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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Zhang Peter Y. (*Chairman*)  
Mr. Xu Peng  
Mr. Deng Jie  
Mr. Long Xian Feng  
Mr. Wu Xian Peng

#### Independent non-executive Directors

Professor Kung Hsiang-Fu  
Professor Tso Wung-Wai  
Mr. Hon Yiu Ming Matthew

### AUDIT COMMITTEE

Professor Kung Hsiang-Fu  
(*Chairman of audit committee*)  
Professor Tso Wung-Wai  
Mr. Hon Yiu Ming Matthew

### COMPANY SECRETARY

Mr. Tang Siu Kun, Stephen

### QUALIFIED ACCOUNTANT

Mr. Tang Siu Kun, Stephen

### REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P. O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 704, 7th Floor  
Aon China Building  
29 Queen's Road Central  
Hong Kong

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited  
1 Queen's Road Central  
Hong Kong

Bank of China  
Guiyang Branch, Jiaxiu Sub-branch  
Number 253 North Ruijing Road  
Guiyang, Guizhou  
PRC

### LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners  
41st Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

### AUDITORS

Ernst & Young  
*Certified Public Accountants*  
15th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.  
Butterfield House  
68 Fort Street  
P. O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

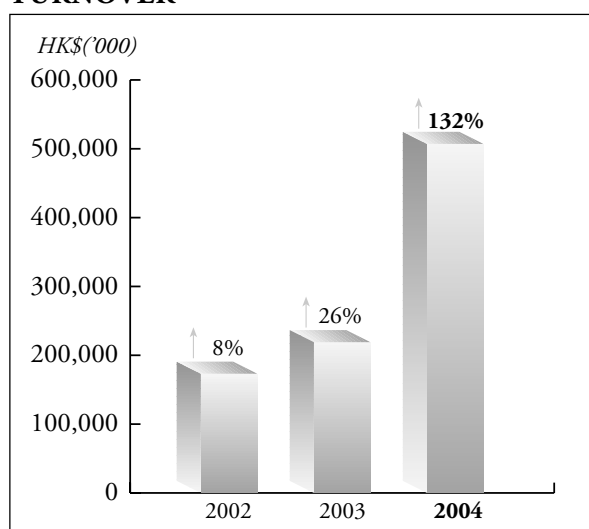
Tengis Limited  
28th Floor, Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

# FINANCIAL HIGHLIGHTS

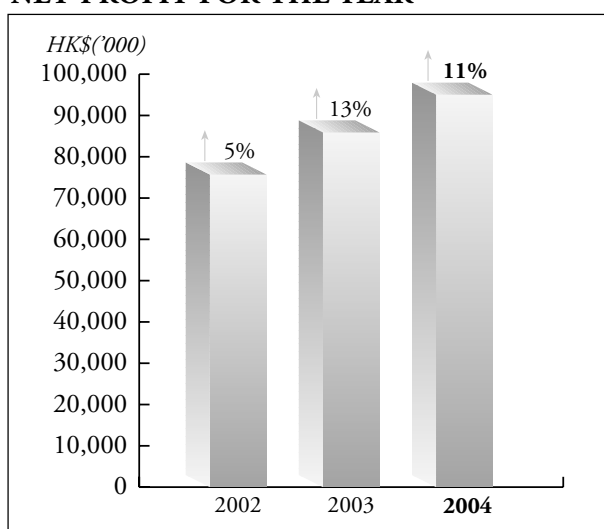
## KEY FINANCIALS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	% Change
Turnover	507,064	219,043	↑ 131.5%
Net profit for the year	95,017	85,883	↑ 10.6%
Basic earnings per share (HK cents)	15.0	16.4	↓ 8.5%
Gearing ratio (%)	34.3	27.5	↑ 24.7%
Cash and cash equivalents on hand	271,365	105,019	↑ 158.4%

## TURNOVER



## NET PROFIT FOR THE YEAR



## TURNOVER

### 2004

**273,242 (54%)**

Anti-inflammatory Products	102,314	(37%)
Endocrine Products	15,728	(6%)
Anti-tumour Products	75,426	(28%)
Medicine for Children	28,428	(10%)
OTC Drugs	28,371	(10%)
Other Drugs	22,975	(9%)

**233,822 (46%)**

## GROSS PROFIT

### 2004

**147,030 (91%)**

Anti-inflammatory Products	37%
Endocrine Products	5%
Anti-tumour Products	34%
Medicine for Children	8%
OTC Drugs	7%
Other Drugs	9%

**15,284 (9%)**

■ Manufacturing

■ Trading

### 2003

**219,043 (100%)**

Anti-inflammatory Products	90,581	(41%)
Endocrine Products	19,581	(9%)
Anti-tumour Products	64,233	(29%)
Medicine for Children	23,969	(11%)
OTC Drugs	14,729	(7%)
Other Drugs	5,950	(3%)

### 2003

**141,044 (100%)**

Anti-inflammatory Products	43%
Endocrine Products	9%
Anti-tumour Products	31%
Medicine for Children	10%
OTC Drugs	5%
Other Drugs	2%

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Hua Han Bio-Pharmaceutical Holdings Limited (“**Hua Han**”, together with its subsidiaries the “**Group**”), I am pleased to present the annual results of the Group for the year ended 30 June 2004 (“**Year**”).

### BUSINESS REVIEW

During the Year, the results of Hua Han continued to maintain its remarkable growth. For the Year, the Group recorded a turnover of approximately HK\$507.0 million, representing a growth of 131.5% as compared to the turnover of HK\$219.0 million in the preceding year, approximately HK\$273.2 million of which was attributable to the turnover of the Group's products, representing a growth of 24.7% over last year and maintaining a high gross profit margin of 53.8%. Approximately HK\$233.8 million of the turnover was the revenue from pharmaceutical trading activities. Profit attributable to shareholders of the Group for the Year was approximately HK\$95.0 million, representing an increase of 10.6% over the corresponding period last year.

### OPERATION REVIEW



*Yeosure series*



Notwithstanding the additional stipulation on monitoring the PRC pharmaceutical industry, active mergers and acquisitions activities, increasingly ferocious elimination of enterprises and keen market competition during the Year, the Group upheld the implementation of operating strategy of “**Prestigious Brand Name Building**”, “**Legend Products**” and “**Nationwide Sales Network**”, and consequently, attained a superior operating results.

The Group's superior operating results are on the basis of the stable growth of hospital sales of **Yeosure series of gynecological pharmaceutical products** (日舒安婦科系列藥品) and **Camptothecine series of gynecological anti-tumour products** (喜樹碱系列婦科抗腫瘤藥品), the fruitful promotional of “**Huangqi 黃芪**” brand, the integration and enhancement of the sales resources of the hospital networks of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司) and the optimal utilisation of the sales resources of Hubei Kanglai Medicine Company Limited (湖北康萊醫藥有限公司) which has a well-established and extensive sales network. The newly-acquired Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司), which owns the classic Chinese gynecological recuperation products “**婦科再造丸**”, and Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司), which has favourable advantages at the sales of feminine medicinal healthcare products, coupled with its ownership of “**Magic 美即**” brand and a team of sales elite, contributed a united support to the Group's products, brand and sales network resources and establish a firm foundation in the pursuit of persistent and rapid growth.



*Camptothecine series*



## CHAIRMAN'S STATEMENT

### PROSPECTS



*Huangqi Granules*

It is expected that the growth momentum of the PRC pharmaceutical industry will be maintained in the future. However, the obvious trend of decreasing overall profit growth of the industry players is observed. While the profit margin of chemical preparations (化學製劑) and chemical raw medicine (化學原料藥) dropped significantly, that of the traditional Chinese medicine was managed to keep its growing pace. The continuous growth and high profitability of the traditional Chinese medicine industry have created a tremendous development opportunity for the speedy growth of the Group's manufacture and sales of gynecological Chinese medicine, one of the core businesses of the Group.

In the financial year 2004/2005, the Group will endeavour in the strategic planning of establishing itself as the leading enterprise of manufacture and sales of gynecological pharmaceutical products and feminine medicinal healthcare products. The Group will put an emphasis on the effective integration of its existing products, brand and sales network resources, optimisation of internal resources allocation and manifestation of combined advantages of its products, sales, manufacture and operation management. The Group is determined to advance and consolidate its leading position in the PRC gynecological prescription medicine market, strengthen the sales effort and increase its amount of investment in developing over-the-counter product ("OTC") portfolio of gynecological Chinese pharmaceutical products, "婦科再造丸", **Yeasure (日舒安)** and **Huangqi (黃芪)** and feminine medicinal healthcare products, "**Magic 美即**" series of products. Meanwhile, in pursuing an expanding market share of the abovementioned OTC products, the Group is projecting the positive image of Hua Han pharmaceutical products as a premium brand and top manufacturer to its customers. In addition, the Group intends to employ the sales network after the integration as a result of the acquisitions took place during the Year in order to expand the distribution proportion of Hua Han's own products in the Group's sales network platform, seek national or regional agents for highly profitable gynecological products, develop high-value-added product agency business and increase the profit contribution of the Group's distributing enterprise. The Group's resolved execution of such series of operating strategies is believed to bring about enduring and maximum value to shareholders.

### APPRECIATION

On behalf of the Board of Directors, I would like to express my gratitude to our management and staff for their contribution and dedication throughout the year. In addition, I would also like to express my appreciation to the shareholders for their continued support to the Group. We firmly believe that the assistance and concerted effort of various parties to the Group would enable us to gather solid support and lay down a winning foundation in establishing the Group as a leading enterprise of gynecological pharmaceutical products and feminine medicinal healthcare products in the PRC. Looking ahead, the Group will spare no effort in bringing about a more profitable return for shareholders.

**Zhang Peter Y.**

*Chairman*

Hong Kong

20 October 2004



*Magic*

## MANAGEMENT DISCUSSION AND ANALYSIS

Engaged principally in the research and development, manufacture and sales of gynecological medicine and medicinal healthcare products for women in the People's Republic of China (“**PRC**”), the Group has been continuously capitalising in its national sales and marketing network in the year ended 30 June 2004 (“**Year**”).

### MARKET REVIEW

During the financial year, major developments in the PRC pharmaceutical industry include the following:

1. According to the PRC regulations, pharmaceutical factories that could not obtain Good Manufacturing Practice (“**GMP**”) certification by the end of June 2004 were obliged to cease operations, resulting in the reduction of the number of pharmaceutical manufacturers from over 6,000 to about 2,000, creating more market opportunities for pharmaceutical manufacturers that complied with the GMP Standards such as the Group;
2. Because of strict protective regulations introduced by the PRC Government against infringement of intellectual property rights of western medicines, western medicine manufacturers in the PRC are under severe pressure and fierce competition. Thus, manufacturers having proprietary rights of the pharmaceutical products they produce and manufacturers of Chinese Medicines have better growth potentials;
3. Mergers and acquisitions have become the dominant trend in the pharmaceutical industry; it is observed that acquisitions occurred not only among manufacturers, but also among manufacturers and distributors, causing more concentration and integration; and
4. Owing to the change in medicine classification (between prescription medicines and over-the-counter (“**OTC**”) medicines), pharmaceutical manufacturers and distributors with large range of products have become more competitive.

### BUSINESS REVIEW

During the Year, the Group recorded satisfactory results despite the challenge of severe market competition. Our encouraging performance is attributable to, we believe, the Group's range of competitive products and its three-pronged business-growth strategy, comprising (1) **Prestigious Brand Name Building**: apart from our strong hospital heritage, OTC operations started to expand our brand and increase consumer awareness; (2) **Legend Products**: we have achieved a leading position in gynecological therapeutic areas especially in anti-viral and feminine oncology treatment. Three new products were launched during the year under review and a strong prescription drug is in the pipeline; and (3) **Nationwide Sales Network**: sales and distribution network expanded through both acquisitions and organic growth.

The successful acquisition of two sales and distribution enterprises of pharmaceutical products during the Year, together with another acquisition well underway, are strategic accomplishments that have afforded immediate access to established sales and distribution networks, and the expansion of its scales of sales and production in gynecological drugs as well as its profitability. Additionally, these acquisitions have facilitated reduction in operating costs and more efficient utilisation of operating resources by way of vertical integration, thus enhancing the competitiveness of the Group as a whole and thus its profit margin.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL PERFORMANCE

The Group has achieved continuing growth in annual turnover and net profit for the three-year period from 2001 to 2004, at an annual compound growth rate of 19.3% and 8.5% in turnover and net profit of the Group's products respectively. For the year under review, the Group recorded a total turnover of approximately HK\$507.0 million, approximately HK\$273.2 million (2003: approximately HK\$219.0 million) of which was attributable to the turnover of the Group's products, representing a growth of 24.7% over last year, and approximately HK\$233.8 million of which was revenue from the trading activities.

Gross profit of the Group's products for the Year was approximately HK\$147.0 million, representing a growth of 4.2% over that for last year of approximately HK\$141.0 million. The gross profit of trading products for the Year was approximately HK\$15.3 million. Profit attributable to shareholders of the Group for the Year was approximately HK\$95.0 million (2003: approximately HK\$85.9 million), representing an increase of 10.6% from that of last year.

