively.

Had the Group's buildings been carried at historical cost less accumulated depreciation, their net carrying amount would have been approximately HK$72,221,000.

Up to the date of this report, the Group is still in the process of obtaining the building ownership certificates of certain of the Group's buildings in Mainland China with an aggregate net carrying amount of HK$39,798,000 at 30 June 2006.

At 30 June 2006, certain of the Group's buildings, and plant and machinery with net carrying amounts of approximately HK$26,682,000 (2005: HK$26,426,000 (restated)) and HK$21,715,000 (2005: HK$6,579,000), respectively, were pledged to secure certain banking facilities granted to the Group *(note 26)*.

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at beginning of year	**101,099**	48,377
Acquisition of subsidiaries *(note 32(a))*	**–**	55,081
Amortisation recognised during the year	**(2,261)**	(2,359)
Exchange realignment	**3,925**	–
Carrying amount at 30 June	**102,763**	101,099
Current portion included in prepayments, deposits and other receivables	**(2,261)**	(2,261)
Non-current portion	**100,502**	98,838

The prepaid land lease payments of the Group are located outside Hong Kong and are held under medium term leases.

As at 30 June 2006, certain of the Group's prepaid land lease payments with a net carrying amount of HK$45,904,000 (2005: HK$43,287,000 (restated)) were pledged to secure banking facilities granted to the Group *(note 26)*.

15. INTANGIBLE ASSETS

Group

	Technical knowhow	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
30 June 2006			
Cost:			
At 1 July 2005	13,504	5,674	19,178
Additions	3,883	–	3,883
Exchange realignment	524	220	744
At 30 June 2006	17,911	5,894	23,805
Accumulated amortisation:			
At 1 July 2005	1,982	3,790	5,772
Provided during the year	3,377	673	4,050
Exchange realignment	76	147	223
At 30 June 2006	5,435	4,610	10,045
Net carrying amount:			
At 30 June 2006	12,476	1,284	13,760
At 30 June 2005	11,522	1,884	13,406
30 June 2005			
Cost:			
At 1 July 2004	10,233	5,674	15,907
Additions	3,271	–	3,271
At 30 June 2005	13,504	5,674	19,178
Accumulated amortisation:			
At 1 July 2004	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 carrying amount:			
At 30 June 2005	11,522	1,884	13,406
At 1 July 2004	9,412	2,662	12,074

16. GOODWILL AND NEGATIVE GOODWILL

Group

	Goodwill *HK$'000*	Negative Goodwill *HK$'000*	Total *HK$'000*
30 June 2006			
At 1 July 2005:			
Cost			
As previously reported	21,480	(37,997)	(16,517)
Effect of adopting HKFRS 3 *(note 2.2(c))*	(2,615)	37,997	35,382
As restated	18,865	–	18,865
Accumulated amortisation:			
As previously reported	2,615	(2,100)	515
Effect of adopting HKFRS 3 *(note 2.2(c))*	(2,615)	2,100	(515)
As restated	–	–	–
Net carrying amount	18,865	–	18,865
At 30 June 2006:			
Cost and net carrying amount	18,865	–	18,865
30 June 2005			
At 1 July 2004:			
Cost	4,239	(37,997)	(33,758)
Accumulated amortisation	(566)	1,050	484
Net carrying amount	3,673	(36,947)	(33,274)
Acquisition of subsidiaries *(note 32(a))*	18,921	–	18,921
Divestment of a subsidiary *(note 32(b))*	(1,344)	–	(1,344)
Amortisation provided/(recognised as income) during the year	(2,385)	1,050	(1,335)
Net carrying amount at 30 June 2005	18,865	(35,897)	(17,032)
At 30 June 2005:			
Cost	21,480	(37,997)	(16,517)
Accumulated amortisation	(2,615)	2,100	(515)
Net carrying amount	18,865	(35,897)	(17,032)

16. GOODWILL AND NEGATIVE GOODWILL (continued)

Group (continued)

