



Hua Han Bio-Pharmaceutical Holdings Limited
華瀚生物製藥控股有限公司
(incorporated in the Cayman Islands with limited liability)



Annual Report 2004/2005

CONTENTS

| | |
|-----------|--|
| 2 | Corporate Information |
| 3 | Financial Highlights |
| 4 | Chairman's Statement |
| 7 | Management Discussion and Analysis |
| 18 | Biographical Details of Directors and Senior Management |
| 22 | Report of The Directors |
| 36 | Report of The Auditors |
| 37 | Audited Financial Statements |
| | Consolidated: |
| 37 | Profit and loss account |
| 38 | Balance sheet |
| 40 | Statement of changes in equity |
| 41 | Cash flow statement |
| | Company: |
| 44 | Balance sheet |
| 45 | Notes to financial statements |
| 92 | Summary Financial Information |

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

Non-Executive Directors

Mr. Wee Ee Lim (*Mr. Tarn Sien Hao as his alternate*)
Mr. Han Ah Kuan (*Mr. Ong Sian Hin as his alternate*)

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
Mr. Han Ah Kuan (*Mr. Ong Sian Hin as his alternate*)

REMUNERATION COMMITTEE

Professor Kung Hsiang Fu
(*Chairman of remuneration committee*)
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew
Mr. Deng Jie
Mr. Wee Ee Lim (*Mr. Tarn Sien Hao as his alternate*)

COMPANY SECRETARY

Mr. Lai Chi Ho, Joe (*AHKICPA*)

QUALIFIED ACCOUNTANT

Mr. Lai Chi Ho, Joe (*AHKICPA*)

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 9 Xinhua 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
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P. O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

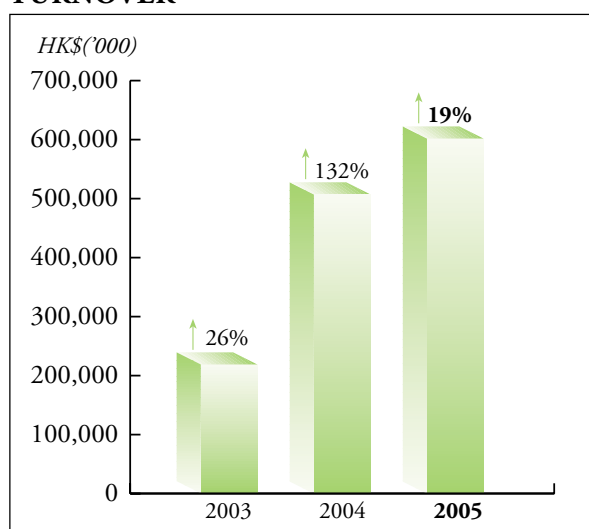
Tengis Limited
28th Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

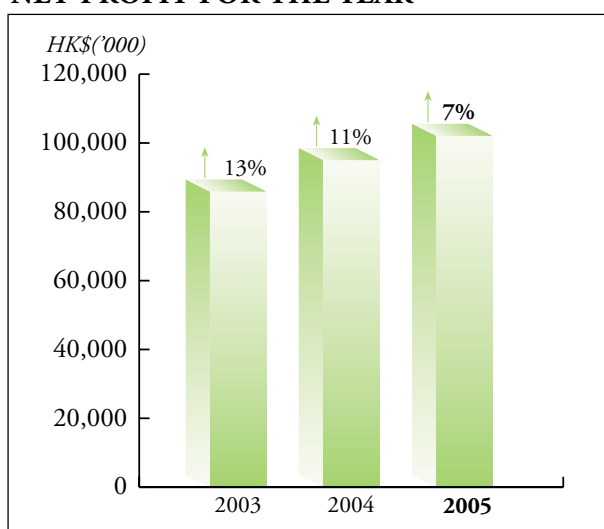
KEY FINANCIALS

| | 2005 HK\$'000 | 2004 HK\$'000 | % Change |
|-------------------------------------|------------------|------------------|----------|
| Turnover | 601,921 | 507,064 | ↑ 18.7% |
| Net profit for the year | 102,073 | 95,017 | ↑ 7.4% |
| Basic earnings per share (HK cents) | 14.8 | 15.0 | ↓ 1.3% |
| Gearing ratio (%) | 29.4 | 34.3 | ↓ 14.3% |
| Cash and cash equivalents on hand | 474,000 | 271,365 | ↑ 74.7% |