## PRESCRIPTION DRUGS

### Gynecological Anti-inflammatory Products

The **Yeosure Series (日舒安系列)** product line, which offers a comprehensive range of products with different therapeutic functions targeted at women of all ages, retained its major contributory position to the Group's proprietary products turnover. Amongst the popular Yeosure products are **Yeosure Natural Medicine Lotion (日舒安洗液)** and **Yeosure Moistened Toilet Towel (日舒安濕巾)**, gynecological anti-inflammatory products. The **Yeosure Series** gynecological anti-inflammatory product line recorded sales of approximately HK\$102.3 million, representing 37.4% of total turnover of the Group's products and an increase of 13.0% from that of last year.

### Gynecological Endocrine Products

**Yeosure Puerperant's Health Drink (日舒安婦康沖劑)**, a gynecological endocrine product, produced total sales of approximately HK\$15.7 million, representing 5.8% of the total turnover of the Group's products.

### Gynecological Anti-tumour Products

**Jin Xi Su (金喜素)** and **Qiang Xi (強喜)**, **Camptothecine Series (喜樹碱系列)**, naturally sourced gynecological anti-tumour injection medicines, brought in total sales of approximately HK\$75.4 million, representing about 27.6% of the Group's total products turnover and an increase of 17.4% compared to last year. Gross profit margin of the Camptothecine Series of products for the year was 66.5%.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Medicine for Children

**Cefadroxil Granules (毅達顆粒)**, an antibiotic for children, produced total sales of approximately HK\$28.4 million, representing 10.4% of the total turnover of the Group's products and an increase of 18.6% from that of last year.

### Other Drugs

A new product for gynecological disease and a Chinese medicine introduced during the Year, **Youdi Lotion (疣迪搽劑)**, for detoxifying, resolving blood stasis and activating blood circulation and **Biejia Xiaozhi Capsules (鰲甲消痔膠囊)**, for eliminating heat, detoxifying detumescence and relieving pain, attributed sales of approximately HK\$17.1 million, representing 6.3% of the total turnover of the Group's products.

In April 2004, Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司) (“**GHMM**”), a wholly owned subsidiary of the Company, was appointed the exclusive manufacturer of **Methadone (美沙酮)** for the Guizhou Test Treatment Centre for Drug Abuse Patients by the State Food and Drug Administration of the PRC (中國國家食品藥品監督管理局) (“**SFDA**”). The production of Methadone for the Guizhou Test Treatment Centre for Drug Abuse Patients commenced in June 2004. It is expected that profit will be generated from such manufacturing activity when more participants join the program.

## OVER-THE-COUNTER DRUGS

### Gynecological Endocrine Products

Sales of **Huangqi Granules (黃芪顆粒)**, a gynecological endocrine product, was approximately HK\$28.4 million, representing 10.4% of total sales of the Group's products and an increase by 92.6% compared to that of last year. Regarding sales of the product in the Hong Kong market, it is expected that the agreement with the Hong Kong agent will be finalised in the present financial year as all basic terms and conditions have been agreed.

## MERGERS AND ACQUISITIONS

The Group has successfully acquired Hubei Kanglai Medicine Company Limited (湖北康萊醫藥有限公司) (“**Kanglai Medicine**”) through the acquisition of 51.0% equity interest in Shenzhen Xinchuang Bio-Pharmaceutical Pioneering Investment Company Limited (深圳市新創生物醫藥創業投資有限公司), which holds approximately 51.7% equity interest in Kanglai Medicine. The Group has reached agreement for the acquisition of 70.0% equity interest in Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) (“**Guangdong Qunhe**”). The acquisitions of Kanglai Medicine and Guangdong Qunhe give us immediate access to their well established sales and distribution networks, thereby expanding the Group's existing network considerably and allowing the Group to improve its operating efficiency and expand our own product sales into the areas they cover.

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESEARCH AND DEVELOPMENT

The Group emphasises on the importance of new product development. Through the strengthening of its research and development capabilities in the manner referred to below, the Group is able to further expand its product mix and sources of revenue. The Group has collaborated with leading research institutes like the Institute of Materia Medica of the Chinese Academy of Medical Sciences (中國醫學科學院藥物研究所), and during the Year, the Group successfully obtained the approved pharmaceutical numbers (國家藥品批准文號) from the SFDA for the manufacturing of three new products: **Leigongtengduodai Tablets (雷公滕多昔片)**, an immunosuppressive drug, **Qinghuo Yangyuan Capsules (清火養元膠囊)**, for eliminating heat and detoxifying, and **Kushen Shuan (苦參栓)**, for curing gynecological vaginitis.

Currently, the Group has 9 new pharmaceutical products in the pipeline. The SFDA has given clinical trial approval for **Fu Shu Le Tablets (婦舒樂片)**, for curing gynecological atrophic vaginitis, **Secmidazole Tablets and Capsules (塞克硝唑片及膠囊)**, for curing gynecological trichomoniasis and anaerobe, **Etoposide Phosphate (依托泊昔磷酸酯)**, a gynecological Oncology medicine. **Zhitong Jiangu Capsules (止痛健骨膠囊)**, for osteoarticular pain. Other products under development are: **Paclitaxel Injection (紫杉醇注射液)**, an anti-breast cancer medicine, **Huangtengsu Luhua Injection (黃藤素氯化鈉注射液)**, for curing gynecological infection and urinary tract infection, **Iopromide (碘普羅胺)** and **Ioversol (碘佛醇)**, clinical diagnostic products.

The above products are mainly used in the gynecological area and are expected to be introduced to the market from 2005 onwards.

During the Year, the Group formed a joint-venture company, Tengen Lizhu Biotech Company Limited (天甲麗珠生物科技有限公司) (“**Tengen Lizhu**”), with Livzon Pharmaceutical Biotechnology Company Limited and Tengen Biomedical Company. The purpose of the new company is to engage in the research on the SARS virus with a goal to the development of a SARS vaccine; and preliminary research on the SARS virus has been successfully completed.

### PRODUCTION, PROCUREMENT AND OPERATIONS

The Group purchases major herbal materials from local suppliers in Guizhou where supply is ample; the price for these herbal materials is quite stable. All production lines of the Group have been granted GMP certification and the sales and distribution enterprise of the Group have all been granted Good Service Practice (“**GSP**”) certification by SFDA.

### SALES AND MARKETING NETWORK

The Group has already established a nationwide sales and distribution network in 29 major provinces and municipalities in the PRC. Currently, there are over 3,000 hospitals, nearly 20,000 drugstores and 5,000 supermarkets selling the Group’s prescribed drugs and OTC products. A strong force of over 1,000 professional sales representatives is promoting both categories of products for the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been building up its OTC sales and marketing capability (on top of our prescription drugs), including recruiting leading managers in this area.

Sales activities carried out will include point-of-sales promotion, community sales promotions, hospital visits, information exchange, clinical samples and participation in activities organised by the Chinese Society of Clinical Oncology (中國抗癌協會臨床腫瘤協作中心).

### PROSPECTS

The management team believes that growth can be sustained through the following business initiatives:

1. **Acquiring Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司) (“DCX”)**

In October 2004, the Group acquired approximately 80.4% equity interest in DCX. DCX has six GMP production lines, a manufacturing area of 70,000 square meters and a plant with an area of approximately 14,000 square meters. DCX possessed over 120 approved pharmaceutical numbers, 21 of which are for gynecological and obstetrical medicines and approximately 40 of which are for proprietary protected medicines. DCX, as a continued entity of its predecessors, has a history of over 100 years.

2. **Maintaining a leadership position in Prescription Drugs**

In order to maintain our leading position in the prescription drugs market, we have to maintain the strong growth momentum of our gynecological oncology products. We have to utilise our nationwide sales and distribution network comprising Kanglai Medicine, Guangdong Qunhe, and Chengdu Hechuang to promote our drugs to more hospitals. We would also have to introduce more gynecology products such as **Fu Shu Le Tablets (婦舒樂片)**, **Secmidazole Tablets and Capsules (塞克硝唑片及膠囊)**, **Etoposide Phosphate (依托泊苷磷酸酯)** and **Zhitong Jiangu Capsules (止痛健骨膠囊)** to strengthen our position in this core business area.

3. **Expanding operations in OTC and feminine medicinal healthcare products**

Recognising the importance and tremendous potential of the markets of OTC and feminine medicinal healthcare products, the Group will expand these businesses by (i) investing in the feminine medicinal healthcare product brand “**Magic 美即**”, which was originally owned by Guangdong Qunhe, is now becoming the best choice of consumers in Beijing, Guangdong, etc, and a rising star amongst OTC products of the Group. Guangdong Qunhe launched two self-developed women’s skincare products namely, “**Magic Cryptic Foliage Complex Mask (美即植活素面膜)**” and “**Magic Skincare Active Extract/Serum (美即美容護膚品精華素)**” in the first half of 2004. These two products are being sold in 13 cities in the PRC; (ii) repackaging and launching **Yeosure** Natural Medicine Lotion directly into OTC market, to leverage on its strong hospital brand heritage; and (iii) expanding **Hoholan** and **Huangqi** sales and marketing across the nationwide network.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 4. Increasing high-value-added agency

The Group will replace the existing low-value-added trading activities with high-value-added exclusive agency in order to enhance profitability besides increasing our own product sales throughout the sales network.

As a start, in August 2004, the Group signed a Memorandum of Understanding (“MOU”) with Rockeby biomed Limited, an Australian listed company, to act as its China agent for its leading gynecological diagnosis product, “CanDia5®” which is the world’s first diagnostic test for vaginal thrush.

### 5. Focusing on the integration of the Group’s resources

The Group continues to focus on the integration of its resources via product portfolio optimilisation; sales and distribution network rationalization (OTC and prescription salesforces separation), and better utilisation of manufacturing centres and human resources.

In order to expand the Group’s sales and distribution network in the Hubei Province, the Group has introduced a strategic investor, Wuhan San Tian Trading Company Limited (武漢三田商貿有限公司), which, the management is given to understand, has extensive knowledge in the pharmaceutical market in the Hubei Province and other surrounding provinces, to take up 10% equity interest in Kanglai Medicine from Shenzhen Xinchuang.

The Group will continue to strive to be the leading pharmaceutical enterprise specialising in innovative gynecological medicine and medicinal healthcare products for women in the PRC.

## LIQUIDITY AND FINANCIAL RESOURCES

For the Year, the Group generally financed its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 30 June 2004, the Group had cash and bank balances of approximately HK\$271.4 million (2003: approximately HK\$105.0 million). The gearing ratio (calculated as a ratio of bank loans to shareholders’ equity) of the Group as at 30 June 2004 was approximately 34.3%. Net current assets value was approximately HK\$402.4 million (2003: approximately HK\$190.2 million) and the current ratio was maintained at the healthy level of approximately 3.08 (2003: approximately 2.78) as at 30 June 2004.

The finance costs of the Group for the Year amounted to approximately HK\$5.7 million, representing approximately 1.1% of the Group’s total turnover and an increase of approximately HK\$2.1 million over last year. The increase in finance costs was principally due to new bank loans obtained.

## CONTINGENT LIABILITIES

As at 30 June 2004, the Group did not have any material contingent liabilities (2003: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BANK BORROWINGS**

As at 30 June 2004, the Group had outstanding bank loans of approximately HK\$143.0 million from the banks in the PRC and Hong Kong (2003: approximately HK\$70.9 million), approximately 60% (2003: approximately 74%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi or Hong Kong Dollar.

As at 30 June 2004, the Group's bank loans were secured by certain (i) plant and machinery of the Group; (ii) land and buildings of the Group; (iii) pledge of fixed deposits; and (iv) corporate guarantee from the Company.

### **SEASONAL OR CYCLICAL FACTORS**

During the Year, the Group's business operations were not significantly affected by any seasonal and cyclical factors.

### **FOREIGN EXCHANGE EXPOSURE**

During the Year, the Group mainly earned revenue and incurred costs in Renminbi. Renminbi was relatively stable during the Year. The Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and, accordingly, the Group did not employ any financial instruments for hedging purposes.

### **TREASURY POLICIES**

During the Year, the Group generally financed its operations with internally generated resources and credit facilities provided by banks in the PRC and Hong Kong. Interest rates of most of these were calculated by reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi or Hong Kong Dollar.

### **COMMITMENTS**

As at 30 June 2004, the Group had contracted commitments of HK\$3.0 million (2003: HK\$3.1 million) in respect of purchases of technical knowhow.

### **FINAL DIVIDEND**

The Board recommends the payment of a final dividend of HK2 cents per share by the Company for the Year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### USE OF PROCEEDS FROM NEW ISSUE

The net proceeds from the placing and public offer of new Shares by the Company in December 2002 (“**New Issue**”) amounted to approximately HK\$54.8 million, of which HK\$48.5 million were applied before 30 June 2003 and fully explained in the annual report for the year ended 30 June 2003. During the Year, the Group had utilised the remaining HK\$6.3 million as follows:

- approximately HK\$1.3 million for the Group’s research and development centre and relocation of the Group’s head office in the PRC;
- approximately HK\$3.0 million for the establishment of 10 sales offices in the PRC to expand the Group’s sales and distribution network; and
- for the remaining HK\$2.0 million which originally planned for, investing in a joint venture with a pharmaceutical company in Hong Kong for the manufacture and sale of products developed by the Company in the PRC as set out in the Prospectus, as the letter of intent lapsed during the Year, the proceeds of HK\$2.0 million are retained and used as working capital of the Group.