Goodwill with a carrying amount of HK$16.0 million (the "Goodwill") was allocated to a cash-generating unit engaged in the manufacture of gynaecological pharmaceutical products and feminine medical healthcare products, which is included in the "Manufacturing" segment of the Group. The recoverable amount of the cash-generating unit has been determined from the value in use, which is calculated with reference to cash flow projections based on a five-years period financial budget approved by senior management. The key assumptions for the cash flow projections are the budgeted gross margins which is the average gross profit margin achieved in the year immediately before budgeted years and the discount rate of 6.7%, which is before tax and reflects specific risks relating to the cash generating unit. The directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the cash-generating unit to exceed the aggregate recoverable amount. Since the recoverable amount of the cash generating unit is higher than its carrying amount, the directors consider that the carrying value of the Goodwill at the balance sheet date is not impaired.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**133,700**	133,700
Due from subsidiaries	**404,951**	417,933
	538,651	551,633

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and are repayable on demand. The carrying amounts of balances with subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Intended Features Limited (**"IFL"**)	British Virgin Islands	US$375,875 Ordinary	100	–	Investment holding

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
GHMM*	Mainland China	HK$151,830,000	–	100	Manufacture and sale of gynaecological pharmaceutical products and feminine medical health care products
貴州漢方息烽藥業有限公司**	Mainland China	RMB3,000,000	–	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	Investment holding
成都禾創藥業有限公司 **("Chengdu Co.")**** *(note 2)*	Mainland China	RMB21,000,000	–	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	Investment holding
廣東群禾藥業有限公司** **("Guangdong Qunhe")**	Mainland China	RMB10,000,000	–	70	Trading of medical healthcare products
廣州美即化妝品有限公司** **("Guangzhou Magic")**	Mainland China	RMB1,000,000	–	49	Manufacture and sale of medical healthcare products

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
海南洋浦正瀚貿易有限公司**	Mainland China	RMB1,000,000	–	70	Trading of medical healthcare products
DCX***	Mainland China	RMB8,344,915	–	93	Manufacture and sale of gynaecological pharmaceutical products and feminine medical health care products

* Registered as wholly foreign owned enterprises under the law of Mainland China

** Registered as domestic enterprises under the laws of Mainland China

*** Registered as a foreign investment enterprise under the laws of Mainland China.

The statutory financial statements of the subsidiaries listed above are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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 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..

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets of an unlisted jointly-controlled entity	**–**	–

Particulars of the jointly-controlled entity are as follows:

		Percentage of			
Name	**Place of registration and operations**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Guizhou Hanfang Medicine Research Co., Ltd. (**"GHMR"**)	Mainland China	50	40	50	Research and development of Chinese and western medicine

During the year, the Group did not share any of the losses of GHMR (2005: Nil) as, according to the joint venture agreement, the Group's share of losses of GHMR is limited to its capital contribution to GHMR, which was reached in prior years. The statutory financial statements of GHMR were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

19. INVESTMENT IN AN ASSOCIATE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets of an unlisted associate	**100**	100

The goodwill arising from the acquisition of the associate in prior years of HK$500,000 was fully impaired as at 30 June 2005 and 2006.

19. INVESTMENT IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

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

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

The statutory financial statements of TLB were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

20. AVAILABLE-FOR-SALE EQUITY INVESTMENT/LONG TERM INVESTMENT

	Group	
	2006	2005
	HK$'000	*HK$'000*
Unlisted equity investment outside Hong Kong, at cost	**12,434**	11,969

Long term investment represented the Group's interest in 湖北康萊醫葯有限公司 (the "Former Subsidiary"), a domestic enterprise registered under the laws of Mainland China, held via SXBPI, a 51% owned subsidiary of the Group. SXBPI held 41.72% equity interest in the Former Subsidiary at 30 June 2006 and 2005. Pursuant to the sale and purchase agreement signed by SXBPI and an independent third party for the disposal of 10% equity interests in the Former Subsidiary, the Group's appointed representatives retired from the board of directors of the Former Subsidiary. The Group also waived its right to appoint representatives to the board of directors of the Former Subsidiary and waived its right of voting in the Former Subsidiary. As a result, the Former Subsidiary ceased to be a subsidiary of the Group and has been accounted for as a long term investment since 20 October 2004.

Subsequent to the balance sheet date, SXBPI entered into an agreement with another independent third party for the disposal of the Group's entire interest in the Former Subsidiary for a cash consideration which approximates the carrying amount of the Former Subsidiary at 30 June 2006 (the "Consideration"). Upon signing the agreement, half of the Consideration was received by the Group. The remaining balance will be settled by four equal quarterly instalments commencing from December 2006.