TURNOVER



NET PROFIT FOR THE YEAR

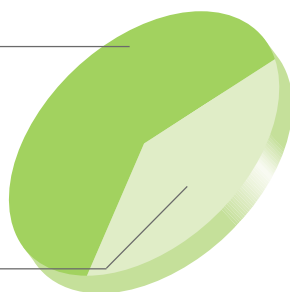


TURNOVER

2005

383,618 (64%)

| | | |
|-------------------------------|---------|-------|
| Anti-inflammatory Products | 105,815 | (28%) |
| Endocrine Products | 20,626 | (5%) |
| Anti-tumour Products | 81,494 | (21%) |
| Medicine for Children | 32,042 | (8%) |
| OTC Drugs | 75,104 | (20%) |
| Medicinal Healthcare Products | 37,636 | (10%) |
| Other Drugs | 30,901 | (8%) |



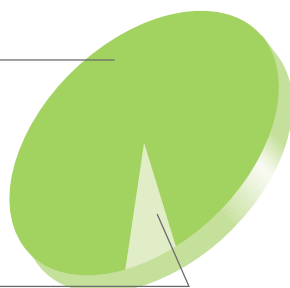
218,303 (36%)

GROSS PROFIT

2005

211,366 (94%)

| | |
|-------------------------------|-----|
| Anti-inflammatory Products | 25% |
| Endocrine Products | 4% |
| Anti-tumour Products | 26% |
| Medicine for Children | 6% |
| OTC Drugs | 18% |
| Medicinal Healthcare Products | 13% |
| Other Drugs | 8% |



13,970 (6%)

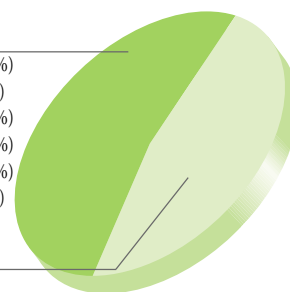
■ Manufacturing

■ Trading

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%) |

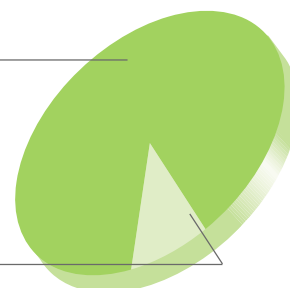


233,822 (46%)

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%)

CHAIRMAN'S STATEMENT

On behalf of the board (“**Board**”) of directors (“**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 2005 (“**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\$601.9 million, representing a growth of 18.7% as compared with the turnover of HK\$507.0 million in the preceding year. Approximately HK\$383.6 million of the turnover for the Year was attributable to the turnover of the Group's own products, representing a growth of 40.4% over last year and maintaining a



Guiyang De Chang Xiang
Pharmaceutical Company Limited



Guizhou Hanfang Medicine
Manufacture Co. Ltd.

high gross profit margin of 37.8%, and approximately HK\$218.3 million of the turnover was the revenue from pharmaceutical trading activities. Profit attributable to shareholders of Hua Han for the Year was approximately HK\$102.1 million, representing an increase of 7.5% over that of last year.

OPERATION REVIEW

Notwithstanding the additional stipulation on monitoring the People's Republic of China (“**PRC**”) pharmaceutical industry and active mergers and acquisitions activities, increasingly ferocious elimination of enterprises and keen market competition in the industry during the Year, Hua Han still attained superior operating results, attributable to its competitive product series and appealing product



Yeosure Series



Fuke Zaizaowan

brands, extensive sales network and distribution channels that cover the whole country as well as its effort in implementing the business growth strategy of “**Prestigious Brand Name Building**”, “**Legend Products**” and “**Nationwide Sales Network**”.