### EMPLOYEES TRAINING AND REMUNERATION POLICIES

As at 30 June 2004, the Group had a total of 1,024 (2003: 671) (the staff of Chengdu Hechuang was not included in 2003 as it was acquired in June 2003) employees, of whom 1,017 were based in the PRC, with the rest in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group’s performance as well as market conditions. During the Year, staff costs (including director’s emoluments) amounted to approximately HK\$13,630,000 (2003: HK\$7,126,000). Staff costs remained stable at 2.7% of the Group’s turnover. The Group participated in retirement benefit schemes for its staff in both Hong Kong and the PRC.

The Group has developed its training programmes in a structured and systematic manner for its management and employees. The Group provided regular management and technical related courses to its employees during the Year.

### SHARE OPTION SCHEME

The Company operates a share option scheme (“**Scheme**”) for the purpose of providing incentives and/or rewards to eligible participants who contribute to the success of the Group’s operations. The Scheme became effective on 25 November 2002, and unless otherwise cancelled or amended, will remain in force for a period of 10 years from that day.

No options were granted under the Scheme during the Year. No option lapsed or was cancelled during the Year. As at 30 June 2004, options carrying the rights to subscribe for 54,850,000 shares in the Company were outstanding.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Zhang Peter Y. (張岳)**, aged 42, is the chairman and chief executive and one of the founders of the Group. Mr. Zhang graduated from Guiyang Teacher Training College (貴陽師範學院) in 1982 with a bachelor degree in chemistry. Mr. Zhang has been appointed as a standing member of the Fifth Chinese People's Political Consultative Conference in Yunyan District of Guiyang City (貴陽市雲岩區第五屆政協常委). In 1999, he was awarded a postgraduate certificate from the Nankai University (南開大學) majoring in enterprise management. Given his expertise in the area of chemistry and his extensive knowledge in the pharmaceutical industry, Mr. Zhang is in charge of the Group's overall strategic planning and has been awarded the title of 1998-2002 Guiyang City Young and Middle-aged Technological Leader (貴陽市1998-2002年度中青年科技骨幹) in 2000. With more than 10 years of experience in corporate financial planning, Mr. Zhang is responsible for the Group's strategic management and financial planning and control. Mr. Zhang has been stationed in Hong Kong since the listing of the shares in the Company on the Stock Exchange.

**Mr. Xu Peng (徐鵬)**, aged 41, is the vice chairman of the Group and one of the founders of the Group. Mr. Xu graduated from Guizhou Agricultural College (貴州農學院) in 1984 in agricultural machinery. He is responsible for the Group's investment and administration affairs and is stationed in Hong Kong. Mr. Xu is in charge of the Group's investment projects. In addition, Mr. Xu plays an active role in maintaining close relationship between the Group and its strategic partners including research institutes. With a view to expanding the Group towards the overseas market, Mr. Xu will be responsible for the establishment of an international sales centre in Hong Kong.

**Mr. Deng Jie (鄧杰)**, aged 40, is the vice-chairman and one of the founders of the Group. Mr. Deng graduated from Peking University in 1985 with a bachelor degree in law. Mr. Deng was given the award of Outstanding Young Entrepreneur of the State (全國優秀青年企業家) and Top Ten Outstanding Youths in Guizhou (貴州省十大傑出青年) in 1993 and 1994 respectively, and was appointed as a member of the Eighth Chinese People's Political Consultative Conference in Guizhou (貴州省第八屆政協委員) in 1998. In 1999, he was awarded a postgraduate certificate from Nankai University (南開大學) majoring in enterprise management. Mr. Deng is currently a vice-chairman of the Guiyang Young People United Association (貴陽市青年聯合會副主席). With over 10 years of experience in corporate management, Mr. Deng is responsible for the Group's sales planning and marketing. For the past eight years, Mr. Deng has been actively involved in establishing the Group's sales network throughout the PRC and is experienced in training the Group's sales and marketing team.

**Mr. Long Xian Feng (龍險峰)**, aged 42, is an executive Director and the general manager of the Group. Mr. Long graduated from Peking University (北京大學) in 1985 with a bachelor degree in law. Mr. Long joined the Group in 1993, and is responsible for the Group's research and development of new products. In 1999, he was awarded a postgraduate certificate from Nankai University (南開大學) majoring in enterprise management. Since joining the Group, Mr. Long has led the Group to successfully developing many pharmaceutical products. Mr. Long also has sound knowledge of the regulations of the PRC pharmaceutical industry.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Wu Xian Peng (吳顯鵬)**, aged 35, is an executive Director and the deputy general manager of the Group responsible for human resources. Mr. Wu graduated from Guizhou Industrial Institute (貴州工學院) and obtained a bachelor degree in engineering in 1991. With his knowledge in mechanical engineering, Mr. Wu is also responsible for the upgrading of the Group's pharmaceutical production facilities and technologies. Prior to joining the Group in July 1997, Mr. Wu worked for the general office of the Guizhou provincial government (貴州省人民政府辦公廳) for six years.

### Independent non-executive Directors

**Professor Kung Hsiang-Fu (孔祥復)**, aged 62, is an independent non-executive Director of the Company. Professor Kung is an academician (院士) of the Chinese Academy of Sciences (中國科學院). He has over 35 years of experience in the medical research. During 1986-1998, he was the Chief of the Laboratory of Biochemical Physiology National Cancer Institute of the National Institute of Health in the United States for 12 years. He has published over 200 scientific articles and is the inventor of a number of US patents. Since 1998, Dr. Kung has served as the Chair Professor of the Institute of Molecular Biology of the University of Hong Kong (香港大學).

**Professor Tso Wung-Wai (曹宏威)**, aged 63, holds a doctorate degree in biochemistry from the University of Wisconsin-Madison in the United States. After having taught at the department of biochemistry of the Chinese University of Hong Kong (中文大學) for 24 years, he has retired and currently is an adjunct professor of the department. Professor Tso's research interests include immobilised cell biotechnology, inorganic biochemistry and reproduction biochemistry. Professor Tso is devoted to social events. He was an honorary consultant of the scientific consultants team of the Hong Kong Government, a member to the Hong Kong Advisory Committee on the Quality of Water Supplies, and a member of the Advisory Committee on the Safety of the Daya Bay Nuclear Power Plant. He is also a deputy to the Ninth and Tenth National People's Congress of the Hong Kong Special Administrative Region. Professor Tso was awarded the Bronze Bauhinia Star award in 2002 by the Hong Kong Government for his meritorious public and community services.

**Mr. Hon Yiu Ming Matthew (韓耀明)**, aged 44, is an independent non-executive Director of the Company. Mr. Hon graduated from University of East Asia, Macau (澳門東亞大學) with a Master degree in Business Administration. He is a Certified Public Accountant (Practising) in Hong Kong and is now the sole-proprietor of Y. M. Hon & Co., a Hong Kong Certified Public Accountants firm.

The Company has received a confirmation of independence from each of the three independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Mr. Tang Siu Kun, Stephen (鄧紹坤)**, aged 39, is the chief financial officer of the Group, the company secretary and qualified accountant of the Company. Mr. Tang graduated from the Curtin University of Technology in Australia with a bachelor degree in commerce. Mr. Tang also holds a master degree in international business management from the City University of Hong Kong. Prior to joining the Group in 2000, Mr. Tang worked for an international company for over 10 years and has extensive experience in corporate accounting, financial control and treasury for the company's operations throughout the Asia Pacific region. He is also a member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants.

**Mr. Bian Shu Guang (邊曙光)**, aged 46, is a deputy general manager of GHMM. Mr. Bian graduated from Guiyang Teacher Training College (貴陽師範學院) in 1984 with a degree in Chinese. He joined the Group in 1993, and is in charge of the Group's sales and marketing department.

**Mr. Yao Chang Fa (姚廠發)**, aged 39, is a deputy general manager of GHMM. Mr. Yao graduated from Guiyang Chinese Medical College (貴陽中醫學院) in 1987. He acquired professional qualification for principal Chinese medical practitioner in 1996. He joined the Group in 1992 and is responsible for the management of the Group's PRC production facilities.

**Mr. Gao Fei (高飛)**, aged 33, is a deputy general manager of GHMM. Mr. Gao graduated from the Guizhou University (貴州大學) in 1992 with a bachelor degree in philosophy. He joined the Group in 1994 and is responsible for sales and marketing of the Group's non-prescriptive drugs.

**Mr. Yang Cheng Quan (楊成全)**, aged 40, is the financial controller of GHMM. Mr. Yang graduated from Broadcasting and Television University of Sichuan (四川廣播電視大學) in 1990. Mr. Yang joined the Group in 1994 and is in charge of the Group's accounting and finance department for the Group's PRC operations.

**Mr. Yao Rong (姚榮)**, aged 43, is an assistant general manager of GHMM. Mr. Yao, who joined the Group in 1993, graduated from the Guizhou University (貴州大學) in 1982 with a degree in philosophy.

**Mr. He Qing (何慶)**, aged 43, joined the Group in July 1994 and is the chief engineer of GHMM in charge of production and quality control of the Group's pharmaceutical products and the research and development of new medicines. Mr. He graduated from Tongji Medical University (同濟醫科大學) in 1994 with chief pharmacist technical position and is a qualified Chinese pharmacist.

**Mr. Dai Li Gui (戴禮貴)**, aged 35, is the head of marketing of GHMM and is responsible for the marketing of anti-tumour medicines in the PRC. Mr. Dai graduated from the Guiyang Medical College (貴陽醫學院) in 1992 with a bachelor degree in medicine. In 2002, he attended part-time Master degree courses in regard to Oncology at the Western China University of Medical Science (華西醫科大學). Prior to joining the Group in 2000, Mr. Dai served the Pulmonary Hospital (肺科醫院) of Guiyang City as a doctor for 8 years.

**Ms. Wu Li (吳莉)**, aged 56, is the general manager of Chengdu Hechuang Pharmacy Company Limited and is responsible for the distribution business of the Group's pharmaceutical products in the Southwest region. Ms. Wu graduated from the Chongqing Institute of Commerce (重慶商學院) in 1967. She joined the Group in 2003 and she has served as the general manager of 成都禾創藥業有限公司 (formerly known as 成都醫藥採購供應站) (Chengdu Hechuang Pharmacy Company Limited) for a long time.

## REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2004 (“Year”).

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. The principal activities of the group (“Group”) comprising the Company and its subsidiaries include the research and development, manufacture and sales of gynecological medicine and medicinal healthcare products for women. There were no significant changes in the nature of the Group’s principal activities during the Year.

### RESULTS AND DIVIDENDS

The Group’s profit for the Year and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 86 of the 2004 annual report.

The Directors recommend the payment of a final dividend of HK2 cents per ordinary share of the Company in respect of the Year, to the shareholders whose names appear on the register of members of the Company on 29 November 2004. The proposed dividend will be paid on or about 28 January 2005 if the recommendation is approved by the shareholders at the forthcoming annual general meeting (“Annual General Meeting”) of the Company to be held on 29 November 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

### SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company’s prospectus dated 28 November 2002 and the audited financial statements and reclassified as appropriate, prepared on the basis set out therein and in note 4 to the financial statements, is set out on page 86 of the annual report. This summary does not form part of the audited financial statements of the Group.

### FIXED ASSETS

Details of movements in the fixed assets of the Group during the Year are set out in note 14 to the financial statements.

### SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the Year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements respectively.

## **REPORT OF THE DIRECTORS**

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's articles of associations or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the Year.

### **RESERVES**

Details of movements in the reserves of the Company and the Group during the Year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

### **DISTRIBUTABLE RESERVES**

At 30 June 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$214,707,000, of which HK\$13,167,000 has been proposed as a final dividend for the Year. The amount of HK\$200,394,000 standing to the credit of the share premium account of the Company may be distributed, 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.

### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the Year.

# REPORT OF THE DIRECTORS

## DIRECTORS

The Directors during the Year were:

### Executive Directors:

Mr. Zhang Peter Y.  
Mr. Xu Peng  
Mr. Deng Jie  
Mr. Long Xian Feng  
Mr. Wu Xian Peng

### Independent non-executive Directors:

Professor Kung Hsiang-Fu  
Professor Tso Wung-Wai

Subsequent to the balance sheet date, on 27 September 2004, Mr. Hon Yiu Ming Matthew was appointed as an independent non-executive Director.

In accordance with article 108(A) of the Company's articles of association, Mr. Wu Xian Peng will retire from the office of directorship by rotation and, being eligible, will offer himself for re-election at the Annual General Meeting.

Further, according to article 112 of the Company's articles of association, any Director appointed by the Directors as additional Director of the Company, under that article, shall hold office only until the next following annual general meeting and shall then be eligible for re-election at the meeting. Pursuant to such article, the office of directorship of Mr. Hon Yiu Ming Matthew, who was appointed as an independent non-executive Director on 27 September 2004, will end at the Annual General Meeting. Mr. Hon Yiu Ming Matthew, being eligible for re-election, will offer himself for re-election at the Annual General Meeting.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 16 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 1 September 2002, which is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party on the other.