21. LONG TERM DEPOSITS

The long term deposits represent deposits paid in respect of:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Purchases and construction of property, plant and equipment	**14,563***	3,749
Purchases of technical knowhow	**5,062**	3,734
	19,625	7,483

* The deposit paid was refunded to the Group subsequent to the balance sheet date.

22. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**6,875**	5,758
Work in progress	**1,165**	1,027
Finished goods	**17,024**	14,795
	25,064	21,580

23. ACCOUNTS AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of up to 180 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivables related to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivables are non-interest-bearing and their carrying amount approximate to their fair values.

An ageing analysis of the accounts and bills receivables as at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**173,425**	143,969
91 to 180 days	**63,055**	78,034
181 to 365 days	**28,610**	19,467
Over 365 days	**937**	–
	266,027	241,470

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**531,381**	474,000	**2,707**	1,168
Less: Deposits pledged for short term banking facilities *(note 26)*	**(7,517)**	–	**–**	–
Cash and cash equivalents	**523,864**	474,000	**2,707**	1,168

At 30 June 2006, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to approximately HK$447,407,000 (2005: HK$360,853,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

25. ACCOUNTS AND BILLS PAYABLES

An ageing analysis of the accounts and bills payables as at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**49,932**	41,605
91 to 180 days	**9,578**	6,791
181 to 365 days	**2,322**	4,780
Over 365 days	**2,636**	4,168
	64,468	57,344

The accounts and bills payables are non-interest-bearing and are normally settled on 90-day to 180-day terms. The carrying amounts approximate to their fair values.

26. BANK LOANS

	Effective interest rate		Group		Company	
			2006	2005	**2006**	2005
	%	*Maturity*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current:						
Bank loans – secured	5.86 – 7.02	August 2006 to June 2007	**119,211**	117,887	**57,250**	28,500
Non-current:						
Bank loans – secured	5.36 – 6.34	November 2007 to December 2023	**38,352**	79,159	**14,250**	71,500
			157,563	197,046	**71,500**	100,000
Bank loans repayable:						
Within one year			**119,211**	117,887	**57,250**	28,500
In the second year			**30,945**	36,159	**14,250**	28,500
In the third to fifth years, inclusive			**968**	43,000	**–**	43,000
Beyond five years			**6,439**	–	**–**	–
			157,563	197,046	**71,500**	100,000

At 30 June 2006, the Group's bank loans and other banking facilities were supported by the following:

(a) the pledge of the Group's prepaid land lease payments, buildings, and plant and machinery of HK$45,904,000 (2005: HK$43,287,000 (restated)), HK$26,682,000 (2005: HK$26,426,000 (restated)) and HK$21,715,000 (2005: HK$6,579,000), respectively;

(b) corporate guarantees executed by certain subsidiaries of the Company;

(c) the pledge of bank deposits of HK$7,517,000 (2005: Nil); and

(d) the pledge of equity interests in certain subsidiaries of the Company.

Details of the covenants undertaken by Mr. Zhang Peter Y. and Mr. Xu Peng are set out under the heading "Disclosures pursuant to Rule 13.21 of the Listing Rules" in the Report of Directors. Mr. Zhang and Mr. Xu Peng are directors and owners of a shareholder of the Company.

Except for secured bank loans amounted to HK$86,063,000 in aggregate which are denominated in RMB, all other borrowings are in Hong Kong dollars.

26. BANK LOANS (continued)

Except for secured bank loans amounted to HK$67,616,000 in aggregate which bear interests at fixed rates, all other borrowings bear interests at floating rates.

The carrying amounts of bank loans approximated to their fair values.

27. 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 those of 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 the 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.

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 years ended 30 June 2004 and 2005, certain of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds in the aggregate amount of US$5,500,000 and US$2,450,000 issued to CSFB were converted into 38,552,000 and 29,200,000 ordinary shares of HK$0.10 each in the Company, respectively.

27. CONVERTIBLE BONDS (continued)

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 and all such rights have lapsed upon the maturity of the bonds.

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.

As at 30 June 2006, an aggregate principle amount of convertible bonds of US$50,000 (equivalent to HK$390,000 (2005: US$50,000 (equivalent to HK$390,000)) remained outstanding, which was repaid by the Group on the maturity date, 22 July 2006.