## REPORT OF THE DIRECTORS

The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

Apart from the foregoing, no Director proposed for re-election at the Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in note 36 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2004, the interests and short positions of the Directors and chief executive of the Company in the share or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SF Ordinance**")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest (Note 1)
Zhang Peter Y.	The Company	Interest of controlled corporation	292,361,024 ordinary shares of HK\$0.10 each (each a " <b>Share</b> ") (L) (Note 2a)
	The Company	Beneficial owner	500,000 Shares (L) (Note 2b)
Xu Peng	The Company	Interest of controlled corporation	292,361,024 Shares (L) (Note 2a)
	The Company	Beneficial owner	500,000 Shares (L) (Note 2b)
Deng Jie	The Company	Beneficial owner	5,000,000 Shares (L) (Note 3)

## REPORT OF THE DIRECTORS

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest (Note 1)
	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("GHXM")	Interest of controlled corporation	5% (L) (Note 4)
Long Xian Feng	The Company	Beneficial owner	5,000,000 Shares (L) (Note 3)
Wu Xian Peng	The Company	Beneficial owner	5,000,000 Shares (L) (Note 3)
Kung Hsiang-Fu	The Company	Beneficial owner	250,000 Shares (L) (Note 5)

*Notes:*

1. The letter "L" represents the Director's interests in the shares and underlying shares or, as the case may be, the percentage in the equity interest of the Company or its associated corporations.
2.
  - a. These 292,361,024 Shares were held by Bull's-Eye Limited, the entire issued share capital of which is beneficially owned as to approximately 63.15% (represented by 4,159 shares of US\$1 each) by Zhang Peter Y. and as to approximately 36.85% (represented by 2,427 shares of US\$1 each) by Xu Peng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, each of Zhang Peter Y. and Xu Peng is deemed to be interested in all the Shares held by Bull's-Eye Limited.
  - b. These Shares were the respective number of Shares which would be allotted and issued upon the exercise in full of the options granted to each of Zhang Peter Y. and Xu Peng under the share option scheme of the Company which was adopted pursuant to a resolution in writing passed by all Shareholders on 25 November 2002 ("**Share Option Scheme**"). These options, all of which remained exercisable as at 30 June 2004, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.
3. These Shares were the respective numbers of Shares which would be allotted and issued upon the exercise in full of the options granted to each of Deng Jie, Long Xian Feng and Wu Xian Peng under the Share Option Scheme. These options, all of which remained exercisable as at 30 June 2004, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.
4. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited ("**GHKA**"), which is beneficially owned as to 95% by Deng Jie and as to the remaining 5% by Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Deng Jie is deemed to be interested in the equity interests in GHXM held by GHKA.
5. This was the number of Shares which would be allotted and issued upon the exercise in full of the options granted to Kung Hsiang-Fu under the Share Option Scheme. These options, all of which remained exercisable as at 30 June 2004, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.

## REPORT OF THE DIRECTORS

Save as disclosed above, as at 30 June 2004, none of the Directors and the chief executive of the Company had any interest and short positions in the share, underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

No options were granted to the Directors under the Share Option Scheme during the Year.

Other than as disclosed above, at no time during the Year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SHARE OPTION SCHEME

The Company operates the Share Option Scheme, which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. The Share Option Scheme became effective on 25 November 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Eligible participants of the Share Option Scheme include the following:

- (i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("**Invested Entity**") in which any member of the Group holds any equity interest (including any executive director but excluding any non-executive director of the Group or any Invested Entity);
- (ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

## REPORT OF THE DIRECTORS

- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any company wholly owned by one or more of the eligible participants referred to in (i) to (vii) above.

As at the date of this report, the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group is 56,800,000, representing 10% of the issued share capital of the Company immediately upon completion of the share offer and the capitalisation issue which took place in December 2002. A resolution will be proposed at the Annual General Meeting to refresh the 10% mandate under the Share Option Scheme.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue 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, in 12-month period up to and including the date of grant, are subject to shareholders' approval 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 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:

- (i) the closing price of shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;

## REPORT OF THE DIRECTORS

- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and
- (iii) the nominal value of the shares of the Company.

No options to subscribe for Shares were granted to eligible participants during the Year.

The options granted are not recognised in the financial statements until they are exercised, no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of the options, the resulting Shares to be issued will be recorded by the Company as additional share capital at the nominal value of the Shares, and the excess of the exercise price per share over the nominal value of the Shares will be recorded by the Company in the share premium account. Movement of the options to subscribe for Shares granted under the Share Option Scheme during the Year was as follows:

Date of grant	Number of underlying Shares				outstanding as at 30 June 2004	Exercise price per share	Exercise period
	outstanding as at 1 July 2003	Granted	Exercised	Lapsed			
16 May 2003	56,600,000	–	1,750,000	–	54,850,000	HK\$1.19	16 May 2003 to 15 May 2005

No option lapsed or was cancelled during the Year.

The Directors consider that it is not appropriate to state the value of the share options granted to the eligible participants during the Year on the ground that there are serious limitations in the application of the Black-Scholes Model and the Binominal Model in the valuation of share options, especially there are a number of variables which are crucial to the calculation of the options value thus rendering such value not being able to be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

Subject to the earlier termination of the Share Option Scheme in accordance with the rules governing the Share Option Scheme, the Share Option Scheme will expire on 25 November 2012.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 30 June 2004, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	Number of Shares (Note 1)	Nature of interest	Approximate percentage of interest
Bull's-Eye Limited (Note 2)	292,361,024 (L)	Beneficial owner	44.6%
Liu Yu (Note 3)	292,861,024 (L)	Interest of spouse	44.6%
Liu Jie (Note 4)	292,861,024 (L)	Interest of spouse	44.6%
Kertwell Investment Limited (Note 5)	50,929,759 (L)	Beneficial owner	7.8%
Zhang Hongye (Note 5)	50,929,759 (L)	Interest of controlled corporation	7.8%
Zhou Wu Feng (Note 6)	50,929,759 (L)	Interest of spouse	7.8%
Credit Suisse Group	32,715,670 (L) (Note 7)	Interest of controlled corporations	5.0%

*Notes:*

- The letter "L" represents the person's or the entity's interests in Shares.
- The entire issued share capital of Bull's-Eye Limited is beneficially owned as to approximately 63.15% (represented by 4,159 shares of US\$1 each) by Zhang Peter Y. and as to approximately 36.85% (represented by 2,427 shares of US\$1 each) by Xu Peng. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, each of Zhang Peter Y. and Xu Peng, both being executive Directors, is deemed to be interested in all the Shares held by Bull's-Eye Limited.
- Liu Yu is the wife of Zhang Peter Y., an executive Director, and is deemed to be interested in the shares and underlying shares in the Company in which Zhang Peter Y. is interested under the provisions of Division 2 and 3 of Part XV of the SF Ordinance. Details of the interest of Zhang Peter Y. are set out in the section headed "Directors' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" in this report above.
- Liu Jie is the wife of Xu Peng, an executive Director, and is deemed to be interested in the shares underlying shares in the Company in which Xu Peng is interested under the provisions of Division 2 and 3 of Part XV of the SF Ordinance. Details of the interest of Xu Peng are set out in the section headed "Directors' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" in this report above.

## REPORT OF THE DIRECTORS

5. The entire issued share capital of Kertwell Investment Limited is beneficially owned by Zhang Hongye. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Zhang Hongye is deemed to be interested in all the Shares held by Kertwell Investment Limited.
6. Zhou Wu Feng is the husband of Zhang Hongye and is deemed to be interested in the Shares in which Zhang Hongye is interested under the provisions of Division 2 and 3 of Part XV of the SF Ordinance. Details of the interest of Zhang Hongye are set out in note 5 above.
7. Of these Shares, 1,000,000 Shares were registered under the name of Credit Suisse and Credit Suisse First Boston (Hong Kong) Limited was interested in 31,715,670 Shares. Credit Suisse First Boston (Hong Kong) Limited is owned as to 70.2% and 29.8% respectively by Credit Suisse First Boston (International) Holding AG and Credit Suisse First Boston International (Guernsey) Limited. Credit Suisse First Boston (International) Holding AG is wholly owned by Credit Suisse First Boston, which is in turn wholly owned by Credit Suisse Group and Credit Suisse is also wholly owned by Credit Suisse Group. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Credit Suisse Group is deemed to be interested in the Shares held by Credit Suisse and Credit Suisse First Boston (Hong Kong) Limited.

Save as disclosed above, as at 30 June 2004, no person, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance.

### CONNECTED TRANSACTIONS

Save as disclosed in note 36 to the financial statements, there are no transactions which should be disclosed in the annual report as connected transactions in accordance with the requirements of the Listing Rules.

### DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of Chapter 13 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company:

- (1) The Company provided a guarantee in favour of a licensed bank in Hong Kong to secure the repayment of a term loan facility of HK\$50,000,000 and other banking facilities (if any) from time to time granted by the bank to a subsidiary of the Company. The facility was for a term of one year, extendable on an annual basis subject to the approval of the bank, and repayable in one lump sum at the end of the year (unless extended) from the date of the drawdown.

Under the above banking facility, Bull's-Eye Limited (“**BEL**”) was required to remain interested in more than 45% of the issued share capital of the Company and, BEL and Kertwell Investment Limited together were required to remain interested in an aggregate of not less than 50% of the issued share capital of the Company. A breach of any of such conditions would constitute an event of default under the above facility granted and all outstanding amounts of the facility shall become repayable by the Group to the bank on demand.

Subsequent to the balance sheet date, the above term loan facility has been repaid in full and the above corporate guarantee and undertakings have been released accordingly.

## REPORT OF THE DIRECTORS

- (2) Subsequent to the balance sheet date, on 16 September 2004, a loan agreement was entered into between the Company and certain financial institutions in Hong Kong (the “**Loan Agreement**”), which contains specific performance obligations on Mr. Zhang Peter Y. and Mr. Xu Peng.

The Loan Agreement is for a term loan facility of up to HK\$100,000,000, the final maturity date of which shall be the date falling 36 months from the date of the Loan Agreement (i.e. 15 September 2007).

The Loan Agreement provides that so long as there remains any money outstanding under the Loan Agreement: (1) Mr. Zhang shall continue to be the chairman and (save and except BEL) the person with the single largest attributable shareholding in the Company; (2) Mr. Xu shall continue to be a director of the Company and (save and except BEL) the person with the second single largest attributable shareholding in the Company; and (3) Mr. Zhang and Mr. Xu shall collectively maintain, directly or indirectly, not less than 35% of the issued share capital of the Company, free from any encumbrances and shall collectively deposit not less than 35% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

A breach of any of the above specific performance obligations would constitute a default under the Loan Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Loan Agreement.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the “**Code**”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive Directors are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company’s articles of association.

## **REPORT OF THE DIRECTORS**

### **AUDIT COMMITTEE**

The Board established the audit committee (“**Committee**”) on 20 September 2002 and re-constituted the Committee on 27 September 2004, in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the financial reporting procedure process and internal controls of the Group. The Committee comprises the three independent non-executive Directors. The Group’s financial statement for the Year have been reviewed by the Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

### **AUDITORS**

Ernst & Young will retire, and a resolution for their reappointment as auditors of the Company will be proposed, at the Annual General Meeting.

On behalf of the Board

**Zhang Peter Y.**  
*Chairman*

Hong Kong  
20 October 2004

## REPORT OF THE AUDITORS



To the members

### **Hua Han Bio-Pharmaceutical Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 30 to 86 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

20 October 2004

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
TURNOVER	6	<b>507,064</b>	219,043
Cost of sales		<b>(344,750)</b>	(77,999)
Gross profit		<b>162,314</b>	141,044
Other revenue	6	<b>7,669</b>	1,124
Selling and distribution costs		<b>(22,879)</b>	(17,262)
Administrative expenses		<b>(26,923)</b>	(15,124)
PROFIT FROM OPERATING ACTIVITIES	7	<b>120,181</b>	109,782
Finance costs	8	<b>(5,692)</b>	(3,563)
Share of losses of:			
Jointly-controlled entity		–	–
Associate	19	<b>(32)</b>	–
Amortisation of goodwill on acquisition of an associate	19	<b>(100)</b>	–
PROFIT BEFORE TAX		<b>114,357</b>	106,219
Tax	10	<b>(18,126)</b>	(17,186)
PROFIT BEFORE MINORITY INTERESTS		<b>96,231</b>	89,033
Minority interests		<b>(1,214)</b>	(3,150)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<b>95,017</b>	85,883
DIVIDENDS			
Proposed final	12	<b>13,167</b>	12,411
EARNINGS PER SHARE	13		
– Basic		<b>HK15.0 cents</b>	HK16.4 cents
– Diluted		<b>HK14.5 cents</b>	HK16.3 cents

# CONSOLIDATED BALANCE SHEET

30 June 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000 <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	<i>14</i>	<b>125,074</b>	102,133
Intangible assets	<i>15</i>	<b>12,074</b>	10,297
Goodwill:			
Goodwill	<i>16</i>	<b>3,673</b>	2,559
Negative goodwill	<i>16</i>	<b>(36,947)</b>	(37,997)
Investment in a jointly-controlled entity	<i>18</i>	–	–
Investment in an associate	<i>19</i>	<b>868</b>	–
Long term deposits	<i>20</i>	<b>3,745</b>	9,303
Pledged deposit	<i>24</i>	<b>20,049</b>	–
		<hr/> <b>128,536</b>	<hr/> 86,295
<b>CURRENT ASSETS</b>			
Inventories	<i>21</i>	<b>49,460</b>	15,406
Accounts receivable	<i>22</i>	<b>197,607</b>	107,254
Prepayments, deposits and other receivables	<i>23</i>	<b>77,163</b>	69,389
Cash and cash equivalents	<i>24</i>	<b>271,365</b>	105,019
		<hr/> <b>595,595</b>	<hr/> 297,068
<b>CURRENT LIABILITIES</b>			
Accounts payable	<i>25</i>	<b>81,219</b>	26,093
Tax payable		<b>9,080</b>	5,721
Accrued liabilities and other payables		<b>17,799</b>	10,523
Other loans	<i>26</i>	–	12,149
Bank loans	<i>26</i>	<b>85,074</b>	52,169
Finance lease payables	<i>27</i>	<b>40</b>	234
		<hr/> <b>193,212</b>	<hr/> 106,889
<b>NET CURRENT ASSETS</b>		<hr/> <b>402,383</b>	<hr/> 190,179

# CONSOLIDATED BALANCE SHEET (Continued)

30 June 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000 <i>(Restated)</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>530,919</b>	276,474
NON-CURRENT LIABILITIES			
Bank loans	26	<b>57,899</b>	18,692
Finance lease payables	27	–	40
Convertible bonds	28	<b>19,495</b>	–
Deferred tax liabilities	29	<b>1,175</b>	1,175
		<hr/>	<hr/>
		<b>78,569</b>	19,907
		<hr/>	<hr/>
MINORITY INTERESTS		<b>35,824</b>	194
		<hr/>	<hr/>
		<b>416,526</b>	256,373
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Issued capital	30	<b>65,630</b>	56,800
Reserves	32(a)	<b>337,729</b>	187,162
Proposed final dividend	12	<b>13,167</b>	12,411
		<hr/>	<hr/>
		<b>416,526</b>	256,373
		<hr/>	<hr/>

**Zhang Peter Y.**  
*Director*

**Xu Peng**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2004

	Issued share capital <i>HK\$'000</i>	Reserves				Retained profits <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
		Share premium account <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>					
At 1 July 2002	200	22,588	–	1,402	89,256	113,246	–	113,446	
Surplus on revaluation of fixed assets (as restated) ( <i>note 29</i> )	–	–	2,267	–	–	2,267	–	2,267	
Net gains not recognised in the profit and loss account (as restated)	–	–	2,267	–	–	2,267	–	2,267	
Issue of shares to public ( <i>note 30(e)</i> )	9,940	66,598	–	–	–	66,598	–	76,538	
Share issue expenses	–	(21,761)	–	–	–	(21,761)	–	(21,761)	
Capitalisation on issue of shares ( <i>note 30(d)</i> )	46,660	(46,660)	–	–	–	(46,660)	–	–	
Net profit for the year	–	–	–	–	85,883	85,883	–	85,883	
Transfer to statutory reserve fund ( <i>note 32(a)</i> )	–	–	–	11,215	(11,215)	–	–	–	
Proposed final dividend ( <i>note 12</i> )	–	–	–	–	(12,411)	(12,411)	12,411	–	
At 30 June 2003	<u>56,800</u>	<u>20,765</u>	<u>2,267</u>	<u>12,617</u>	<u>151,513</u>	<u>187,162</u>	<u>12,411</u>	<u>256,373</u>	
At 1 July 2003									
As previously reported	56,800	20,765	3,383	12,617	151,513	188,278	12,411	257,489	
Prior year adjustment: SSAP 12 – restatement of deferred tax ( <i>note 29</i> )	–	–	(1,175)	–	–	(1,175)	–	(1,175)	
Effect of deferred tax attributable to minority shareholders	–	–	59	–	–	59	–	59	
As restated	<u>56,800</u>	<u>20,765</u>	<u>2,267</u>	<u>12,617</u>	<u>151,513</u>	<u>187,162</u>	<u>12,411</u>	<u>256,373</u>	

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

Year ended 30 June 2004

	Issued share capital <i>HK\$'000</i>	Reserves				Sub-total <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
		Share premium account <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Statutory reserve fund <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>			
Final 2003 dividend declared <i>(note 12)</i>	-	-	-	-	-	-	(12,411)	(12,411)
Issue of shares upon exercise of share options <i>(note 30(f))</i>	4,975	34,067	-	-	-	34,067	-	39,042
Issue of shares upon conversion of convertible bonds <i>(note 30(g))</i>	3,855	39,011	-	-	-	39,011	-	42,866
Share issue expenses	-	(4,361)	-	-	-	(4,361)	-	(4,361)
Net profit for the year	-	-	-	-	95,017	95,017	-	95,017
Transfer to statutory reserve fund <i>(note 32(a))</i>	-	-	-	7,500	(7,500)	-	-	-
Proposed final dividend <i>(note 12)</i>	-	-	-	-	(13,167)	(13,167)	13,167	-
<b>At 30 June 2004</b>	<b>65,630</b>	<b>89,482</b>	<b>2,267</b>	<b>20,117</b>	<b>225,863</b>	<b>337,729</b>	<b>13,167</b>	<b>416,526</b>
Reserves retained by:								
Company and subsidiaries	65,630	89,482	2,267	20,117	226,035	337,901	13,167	416,698
Jointly-controlled entity	-	-	-	-	(140)	(140)	-	(140)
Associate	-	-	-	-	(32)	(32)	-	(32)
<b>At 30 June 2004</b>	<b>65,630</b>	<b>89,482</b>	<b>2,267</b>	<b>20,117</b>	<b>225,863</b>	<b>337,729</b>	<b>13,167</b>	<b>416,526</b>
Company and subsidiaries	56,800	20,765	2,267	12,617	151,653	187,302	12,411	256,513
Jointly-controlled entity	-	-	-	-	(140)	(140)	-	(140)
<b>At 30 June 2003</b>	<b>56,800</b>	<b>20,765</b>	<b>2,267</b>	<b>12,617</b>	<b>151,513</b>	<b>187,162</b>	<b>12,411</b>	<b>256,373</b>

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		<b>114,357</b>	106,219
Adjustments for:			
Depreciation	7	<b>6,886</b>	3,790
Provision for doubtful debts	7	<b>106</b>	–
Amortisation of intangible assets	7	<b>1,507</b>	874
Goodwill amortisation	7	<b>566</b>	–
Negative goodwill recognised as income	7	<b>(1,050)</b>	–
Loss on write off/disposal of fixed assets	7	<b>430</b>	28
Interest income	6	<b>(3,765)</b>	(928)
Finance costs	8	<b>5,692</b>	3,563
Share of loss of an associate		<b>32</b>	–
Amortisation of goodwill on acquisition of an associate	19	<b>100</b>	–
		<hr/>	<hr/>
Operating profit before working capital changes		<b>124,861</b>	113,546
Increase in inventories		<b>(9,461)</b>	(4,089)
Increase in accounts receivable		<b>(82,753)</b>	(18,044)
Decrease/(increase) in prepayments, deposits and other receivables		<b>27,650</b>	(17,337)
Increase in accounts payable		<b>21,963</b>	2,774
Decrease in an amount due to a shareholder		–	(1,382)
Increase/(decrease) in accrued liabilities and other payables		<b>4,471</b>	(5,607)
		<hr/>	<hr/>
Cash generated from operations		<b>86,731</b>	69,861
Interest received		<b>3,765</b>	928
Interest paid		<b>(5,681)</b>	(3,538)
Interest element on finance lease rental payments		<b>(11)</b>	(25)
Taxes paid		<b>(14,767)</b>	(26,168)
		<hr/>	<hr/>
Net cash inflow from operating activities		<b>70,037</b>	41,058
		<hr/>	<hr/>

## CONSOLIDATED CASH FLOW STATEMENT (Continued)

Year ended 30 June 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets	<i>14</i>	<b>(28,684)</b>	(2,334)
Acquisition of intangible assets	<i>15</i>	<b>(13)</b>	(5,029)
Acquisition of subsidiaries	<i>33(a)</i>	<b>14,095</b>	(15,003)
Acquisition of additional equity interest in a subsidiary		–	(9,800)
Acquisition of interest in an associate		<b>(1,000)</b>	–
Decrease/(increase) in long term deposits		<b>2,287</b>	(9,303)
Increase deposits for potential investments	<i>23</i>	<b>(14,210)</b>	(32,710)
Increase in pledged time deposit		<b>(20,049)</b>	–
		<hr/>	<hr/>
Net cash outflow from investing activities		<b>(47,574)</b>	(74,179)
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares on public listing	<i>30(e)</i>	–	76,538
Proceeds from issue of shares	<i>30(f)</i>	<b>39,042</b>	–
Share issue expenses		<b>(4,361)</b>	(21,761)
Contribution from a minority equity holder of a subsidiary		–	752
New bank loans		<b>77,550</b>	45,979
Repayment of bank and other loans		<b>(18,064)</b>	(22,800)
Proceeds from issue of convertible bonds	<i>28</i>	<b>62,361</b>	–
Capital element of finance lease rental payments		<b>(234)</b>	(220)
Dividend paid		<b>(12,411)</b>	–
		<hr/>	<hr/>
Net cash inflow from financing activities		<b>143,883</b>	78,488
		<hr/>	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>166,346</b>	45,367
Cash and cash equivalents at beginning of year		<b>105,019</b>	59,652
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>271,365</b>	105,019
		<hr/> <hr/>	<hr/> <hr/>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	<i>24</i>	<b>271,365</b>	105,019
		<hr/> <hr/>	<hr/> <hr/>

## BALANCE SHEET

30 June 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	17	<b>133,700</b>	133,700
Pledged deposit	24	<b>20,049</b>	–
		<hr/> <b>153,749</b>	<hr/> 133,700
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	24	<b>44,806</b>	20,491
Due from subsidiaries	17	<b>102,068</b>	48,143
		<hr/> <b>146,874</b>	<hr/> 68,634
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		<b>791</b>	1,108
		<hr/> <b>146,083</b>	<hr/> 67,526
<b>NET CURRENT ASSETS</b>			
		<hr/> <b>299,832</b>	<hr/> 201,226
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds	28	<b>19,495</b>	–
		<hr/> <b>280,337</b>	<hr/> 201,226
<b>CAPITAL AND RESERVES</b>			
Issued capital	30	<b>65,630</b>	56,800
Reserves	32(b)	<b>201,540</b>	132,015
Proposed final dividend	12	<b>13,167</b>	12,411
		<hr/> <b>280,337</b>	<hr/> 201,226

**Zhang Peter Y.**  
*Director*

**Xu Peng**  
*Director*

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 1. CORPORATE INFORMATION

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

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

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

## 2. GROUP REORGANISATION

Pursuant to a reorganisation scheme to rationalise the structure of the Group, in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in the prior year, on 10 December 2002, the Company became the holding company of the companies now comprising the Group on 20 September 2002, except for 貴州禾創經營管理有限公司 (formerly known as 貴州禾創投資有限公司) (Guizhou Hechuang Operating Management Company Limited) ("**Guizhou Hechuang**"), 成都禾創藥業有限公司 (formerly known as 成都醫藥採購供應站) (Chengdu Hechuang Pharmacy Company Limited) ("**Chengdu Hechuang**"), 深圳市新創生物醫藥創業投資有限公司 (Shenzhen Xinchuang Bio-Pharmaceutical Pioneering Investment Company Limited) ("**SXBPI**"), 湖北康萊醫藥有限公司 (Hubei Kanglai Medicine Company Limited) ("**Kanglai Medicine**"), Thorn Venus Technology Limited and Legend Vantage Investment Limited (collectively referred to as the "**New Subsidiaries**") and an acquisition of an additional 3.35% equity interest in 貴州漢方製藥有限公司 (Guizhou Hanfang Medicine Manufacture Co., Ltd.) ("**GHMM**") (the "**Additional Equity Interests**") which were acquired/incorporated subsequent to the above group reorganisation and in the current year. The reorganisation was accomplished by the Company acquiring the entire issued share capital of Intended Features Limited ("**IFL**"), a company incorporated in the British Virgin Islands ("**BVI**") and the then holding company of the then subsidiaries, including those set out in note 17 to the financial statements (except for the New Subsidiaries), in consideration and in exchange for, among other consideration, the allotment and issue of a total of 1,000,000 shares of HK\$0.10 each in the share capital of the Company, credited as fully paid, to the former shareholders of IFL (the "**Group Reorganisation**").

Further details of the Group Reorganisation are set out in note 30 to the financial statements and in the prospectus issued by the Company dated 28 November 2002.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 3. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 29 to the financial statements and include a reconciliation between the accounting profit/(loss) and the tax expense/(income) for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 4 and in note 29 to the financial statements.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Basis of consolidation**

The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries, except for the New Subsidiaries and the Additional Equity Interests, for the financial year presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 30 June 2003 and 2004 include the results of the Company and its subsidiaries, except for the New Subsidiaries and the Additional Equity Interests, with effect from 1 July 2002 or since their respective dates of incorporation/establishment, where this is a shorter period. The results for the New Subsidiaries and the Additional Equity Interests are consolidated from their respective dates of acquisition.