28. DEFERRED TAX

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

Deferred tax liabilities

	Fair value adjustment arising from acquisition of subsidiaries *HK$'000*	**Revaluation of buildings** *HK$'000* (Restated)	**Total** *HK$'000* (Restated)
30 June 2006			
At 1 July 2005			
As previously reported	15,421	3,029	18,450
Prior year adjustment	–	(1,721)	(1,721)
As restated	15,421	1,308	16,729
Deferred tax debited to equity during the year	–	7	7
Deferred tax assets derecognised during the year*	9,247	–	9,247
Exchange realignment	598	50	648
At 30 June 2006	25,266	1,365	26,631
30 June 2005			
At 1 July 2004			
As previously reported	–	1,175	1,175
Prior year adjustment	–	(654)	(654)
As restated	–	521	521
Arising from acquisition of subsidiaries *(note 32(a))*	16,177	–	16,177
Deferred tax debited to equity during the year	–	787	787
Deferred tax credited to income statement during the year *(note 9)*	(756)	–	(756)
At 30 June 2005	15,421	1,308	16,729

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

28. DEFERRED TAX (continued)

At 30 June 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of the Group's certain subsidiaries, associate or jointly-controlled entity 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.

* Pursuant to a deed dated 28 October 2005, Mr. Deng Jie and Mr. Zhang Peter Y., two directors of the Company, agreed to indemnify the Company against the recoverability of certain deferred tax assets of HK$9,247,000 in relation to accumulated losses of a subsidiary (the "**Subsidiary**"). The deferred tax assets were previously eliminated against the deferred tax liabilities. During the current year, the Group clarified that the accumulated losses of the Subsidiary were no longer available to offset future taxable profits of the Subsidiary and accordingly the deferred tax assets were no longer recoverable. As a result, the deferred tax liabilities of the Group had been increased by HK$9,247,000, while the amounts due from directors (included in prepayments, deposits and other receivables under current assets) had also increased by the same amount.

29. SHARE CAPITAL

Shares

	Company	
	2006	2005
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 (2005: 2,000,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
879,734,400 (2005: 870,734,400) ordinary shares of HK$0.10 each	**87,973**	87,073

The following movements in the Company's authorised and issued share capital took place during the years ended 30 June 2005 and 2006:

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

(b) 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 52,000,000 share options at a subscription price of HK$0.64 per share for a total cash consideration of HK$33,231,000.

29. SHARE CAPITAL (continued)

(c) 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 then 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 for a total cash consideration of approximately HK$114,580,000, before share issue expenses.

(d) On various dates during the year ended 30 June 2006, a total of 9,000,000 shares in the Company of HK$0.10 each were allotted and issued pursuant to the exercise of 9,000,000 share options at a subscription price of HK$0.64 per share for a total cash consideration of HK$5,760,000.

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

	Notes	**Number of issued shares** *'000*	**Nominal value of shares issued** *HK$'000*
At 1 July 2004		656,302	65,630
Shares issued upon conversion of convertible bonds	*(a)*	29,200	2,920
Shares issued upon exercise of share options	*(b)*	52,000	5,200
Share issued upon allotment	*(c)*	133,232	13,323
At 30 June 2005 and 1 July 2005		870,734	87,073
Shares issued upon exercise of share options	*(d)*	9,000	900
At 30 June 2006		879,734	87,973

Share options

Further details of the Company's share option scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

(a) Post-IPO share options scheme

The Company operates a post-IPO share options 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.

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 and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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

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

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

30. SHARE OPTION SCHEME (continued)

(a) Post-IPO share options scheme (continued)

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

Name or category of participants	Number of Post-IPO share options: At 1 July 2005	Exercised during the year	Lapsed during the year	At 30 June 2006	Date of grant of post-IPO share options	Exercise period of post-IPO share options	Weighted average closing price* HK$
Executive directors							
Mr. Zhang Peter Y.	600,000	–	–	600,000	1 September 2004	1 September 2004 to 31 August 2006	–
Mr. Xu Peng	600,000	–	–	600,000	1 September 2004	1 September 2004 to 31 August 2006	–
	1,200,000	–	–	1,200,000			
Other employees **							
In aggregate	5,400,000	(3,000,000)	–	2,400,000	1 September 2004	1 September 2004 to 31 August 2006	1.20
Others							
In aggregate	7,000,000	(6,000,000)	–	1,000,000	1 September 2004	1 September 2004 to 31 August 2006	1.19
	13,600,000	(9,000,000)	–	4,600,000			

The exercise price of the post-IPO share options of HK$0.64 per share 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.