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

### **Subsidiaries**

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

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

### **Joint venture companies**

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any 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.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Joint venture companies** (Continued)

A joint venture company is treated as:

- (i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### **Jointly-controlled entities**

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

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

#### **Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Goodwill**

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of a period up to a maximum of 20 years. In the case of an associate and a jointly-controlled entity, 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, a jointly-controlled entity and an associate, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

### **Negative goodwill**

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

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

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets of 40 years. 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, a jointly-controlled entity 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 negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Related parties**

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

### **Impairment of assets**

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

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

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

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

### **Fixed assets and depreciation**

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Fixed assets and depreciation** (Continued)

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

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

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

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

#### **Intangible assets**

##### *Technical knowhow*

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

##### *Research and development costs*

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

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

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Leased assets**

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

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

### **Inventories**

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

### **Income tax**

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

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from share goodwill or the initial recognition of an asset or liability and, at the time of the transaction and, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, an associate and interest in a joint venture, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, an associate and interest in a joint venture, 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 recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### Employee benefits

#### *Retirement benefits schemes*

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

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Employee benefits** (Continued)

##### *Share option scheme*

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

#### **Dividends**

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

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

#### **Foreign currencies**

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

On consolidation, the financial statements of overseas subsidiaries and a jointly-controlled entity and an associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, an associate and a jointly-controlled entities are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

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.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Cash and cash equivalents

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

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

### 5. SEGMENT INFORMATION

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

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

- (a) the manufacturing segment engages in the manufacture and sale of Chinese and western pharmaceutical products, and anti-tumour medicine; and
- (b) the trading segment engages in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment. The trading business was acquired in June 2003 and did not contribute any revenue and operating results to the Group for the year ended 30 June 2003.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 5. SEGMENT INFORMATION (Continued)

#### Business segments

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

	Manufacturing		Trading		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external customers	<u>273,242</u>	<u>219,043</u>	<u>233,822</u>	<u>–</u>	<u>507,064</u>	<u>219,043</u>
Segment profits	<u>122,812</u>	<u>114,939</u>	<u>3,527</u>	<u>–</u>	<u>126,339</u>	<u>114,939</u>
Interest income and unallocated gain					4,764	928
Unallocated expenses					<u>(10,922)</u>	<u>(6,085)</u>
Profit from operating activities					120,181	109,782
Finance costs					(5,692)	(3,563)
Share of losses of:						
Jointly-controlled entity					–	–
Associate					(32)	–
Amortisation of goodwill on acquisition of an associate					<u>(100)</u>	<u>–</u>
Profit before tax					114,357	106,219
Tax					<u>(18,126)</u>	<u>(17,186)</u>
Profit before minority interests					96,231	89,033
Minority interests					<u>(1,214)</u>	<u>(3,150)</u>
Net profit from ordinary activities attributable to shareholders					<u>95,017</u>	<u>85,883</u>

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 5. SEGMENT INFORMATION (Continued)

### Business segments (Continued)

	Manufacturing		Trading		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Restated)
Segment assets	459,225	250,388	197,704	53,911	656,929	304,299
Investment in an associate					868	–
Investment in a jointly-controlled entity					–	–
Unallocated assets					66,334	79,064
Total assets					<u>724,131</u>	<u>383,363</u>
Segment liabilities	137,623	86,616	111,085	36,541	248,708	123,157
Unallocated liabilities					23,073	3,639
Total liabilities					<u>271,781</u>	<u>126,796</u>
Other segment information:						
Capital expenditure	9,960	9,252	3,438	47,844	13,398	57,096
Unallocated capital expenditure					15,299	31
					<u>28,697</u>	<u>57,127</u>
Depreciation and amortisation	4,339	4,240	2,861	–	7,200	4,240
Unallocated depreciation and amortisation					709	424
					<u>7,909</u>	<u>4,664</u>
Other non-cash expense	223	28	313	–	536	28
Surplus on revaluation recognised directly in equity	–	3,561	–	–	–	3,561

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 6. TURNOVER AND REVENUE

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Turnover</b>		
Sale of goods	<u>507,064</u>	<u>219,043</u>
<b>Other revenue</b>		
Interest income	3,765	928
Gross rental income	736	–
Other	<u>3,168</u>	<u>196</u>
	<u>7,669</u>	<u>1,124</u>

### 7. PROFIT FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cost of inventories sold		245,756	77,999
Staff costs (excluding directors' remuneration ( <i>note 9</i> ))			
Wages and salaries		12,779	5,874
Retirement scheme contributions		51	465
		<u>12,830</u>	<u>6,339</u>
Depreciation	14	6,886	3,790
Amortisation of intangible assets*	15	1,507	874
Goodwill amortisation for the year**	16	566	–
Negative goodwill recognised as income during the year***	16	(1,050)	–
Auditors' remuneration		1,500	1,000
Minimum lease payments under operating leases for land and buildings		1,716	1,151
Research and development costs		1,092	1,146
Loss on write off/disposal of fixed assets**		430	28
Provision for doubtful debts**		<u>106</u>	<u>–</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 7. PROFIT FROM OPERATING ACTIVITIES (Continued)

- \* The amortisation of intangible assets for the year is included in “Cost of sales” on the face of the consolidated profit and loss account.
- \*\* The amortisation of goodwill, loss on write off/disposal of fixed assets and provision for doubtful debts for the year are included in “Administrative expenses” on the face of the consolidated profit and loss account.
- \*\*\* The movements in negative goodwill recognised in the consolidated profit and loss account for the year are included in “Administrative expenses” on the face of the consolidated profit and loss account.

### 8. FINANCE COSTS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	5,102	3,538
Convertible bonds	579	–
Finance lease	11	25
	<u>5,692</u>	<u>3,563</u>

### 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

#### Directors' remuneration

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	200	200
	<u>200</u>	<u>200</u>
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	600	587
	<u>800</u>	<u>787</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (Continued)

#### Directors' remuneration (Continued)

The remuneration of each director fell within the nil to HK\$1,000,000 band for the years ended 30 June 2003 and 2004.

There was no arrangement under which a director waived or agreed to waive any remunerations during the year (2003: Nil).

During the year ended 30 June 2003, share options carrying the rights to subscribe for a total of 17,000,000 shares in the Company were granted to the directors in respect of their services to the Group, further details of which are set out in note 31(b) to the financial statements. No value in respect of the share options granted during the year ended 30 June 2003 has been charged to the consolidated profit and loss account, or is otherwise included in the above director's remuneration disclosures.

#### Five highest paid employees

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2003: three), non-director, highest paid employees, each of which fell within the nil to HK\$1,000,000 band, are set out as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	<b>1,100</b>	1,026
Retirement scheme contributions	<b>55</b>	29
	<b><u>1,155</u></b>	<u>1,055</u>

During the year, no emoluments were paid by the Group to the directors, or the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2003: Nil).

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 10. 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 (2003: 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, GHMM, a subsidiary of the Company, was classified as one of the approved “High and New Technology Enterprises” in Mainland China. Accordingly, GHMM is entitled to a preferential Mainland Corporate Income Tax rate of 15% effective from 1 January 2002.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Group:		
Current – Mainland China	<u>18,126</u>	<u>17,186</u>
Share of tax attributable to:		
Jointly-controlled entity	–	–
Associate	–	–
	<u>–</u>	<u>–</u>
Total tax charge for the year	<u><u>18,126</u></u>	<u><u>17,186</u></u>

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

#### Group – 2004

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 10. TAX (Continued)

#### Group – 2003

	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Mainland China</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Profit/(loss) before tax	(6,074)	112,293	106,219
Tax at the applicable tax rate	(1,063)*	37,057**	35,994
Lower tax rate for specific provinces or local authority	–	(19,802)	(19,802)
Income not subject to tax	(6)	–	(6)
Expenses not deductible for tax	1,069	–	1,069
Tax losses utilised from previous periods	–	(69)	(69)
Tax charge at the Group's effective rate	–	17,186	17,186

\* The standard Hong Kong profits tax rate is 17.5% for the year ended 30 June 2004 (2003: 17.5%).

\*\* The standard Mainland China corporate income tax rate is 33% .

### 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 30 June 2004 dealt with in the financial statements of the Company, was HK\$13,975,000 (2003:HK\$12,749,000) (*note 32(b)*).

### 12. DIVIDENDS

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Proposed final – HK2 cents (2003: HK2 cents per ordinary share)	<b>13,167</b>	12,411

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 13. EARNINGS PER SHARE

The calculation of basic earnings per share, on a consolidated basis, is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$95,017,000 (2003: HK\$85,883,000) and the weighted average of 631,962,798 (2003: 525,244,384) ordinary shares in issue during the year.

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

The calculation of diluted earnings per share is based on the adjusted net profit from ordinary activities attributable to shareholders for the year of HK\$95,596,000 (2003: HK\$85,883,000) and on 660,899,637 (2003: 525,901,918) ordinary shares outstanding during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Net profit attributable to shareholders used in basic earnings per share calculation	<b>95,017</b>	85,883
Effects of dilutive convertible bonds	<b>579</b>	–
Adjusted net profit attributable to shareholders used in diluted earnings per share calculation	<b>95,596</b>	85,883

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 13. EARNINGS PER SHARE (Continued)

#### Shares

	Number of shares	
	2004	2003
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	631,962,798	525,244,384
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all pre-initial public offering ("IPO") share options outstanding during the year ( <i>note 31(a)</i> )	5,840,274	657,534
Assumed issued at no consideration on deemed exercise of all post-IPO share options outstanding during the year ( <i>note 31(b)</i> )	7,247,036	–
Assumed issued at no consideration on deemed exercise of all the subscription rights attached to convertible bonds outstanding during the year ( <i>note 31(c)</i> )	218,510	–
Assumed issued at no consideration on deemed exercise of all convertible bonds outstanding during the year ( <i>note 28</i> )	15,631,019*	–
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u>660,899,637</u>	<u>525,901,918</u>

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 14. FIXED ASSETS

### Group

	Medium term leasehold land and buildings outside Hong Kong HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures, office equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:					
At beginning of year	71,187	877	29,649	8,321	110,034
Additions	18,090	3,662	423	6,509	28,684
Acquisition of subsidiaries (note 33(a))	–	457	–	1,116	1,573
Disposal	–	–	–	(772)	(772)
At 30 June 2004	89,277	4,996	30,072	15,174	139,519
Analysis of cost or valuation:					
At cost	18,090	4,996	30,072	15,174	68,332
At valuation	71,187	–	–	–	71,187
	89,277	4,996	30,072	15,174	139,519
Accumulated depreciation:					
At beginning of year	–	480	4,233	3,188	7,901
Provided during the year	2,622	366	1,871	2,027	6,886
Disposal	–	–	–	(342)	(342)
At 30 June 2004	2,622	846	6,104	4,873	14,445
Net book value:					
At 30 June 2004	86,655	4,150	23,968	10,301	125,074
At 30 June 2003	71,187	397	25,416	5,133	102,133

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 14. FIXED ASSETS (Continued)

Certain of the Group's medium term leasehold land and buildings were revalued as at 30 June 2003, by DTZ Debenham Tie Leung Limited, a firm of independent professionally qualified valuers, on a depreciated replacement cost basis. Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$83,482,000 (2003: HK\$67,626,000)

In the opinion of the directors, there is no material difference between the carrying value and the fair value of the Group's land and buildings as at 30 June 2004, accordingly, no revaluation of the Group's land and buildings was performed as at 30 June 2004.

Up to the date of this report, for certain of the Group's land and buildings in Mainland China with an aggregate net book value of HK\$4,889,000 at 30 June 2004, the obtaining of property certificates was in progress.

At 30 June 2004, the Group's certain land and buildings, and plant and machinery with carrying values of approximately HK\$81,534,000 (2003: buildings of HK\$71,187,000) and HK\$23,968,000 (2003: HK\$25,416,000), respectively, were pledged to secure certain banking facilities granted to the Group (*note 26*).

The net book value of a motor vehicle held under a finance lease included in the total amount of fixed assets at 30 June 2004 amounted to HK\$287,000 (2003: HK\$459,000).

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 15. INTANGIBLE ASSETS

### Group

	<b>Technical knowhow</b> <i>HK\$'000</i>	<b>Deferred development costs</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Cost:			
At beginning of year	6,949	5,674	12,623
Additions	3,284	–	3,284
	<hr/>	<hr/>	<hr/>
At 30 June 2004	10,233	5,674	15,907
Accumulated amortisation:			
At beginning of year	92	2,234	2,326
Provided during the year	729	778	1,507
	<hr/>	<hr/>	<hr/>
At 30 June 2004	821	3,012	3,833
Net book value:			
At 30 June 2004	<u>9,412</u>	<u>2,662</u>	<u>12,074</u>
At 30 June 2003	<u>6,857</u>	<u>3,440</u>	<u>10,297</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 16. GOODWILL AND NEGATIVE GOODWILL

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

	<b>Group</b>	
	<b>Goodwill</b>	<b>Negative goodwill</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:		
At beginning of year	2,559	(37,997)
Acquisition of subsidiaries ( <i>note 33(a)</i> )	1,680	–
	<hr/>	<hr/>
At 30 June 2004	4,239	(37,997)
	<hr/>	<hr/>
Accumulated amortisation/(recognition in income):		
At beginning of the year	–	–
Amortisation provided/(recognised as income) during the year	566	(1,050)
	<hr/>	<hr/>
At 30 June 2004	566	(1,050)
	<hr/>	<hr/>
Net book value:		
At 30 June 2004	3,673	(36,947)
	<hr/>	<hr/>
At 30 June 2003	2,559	(37,997)
	<hr/>	<hr/>

### 17. INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	133,700	133,700
Due from subsidiaries	102,068	48,143
	<hr/>	<hr/>
	235,768	181,843
	<hr/>	<hr/>

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 17. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Intended Features Limited ("IFL")	BVI	US\$375,875 Ordinary	100	100	–	Investment holding
Guizhou Hanfang Medicine Manufacture Co., Ltd. ("GHMM")	Mainland China	RMB27,000,000	100	–	100	Manufacture and sale of Chinese and western pharmaceutical products, and anti-tumour medicine
Guizhou Hanfang Xifeng Medical Industry Company Limited	Mainland China	RMB3,000,000	95	–	95	Property holding
貴州禾創經營管理有限公司 ("Guizhou Hechuang") (note 1)	Mainland China	RMB20,000,000	100	–	100	Investment holding
成都禾創藥業有限公司 ("Chengdu Hechuang") (note 2)	Mainland China	RMB21,000,000 (2003: RMB11,659,653)	100	–	100	Trading of pharmaceutical products, healthcare products, and medical appliances and equipment
深圳市新創生物醫藥創業 投資有限公司 ("SXBPI")	Mainland China	RMB50,000,000	51	–	51	Investment holding

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 17. INVESTMENTS IN SUBSIDIARIES (con't)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
湖北康萊醫藥有限公司 ("Kanglai Medicine") (note 3)	Mainland China	RMB29,000,000	26	–	52	Trading of pharmaceutical products, healthcare products, and medical appliances and equipment

During the year, the Group acquired SXBPI and Kanglai Medicine. Further details of these acquisitions are included in note 33(a) to the financial statements.

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

### Notes:

- Pursuant to an agreement entered into between the Group and the minority equity holder of Guizhou Hechuang, the minority equity holder agreed to waive its 10% entitlement of the results of and its voting right in Guizhou Hechuang in return for an aggregate annual fee of RMB1 commencing from 2003 when Guizhou Hechuang was acquired by the Group. The minority equity holder also confirmed in the agreement that the paid-up capital of Guizhou Hechuang attributable to the minority equity holder was contributed by the Group. Accordingly, the minority equity holder did not share of any assets and results of Guizhou Hechuang.
- Pursuant to an agreement entered into between the Group and the minority equity holder of Chengdu Hechuang, the minority equity holder agreed to waive its 4.76% entitlement of the results of and its voting right in Chengdu Hechuang in return for an aggregate annual fee of RMB1 commencing from 2003 when Chengdu Hechuang was acquired by the Group. The minority equity holder also confirmed in the agreement that the paid-up capital of Chengdu Hechuang 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 Hechuang.
- Subsequent to the balance sheet date, on 20 October 2004, SXBPI entered into an agreement in respect of the disposal of 10% (equivalent to the Group's effective interest of 5%) of its equity interest in Kanglai Medicine to an independent third party for a consideration of RMB2.9 million. In addition, SXBPI has been offered an option to dispose of its remaining 41.72% in Kanglai Medicine within two years for a consideration of RMB12.1 million, subject to adjustment for future operating results. Pursuant to the agreement, the Group's appointed representatives would retire from the board of directors of Kanglai Medicine. The Group also waived its right to appoint representatives to the board of directors of Kanglai Medicine and its right of voting in Kanglai Medicine. As a result, Kanglai Medicine ceased to be a subsidiary of the Group and would be accounted for as a long term investment from 20 October 2004. The deconsolidation of Kanglai Medicine as a subsidiary of the Group on 20 October 2004 would not result in any significant gain or loss.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets	—	—

Particulars of the jointly-controlled entity are as follows:

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

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

During the year, the Group did not share any of the losses of GHMR as, according to the JV Agreement, the Group’s share of losses of GHMR is limited to its capital contribution to GHMR (2003: Nil).

### 19. INVESTMENT IN AN ASSOCIATE

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets	468	—
Goodwill on acquisition	400	—
	<b>868</b>	<b>—</b>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 19. INVESTMENT IN AN ASSOCIATE (Continued)

The amount of the goodwill remaining in interest in an associate as at 30 June 2004 arising from the acquisition of an associate is as follows:

	<b>Goodwill</b> <i>HK\$'000</i>
Cost:	
Acquisition of an associate and at 30 June 2004	500
Accumulated amortisation:	
Amortisation provided during the year and at 30 June 2004	(100)
Net book value:	
At 30 June 2004	<u>400</u>

Particulars of the associate are as follows:

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

### 20. LONG TERM DEPOSITS

The long term deposits represent deposits paid in respect of:

	<b>Group</b>	
	<b>2004</b>	2003
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Purchases of technical knowhow	3,745	6,967
Purchases of plant and machinery	–	2,336
	<u>3,745</u>	<u>9,303</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 21. INVENTORIES

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Raw materials	2,790	3,988
Work in progress	–	234
Finished goods	46,670	11,184
	<u>49,460</u>	<u>15,406</u>

At the balance sheet date, no inventories were stated at net realisable value (2003: Nil).

### 22. ACCOUNTS RECEIVABLE

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

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within 90 days	131,714	70,572
91 to 180 days	54,768	31,839
181 to 365 days	11,125	4,843
	<u>197,607</u>	<u>107,254</u>

### 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables as at 30 June 2004 was a deposit of approximately HK\$46.9 million paid by the Group for the acquisition of 貴陽德昌祥藥業有限公司 (“DCX”). Further details are set out in note 37 to the financial statements.

Included in prepayments, deposits and other receivables as at 30 June 2003 were deposits of approximately HK\$32.7 million paid by the Group for certain potential investment purposes. These deposits were fully refunded to the Group during the year.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 24. CASH AND BANK BALANCES AND PLEDGED DEPOSIT

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	271,365	105,019	44,806	20,491
Time deposit	20,049	–	20,049	–
	<u>291,414</u>	<u>105,019</u>	<u>64,855</u>	<u>20,491</u>
<i>Less:</i> Pledged time deposit for long term bank loans	<u>(20,049)</u>	<u>–</u>	<u>(20,049)</u>	<u>–</u>
Cash and cash equivalents	<u>271,365</u>	<u>105,019</u>	<u>44,806</u>	<u>20,491</u>

At 30 June 2004, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$226,240,000 (2003: HK\$60,260,000). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

### 25. ACCOUNTS PAYABLE

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 90 days	64,478	19,837
91 to 180 days	11,649	2,932
181 to 365 days	4,151	1,578
Over 1 year	941	1,746
	<u>81,219</u>	<u>26,093</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 26. BANK AND OTHER LOANS

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Bank loans:		
Secured	142,235	69,982
Unsecured	738	879
	<u>142,973</u>	<u>70,861</u>
Bank loans repayable:		
Within one year	85,074	52,169
In the second year	57,899	18,692
	<u>142,973</u>	70,861
Portion classified as current liabilities	<u>(85,074)</u>	<u>(52,169)</u>
Long term portion	<u>57,899</u>	<u>18,692</u>

At 30 June 2004, the Group's bank loans were supported by the following:

- (a) the pledge of the Group's certain land and buildings, and plant and machinery of HK\$86,310,000 (2003: HK\$24,900,000) and HK\$23,968,000, (2003: HK\$25,416,000), respectively;
- (b) corporate guarantees executed by the Company and a subsidiary of the Company;
- (c) the personal guarantees from Mr. Zhang Peter Y. and Mr. Xu Peng, directors and beneficial shareholders of the Company; and
- (d) the pledge of a bank deposit of HK\$20,049,000 (2003: Nil).

Details of the covenants undertaken by BEL and a company beneficially owned by a sister of Mr. Zhang are set out under the heading "Disclosures pursuant to Rule 13.21 of the Listing Rules" in the Report of the Directors.

Other loans, which were acquired by the Group through the acquisition of Chengdu Hechuang during the year ended 30 June 2003, were interest-free and secured by certain of the Group's land and buildings of HK\$46,287,000. Other loans of HK\$12,149,000 were fully settled during the year.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 27. FINANCE LEASE PAYABLE

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

At 30 June 2004, the total future minimum lease payments under the finance lease and their present values were as follows:

#### Group

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable:				
Within one year	41	245	40	234
In the second year	–	41	–	40
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	41	286	40	274
	<hr/>	<hr/>	<hr/>	<hr/>
Future finance charges	(1)	(12)		
	<hr/>	<hr/>		
Total net finance lease payables	40	274		
	<hr/>	<hr/>		
Portion classified as current liabilities	(40)	(234)		
	<hr/>	<hr/>		
Long term portion	–	40		
	<hr/>	<hr/>		

### 28. CONVERTIBLE BONDS

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

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 28. CONVERTIBLE BONDS (Continued)

On 22 July 2004 and 5 September 2004, the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds of US\$3,500,000 (equivalent to approximately HK\$27,284,000) and US\$4,500,000 (equivalent to approximately HK\$35,077,000), respectively, were issued to CSFB.

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

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

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. None of the Subscription Rights have not been exercised by CSFB as at the date of this report.

The exercise in full of the Subscription Rights (excluding those relating to the Tranche 2 Bonds) would result in the issue of 10,484,750 additional shares of the Company.

As at 30 June 2004, an aggregate principle amount of convertible bonds of US\$2,500,000 (equivalent to HK\$19,495,000) remained outstanding.

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 29. DEFERRED TAX

The movement in deferred tax liabilities in respect of the revaluation of land and buildings during the year is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i> <i>(Restated)</i>
At 1 July		
As previously reported	–	–
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	<u>1,175</u>	–
As restated	<b>1,175</b>	–
Deferred tax debited to equity during the year	<u>–</u>	<u>1,175</u>
As 30 June	<u><b>1,175</b></u>	<u>1,175</u>

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

At 30 June 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associate or joint venture as the Group has no liability to additional tax should such amounts be remitted.

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

SSAP 12 (Revised) was adopted during the year, as further explained in note 3 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 30 June 2003 by HK\$1,175,000 arising from a revaluation on the fixed assets for the year ended 30 June 2003. As a consequence, the consolidated revaluation reserve at 1 July 2003 has been reduced by HK\$1,116,000 (after minority interests), as detailed in the consolidated statement of changes in equity.

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 30. SHARE CAPITAL

### Shares

	Company	
	2004	2003
	HK\$'000	HK\$'000
Authorised:		
2,000,000,000 (2003: 2,000,000,000) ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
656,302,000 (2003: 568,000,000) ordinary shares of HK\$0.10 each	<u>65,630</u>	<u>56,800</u>

The following movements in the Company's authorised and issued share capital took place during the years ended 30 June 2003 and 2004:

- (a) On 20 September 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of a further 1,000,000 shares of HK\$0.10 each. On 25 November 2002, the authorised share capital of the Company was further increased from HK\$200,000 to HK\$200,000,000 by the creation of a further 1,998,000,000 shares of HK\$0.10 each.
- (b) On 20 September 2002, as part of the Group Reorganisation detailed in note 2 to the financial statements, the Company issued an aggregate of 1,000,000 shares of HK\$0.10 each, credited as fully paid to the former shareholders of IFL, in partial consideration for the acquisition of the entire issued share capital of IFL. The excess of the fair value of the shares of IFL, determined on the basis of the consolidated net asset value of IFL and its then subsidiaries at that date over the nominal value of the Company's shares issued in exchange therefor, amounting to HK\$133,600,000, was credited to the Company's share premium account as set out in note 33(b) to the financial statements.
- (c) On 20 September 2002, an amount of HK\$100,000, being a portion of the amount credited to the share premium account of the Company on the issue of shares in exchange for the shares of IFL as set out in (b) above, was applied to pay up in full at par the 1,000,000 shares allotted and issued nil paid on 28 August 2000.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 30. SHARE CAPITAL (Continued)

#### Shares (Continued)

- (d) On 5 December 2002, the Company allotted and issued 466,600,000 shares to the holders of the shares whose names appeared on the register of members of the Company on 25 November 2002, in proportion to their then holdings, by way of the capitalisation of the sum of HK\$46,660,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the Company's new shares issued to the public.
- (e) On 5 December 2002, 99,400,000 shares of HK\$0.10 each were issued to the public and institutional investors at a price of HK\$0.77 per share for a total cash consideration, before related issue expenses, of HK\$76,538,000.
- (f) On various dates during the year ended 30 June 2004, a total of 48,000,000 shares and 1,750,000 shares in the Company of HK\$0.10 each were allotted and issued pursuant to the exercise of pre-IPO share options and post-IPO share options at subscription prices of HK\$0.77 per share (*note 31(a)*) and HK\$1.19 per share (*note 31(b)*), respectively, for a total cash consideration, before expenses, of HK\$39,042,000.
- (g) On various dates during the year ended 30 June 2004, certain of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds in the aggregate amount of US\$5,500,000 issued to CSFB were converted into 38,552,000 ordinary shares of HK\$0.10 each.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 30. SHARE CAPITAL (Continued)

#### Shares (Continued)

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

	<i>Notes</i>	<b>Number of authorised shares (<i>'000</i>)</b>	<b>Number of issued shares (<i>'000</i>)</b>	<b>Nominal value of shares issued <i>HK\$'000</i></b>
At 1 July 2002		1,000	1,000	–
Increase in authorised share capital	<i>(a)</i>	1,999,000	–	–
On acquisition of IFL:				
Shares issued as consideration	<i>(b)</i>	–	1,000	100
Application of share premium to pay up nil paid shares	<i>(c)</i>	–	–	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company to be credited as a result of the Company's shares offered to the public	<i>(d)</i>	–	466,600	–
New issue on public listing	<i>(e)</i>	–	99,400	9,940
Capitalisation of the share premium account as set out above	<i>(d)</i>	–	–	46,660
At 30 June 2003 and 1 July 2003		2,000,000	568,000	56,800
Shares issued upon exercise of share options	<i>(f)</i>	–	49,750	4,975
Shares issued upon conversion of convertible bonds	<i>(g)</i>	–	38,552	3,855
At 30 June 2004		<u>2,000,000</u>	<u>656,302</u>	<u>65,630</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 30. SHARE CAPITAL (Continued)

#### Shares (Continued)

Subsequent to the balance sheet date, certain convertible bonds were converted into 2,040,000 shares of the Company of HK\$0.10 each.