** Other employees include employees of the Group (other than the directors of the Company) 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).

No share options were granted during the year ended 30 June 2006.

30. SHARE OPTION SCHEME (continued)

(a) Post-IPO share options scheme (continued)

At the balance sheet date, the Company had 4,600,000 share options outstanding under the Scheme, which represented approximately 0.5% 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 4,600,000 additional ordinary shares of the Company for an aggregate cash consideration of HK$2,944,000, before issue expenses.

(b) Subscription rights attaching to the convertible bonds

As detailed in note 27 to the financial statements, the Company has also granted Subscription Rights to CFSB.

31. 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 completed in 2002 (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 fund is 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.

31. RESERVES (continued)

(b) Company

	Notes	Reserves: Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2004		200,394	1,146	201,540
Issue of shares upon conversion of convertible bonds	*29(a)*	16,185	–	16,185
Issue of shares upon exercise of share options	*29(b)*	28,031	–	28,031
Issue of shares upon allotment	*29(c)*	101,257	–	101,257
Share issue expenses		(5,388)	–	(5,388)
Profit for the year		–	17,639	17,639
Proposed final dividend	*11*	–	(17,415)	(17,415)
At 30 June 2005		340,479	1,370	341,849
At 1 July 2005				
As previously reported		340,479	1,370	341,849
Opening adjustment *(note 2.4)*		13,306	(13,306)	–
As restated		353,785	(11,936)	341,849
Issue of shares upon exercise of share options	*29(d)*	4,860	–	4,860
Profit for the year		–	30,559	30,559
Proposed final dividend	*11*	–	(17,615)	(17,615)
At 30 June 2006		358,645	1,008	359,653

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.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries during the year ended 30 June 2005:

	Notes	*HK$'000* (Restated)
Net assets acquired:		
Property, plant and equipment	*13*	22,561
Prepaid land lease payments	*14*	55,081
Inventories		5,886
Accounts receivable		12,558
Prepayments, deposits and other receivables		1,475
Cash and bank balances		2,868
Due from group companies		9,065
Accounts payable		(4,574)
Accrued liabilities and other payables		(13,096)
Due to group companies		(2,449)
Tax payable		(315)
Deferred tax liabilities	*28*	(16,177)
Minority interests		(7,232)
		65,651
Goodwill on acquisition	*16*	18,921
		84,572
Satisfied by:		
Cash		84,572

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

	HK$'000
Cash consideration	(84,572)
Cash and bank balances acquired	2,868
	(81,704)
Deposits paid in prior year	46,953
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(34,751)

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

(a) Acquisition of subsidiaries during the year ended 30 June 2005: (continued)

During the year ended 30 June 2005, the Group acquired a 93% interest in DCX, a 70% interest in Guangdong Qunhe and a 49% interest in Guangzhou Magic. Since their acquisitions by the Group, DCX, Guangdong Qunhe and Guangzhou Magic contributed HK$78,253,000 to the Group's revenue and HK$8,862,000 to the profit after tax for the year ended 30 June 2005.

(b) Divestment of a subsidiary during the year ended 30 June 2005:

	Notes	**2005** *HK$'000*
Net assets disposed of:		
Property, plant and equipment	*13*	2,972
Goodwill	*16*	1,344
Cash and bank balances		16,390
Accounts and bills receivables		17,481
Prepayments, deposits and other receivables		7,609
Inventories		32,222
Accounts and bills 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 to long term investment		11,969
		14,679

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

(b) Divestment of a subsidiary during the year ended 30 June 2005: (continued)

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

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

(c) Major non-cash transactions

Same as disclosed elsewhere in the financial statements, the Group also has the following major non-cash transactions:

(i) Deposits paid of HK$3,749,000 as at 30 June 2005 were utilised for the acquisition of items of property, plant and equipment during the year and did not result in any cash flow.

(ii) Prepayments, deposits and other receivables as at 30 June 2006 included amounts due from directors of HK$9,247,000 arising from their honouring the indemnity provided to the Group which did not result in any cash flow. Further details of the indemnity are set out in note 28 to the financial statements.

(iii) During the year ended 30 June 2005, 29,200,000 shares of the Company had been allotted and issued upon conversion of the convertible bonds as further detailed in note 27 to the financial statements, which did not result in any cash flow.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its buildings under operating lease arrangements, with leases negotiated for original terms of one to four 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.

At the balance sheet dates, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,369**	2,147
In the second to fifth years, inclusive	**1,215**	2,677
	2,584	4,824

(b) As lessee

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

At the balance sheet dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**345**	952
In the second to fifth years, inclusive	**4**	43
	349	995

34. COMMITMENTS

As at 30 June 2006, the Group had contracted commitments of HK$13,202,000 (2005: HK$3,703,000) in respect of the purchases of technical knowhow.

In addition, as at 30 June 2006, the Group had contracted commitment of HK$33,981,000 (2005: HK$1,823,000) in respect of construction of property, plant and equipment.

The Company had no significant commitments as at 30 June 2006 (2005: Nil).

35. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in the financial statements, the Group also had the following material related party transactions during the year:

(i) Details of the undertakings by certain directors of the Company in relation to the Group's banking facilities are set out in note 26 to the financial statements.

(ii) Pursuant to a deed dated 28 October 2005, Mr. Deng Jie and Mr. Zhang Peter Y., two directors of the Company, agreed to indemnify the Company against the recoverability of certain deferred tax assets of HK$9,247,000 in relation to accumulated losses of the Subsidiary. Further details of such indemnity are disclosed in note 28 to the financial statements.

(b) Outstanding balances with related parties

The amounts due from directors of HK$ 9,247,000 (2005:Nil) *(note 28)* at 30 June 2006, which represented the maximum amount outstanding during the year, are unsecured, interest-free and have been settled subsequent to the balance sheet date.

(c) Compensation of key management personnel of the Group

The executive directors of the Company are the key management personnel of the Group whose emoluments are included in note 8 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise an available-for-sale equity investment, bank loans, convertible bonds, as well as cash and bank balances. The Group has various other financial assets and liabilities such as accounts and bills receivables and accounts and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, liquidity risk and credit risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's debt obligation with floating interest rates.

The interest rates of the interest-bearing bank borrowings of the Group are disclosed in note 26 to the financial statements. The directors of the Company believe the Group's exposure to cash flow interest rate risk is minimal.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has insignificant transactional currency exposures. Almost all of the Group's income and expenses are denominated either in HK$ or RMB, which both are the functional currencies of functional units generating the income and incurring the expenses. The Group believes its exposure to exchange rate risk is minimal.

The Group currently has not implemented any procedures to hedge its currency exposures. However, the management monitors the foreign exchange exposures and will consider hedging the significant foreign currency exposures should the need arise.

Liquidity risk

The Group aims at maintaining a balance between continuity of funding and flexibility through maintaining sufficient cash and available banking facilities. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and available-for-sale equity investment arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

37. POST BALANCE SHEET EVENTS

Save as disclosed elsewhere, the Group had the following significant post balance sheet events:

(a) Subsequent to the balance sheet date, the Group drew down a new bank loan of HK$445 million pursuant to a loan facility agreement entered into by the Group with certain financial institutions in Hong Kong and overseas on 30 June 2006. The loan facility is for a term of 3 years commencing from the date of the loan facility agreement and with an option at the end of the third year to extend the loan for an additional 2 years. A portion of the amount drawn was utilised to repay the entire bank loan of the Company outstanding as at 30 June 2006. The remaining portion is intended to provide additional working capital to the Group.

37. POST BALANCE SHEET EVENTS (continued)

(b) Subsequent to the balance sheet date, the Group purchased a technical knowhow and the related exclusive intellectual property right and national patent right of a category one new medicine and in turn established a company in Mainland China with paid-up capital of HK$100 million for the manufacture and sale of the said medicine.

(c) Subsequent to the balance sheet date, the Group entered into a sale and purchase agreement with an independent third party for the disposal of the Group's entire available-for-sale equity investment, further details of which are set out in note 20 to the financial statements.

38. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 October 2006.