As a result of the above subsequent event, the issued share capital of the Company increased to HK\$65,834,000 comprising 658,342,000 ordinary shares of HK\$0.10 each.

#### Share options

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

### 31. SHARE OPTION SCHEMES

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

#### (a) Pre-IPO share options

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

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

All pre-IPO share options were exercised by the Private Investors during the year which resulted in the issue of 48,000,000 additional ordinary shares of the Company and additional share capital of HK\$4,800,000 and share premium of HK\$32,160,000 (before issue expenses) (*notes 30(f) and 33(b)*).

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 31. SHARE OPTION SCHEMES (Continued)

#### (b) Post-IPO share options scheme

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 31. SHARE OPTION SCHEMES (Continued)

### (b) Post-IPO share options scheme (Continued)

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

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

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

Name or category of participants	Number of Post-IPO share options				Exercise period of post-IPO share options	Exercise price of share options* HK\$	Price of the Company's shares	Price of the Company's shares	Price of the Company's shares at the date of exercise** HK\$
	At 1 July 2003	Exercised during the year	At 30 June 2004	Date of grant of post-IPO share options			at the date of grant	at the date of exercise	
<b>Directors</b>									
<i>Executive</i>									
Mr. Zhang Peter Y.	500,000	–	500,000	16 May 2004	16 May 2003 to 15 May 2005	1.19	1.19	–	
Mr. Xu Peng	500,000	–	500,000	16 May 2004	16 May 2003 to 15 May 2005	1.19	1.19	–	
Mr. Deng Jie	5,000,000	–	5,000,000	16 May 2004	16 May 2003 to 15 May 2005	1.19	1.19	–	
Mr. Long Xian Feng	5,000,000	–	5,000,000	16 May 2004	16 May 2003 to 15 May 2005	1.19	1.19	–	
Mr. Wu Xian Peng	5,000,000	–	5,000,000	16 May 2004	16 May 2003 to 15 May 2005	1.19	1.19	–	
<i>Independent non-executive</i>									
Professor Kung Hsiang-Fu	500,000	(250,000)	250,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19	1.76	
Professor Tso Wung-Wai	500,000	(500,000)	–	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19	1.75	

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 31. SHARE OPTION SCHEMES (Continued)

### (b) Post-IPO share options scheme (Continued)

Name or category of participants	Number of Post-IPO share options				Exercise period of post-IPO share options	Exercise Price of share options* HK\$	Price of the Company's share at the date of grant	Price of the Company's share at the date of exercise
	At 1 July 2003	Exercised during the year	At 30 June 2004	Date of grant of post-IPO share options			of options** HK\$	of options** HK\$
<b>Other employees ***</b>								
In aggregate	25,100,000	–	25,100,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19	–
<b>Others</b>								
In aggregate	14,500,000	(1,000,000)	13,500,000	16 May 2003	16 May 2003 to 15 May 2005	1.19	1.19	1.75
	<u>56,600,000</u>	<u>(1,750,000)</u>	<u>54,850,000</u>					

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

\*\* The price of the Company's shares disclosed as the date of the grant of the post-IPO share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

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

The post-IPO share options exercised during the year resulted in the issue of 1,750,000 ordinary shares of the Company of HK\$0.10 each and new share capital of HK\$175,000 and share premium of HK\$1,907,500 (before issue expenses), as detailed in note 30(f) to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 31. SHARE OPTION SCHEMES (Continued)

#### (b) Post-IPO share options scheme (Continued)

At the balance sheet date, the Company had 54,850,000 share options outstanding under the Scheme, which represented approximately 8.4% 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 54,850,000 additional ordinary shares of the Company and additional share capital of HK\$5,485,000 and share premium of HK\$59,786,500 (before issue expenses).

#### (c) Subscription rights attaching to the convertible bonds

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

### 32. RESERVES

#### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 33 and 34 of the financial statements.

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

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

# NOTES TO FINANCIAL STATEMENTS

30 June 2004

## 32. RESERVES (Continued)

### (b) Company

	Notes	Reserves			Proposed final dividend HK\$'000	Total HK\$'000
		Share premium account HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000		
Balance at 1 July 2002		–	–	–	–	–
Arising on acquisition of IFL	30(b)	133,600	–	133,600	–	133,600
Applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation	30(c)	(100)	–	(100)	–	(100)
Capitalisation on issue of shares	30(d)	(46,660)	–	(46,660)	–	(46,660)
Issue of shares to public	30(e)	66,598	–	66,598	–	66,598
Share issue expenses		(21,761)	–	(21,761)	–	(21,761)
Net profit for the year		–	12,749	12,749	–	12,749
Proposed final dividend		–	(12,411)	(12,411)	12,411	–
<hr/>						
At 30 June 2003 and 1 July 2003		131,677	338	132,015	12,411	144,426
Final 2003 dividend declared	12	–	–	–	(12,411)	(12,411)
Issue of shares upon exercise of share options	30(f)	34,067	–	34,067	–	34,067
Issue of shares upon conversion of convertible bonds	30(g)	39,011	–	39,011	–	39,011
Share issue expenses		(4,361)	–	(4,361)	–	(4,361)
Net profit for the year		–	13,975	13,975	–	13,975
Proposed final dividend	12	–	(13,167)	(13,167)	13,167	–
<hr/>						
At 30 June 2004		<u>200,394</u>	<u>1,146</u>	<u>201,540</u>	<u>13,167</u>	<u>214,707</u>

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

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

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Acquisition of subsidiaries

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net assets acquired:			
Fixed assets	14	1,573	47,844
Inventories		24,593	8,640
Accounts receivable		7,706	30,695
Prepayments, deposits and other receivables		21,214	2,362
Cash and bank balances		37,927	2,367
Accounts payable		(33,163)	(21,069)
Accrued liabilities and other payables		(2,805)	(2,444)
Bank loans	26	(477)	(879)
Other loans	26	–	(12,149)
Minority interests		(34,416)	–
		<u>22,152</u>	<u>55,367</u>
Goodwill/(negative goodwill) on acquisition	16	<u>1,680</u>	<u>(37,997)</u>
		<u>23,832</u>	<u>17,370</u>
Satisfied by:			
Cash		<u>23,832</u>	<u>17,370</u>

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

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash consideration	(23,832)	(17,370)
Cash and bank balances acquired	37,927	2,367
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>14,095</u>	<u>(15,003)</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (a) Acquisition of subsidiaries (Continued)

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

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

The subsidiaries acquired in the prior year did not have significant impact on the Group's consolidated turnover or profit after tax for the year ended 30 June 2003.

#### (b) Major non-cash transactions

- (i) As further detailed in note 28 to the financial statements, during the year, 38,552,000 shares of the Company had been allotted and issued upon conversion of the convertible bonds and did not result in any cash flow.
- (ii) During the year, long term deposits of HK\$3,271,000 paid by the Group in previous years were transferred to the intangible assets account and did not result in any cash flow.

### 34. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

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

As 30 June 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	707	–
In the second to fifth years, inclusive	1,260	–
	<u>1,967</u>	<u>–</u>

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 34. OPERATING LEASE ARRANGEMENTS (Continued)

#### (b) As lessee

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

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>645</b>	–
In the second to fifth years, inclusive	<b>2,708</b>	–
After five years	<b>1,947</b>	–
	<hr/> <b>5,300</b> <hr/>	<hr/> – <hr/>

### 35. COMMITMENTS

As at the balance sheet date, the Group had contracted commitments of HK\$3,049,000 (2003: HK\$3,099,000) in respect of the purchase of technical knowhow.

The Company had no significant commitments as at 30 June 2004 (2003: Nil).

### 36. CONNECTED AND RELATED PARTY TRANSACTIONS

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

During the year ended 30 June 2004, a banking facilities of HK\$50,000,000 was granted to GHMM, as the security for which the Company provided a guarantee of up to 96.65% of the obligations and liabilities of GHMM under the banking facilities. Details of the securities arrangement in respect of the banking facilities are set out in note 26 to the financial statements and under the heading “Disclosures pursuant to Rule 13.21 of the Listing Rules” in the Report of the Directors.

## NOTES TO FINANCIAL STATEMENTS

30 June 2004

### 37. POST BALANCE SHEET EVENTS

In addition to those events disclosed elsewhere in these financial statements, the Group had the following post balance sheet events:

- (a) On 4 October 2004, IFL, a wholly owned subsidiary of the Company, entered into two separate equity transfer agreements with 深圳市東斯隆企業管理顧問有限責任公司 (“**DSL**”) and 貴陽德昌祥藥業有限公司工會 (“**DCXLU**”) respectively, pursuant to which (i) IFL has agreed to acquire and DSL has agreed to sell 58.4% of the equity interest in DCX, for a consideration of RMB50 million (equivalent to approximately HK\$46.7 million); and (ii) IFL has agreed to acquire and DCXLU has agreed to sell 22.0% of the equity interest in DCX, for a consideration of approximately RMB18,823,000 (equivalent to approximately HK\$17.6 million). Completion of the equity transfer agreements requires the fulfilment of certain conditions within three months from 4 October 2004.
- (b) On 16 September 2004, a loan agreement (the “**Loan Agreement**”) was entered between the Company and certain financial institutions for a loan facility of up to HK\$100,000,000. The Loan Agreement provides that so long as there remains any amounts outstanding under the Loan Agreement: (1) Mr. Zhang Peter Y. the chairman of the board of directors of the Company (“**Mr. Zhang**”), shall continue to be the chairman and (save and except Bull’s-Eye Limited, the major shareholder of the Company) the person with the single largest attributable shareholding in the Company; (2) Mr. Xu Peng, a director of the Company, shall continue to be a director of the Company and (save and except Bull’s-Eye Limited) the person with the second single largest attributable shareholding in the Company; and (3) Mr. Zhang Peter Y. and Mr. Xu Peng shall collectively maintain, directly or indirectly, not less than 35% of the issued share capital of the Company, free from any encumbrances and shall collectively deposit not less than 35% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

### 38. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, due to the adoption of a revised SSAP 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 adjustments have been made and certain comparative amounts have been restated to conform with the current year’s presentation.

### 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 October 2004.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company's prospectus dated 28 November 2002 (the "Prospectus") and the audited financial statements and reclassified as appropriate, prepared on the bases set out in notes 1 and 2 below and in note 4 to the financial statements, is set out below:

### RESULTS

	Year ended 30 June				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<u>507,064</u>	<u>219,043</u>	<u>173,176</u>	<u>160,958</u>	<u>81,484</u>
Profit before tax	<u>114,357</u>	<u>106,219</u>	<u>92,022</u>	<u>85,505</u>	<u>40,430</u>
Tax	<u>(18,126)</u>	<u>(17,186)</u>	<u>(13,378)</u>	<u>(10,787)</u>	<u>(4,916)</u>
Profit before minority interests	<u>96,231</u>	<u>89,033</u>	<u>78,644</u>	<u>74,718</u>	<u>35,514</u>
Minority interests	<u>(1,214)</u>	<u>(3,150)</u>	<u>(2,775)</u>	<u>(2,562)</u>	<u>(1,157)</u>
Net profit from ordinary activities attributable to shareholders	<u>95,017</u>	<u>85,883</u>	<u>75,869</u>	<u>72,156</u>	<u>34,357</u>

### ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 30 June				
	2004 HK\$'000	2003 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total assets	<u>724,131</u>	<u>383,363</u>	<u>196,178</u>	<u>173,768</u>	<u>148,330</u>
Total liabilities	<u>(271,781)</u>	<u>(126,796)</u>	<u>(79,318)</u>	<u>(70,552)</u>	<u>(64,888)</u>
Minority interests	<u>(35,824)</u>	<u>(194)</u>	<u>(3,414)</u>	<u>(2,816)</u>	<u>(2,711)</u>
	<u>416,526</u>	<u>256,373</u>	<u>113,446</u>	<u>100,400</u>	<u>80,731</u>

#### Notes:

- The summary of the combined results of the Group for each of the three years ended 30 June 2002 was extracted from the Prospectus. Such summary includes the results of the Company and the companies comprising the Group with effect from 1 July 1999 or since their respective dates of incorporation/establishment, where this is a shorter period, on a combined basis as if the Group's structure on 20 September 2002 (date of the Group Reorganisation) had been in existence throughout those three years. This basis of presentation was adopted for the preparation of the accountants' report included in the Prospectus.

The results of the Group for the years ended 30 June 2004 and 2003 are those set out on page 30 of this annual report.

- The summary of the combined balance sheets as at 30 June 2000, 2001 and 2002 was extracted from the Prospectus. Such summary was prepared on the same basis as detailed in note 1 above. The consolidated balance sheets as at 30 June 2003 and 2004 are those set out on page 31 and page 32 of this annual report.