The Group's superior operating results are premised on 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), while the classic Chinese gynecological recuperation medicine **Fuke Zaizaowan** (婦科再造丸) and “**Magic 美即**” Series of feminine medicinal healthcare products have become the Group's new focus of results growth. The Group's manifestation of its edges in products, brand names and sales network has continued to prepare the Group to achieve steady growth.

CHAIRMAN'S STATEMENT

PROSPECTS

Benefiting from the influence of the growing trend of the PRC's macro economy, the overall economy of the PRC pharmaceutical industry showed signs of development trends such as continuous growth of industrial production, steady and active commercial sales, steady growth of import and export and stable efficiency level with a decreasing tendency. The continuous growth and high profitability of the traditional Chinese medicine industry



Huangqi Granules

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.



Camptothecine Series

In this financial year ending 30 June 2006, 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 medical healthcare products in the PRC. The Group will put an emphasis on effective integration of its existing products, brand and sales network resources, optimization of internal resources allocation

and manifestation of combined advantages of its products, sales, manufacture and operation management. The 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)** in the hospital market, timely introduction of new products such as anti-tumour medicine **Paclitaxel (紫杉醇)** in the hospital market are expected to advance and consolidate the Group's leading position in the PRC gynecological prescription medicine market. The Group will also strive to strengthen the sales effort and increase its amount of investment in developing the market portfolio of gynecological Chinese medicine, **Fuke Zaizaowan (婦科再造丸)** and feminine medicinal healthcare products, the product series of "**Magic 美即**". Through expanding the market share of the abovementioned products, the Group can better project the positive image of Hua Han as a leading enterprise of gynecological pharmaceutical products and feminine medical healthcare products to its customers in the OTC market and healthcare market in the PRC. In addition, the Group intends to make use of the sales network after integration to expand the sales proportion of Hua Han's own products and, at the same time, through high-value-added product agency, increase the profit contribution of the Group's distributing enterprise. The implementation of such operational strategies is believed to bring about enduring and maximum value to shareholders of Hua Han.

APPRECIATION

On behalf of the Board, 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 our shareholders for their continued



Magic

CHAIRMAN'S STATEMENT

support to the Group. We firmly believe that the assistance and concerted effort from various parties to the Group would enable us to gather solid support and lay down a winning foundation in establishing Hua Han a leading enterprise of gynecological pharmaceutical products and feminine medicinal healthcare products in the PRC.

Zhang Peter Y.

Chairman

Hong Kong

28 October 2005

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The pharmaceutical industry has set itself into a growing path. The pharmaceutical industry has maintained growth in sales revenue and has recorded a growth of 24.6% in the first half of 2005 as compared with the corresponding period in 2004. According to market segment analysis, the Chinese medicines have shown better performance as compared with the average industry level in terms of sales revenue, net asset yield ratio and sales-to-profit ratio, manifesting a strong potential of growth.

The pharmaceutical market was also underpinned by higher concentration of product sales and higher economic efficiency. The corporate merger and acquisition and reorganization have expedited the pace of consolidation and instigation of resources in the pharmaceutical industry and it is also noteworthy that the fierce market competition in the pharmaceutical retail market, coupled with the impact of the new set of standards in the research and development of pharmaceutical products adopted by the State and the price control measures, have exerted pressure on the profit margin of the chemical pharmaceutical manufacturers. The sino-foreign co-operation in the industry has already speeded up foreign investment in entering the market of medicines distribution in China. The emerging features for the industry of Chinese medicines are that it has basically evolved into a modernized industry and that with its rapid development, it has turned into the second pillar of the pharmaceutical industry, coming only after chemical pharmaceutical industry. The perfecting of the mechanism in the protection of intellectual properties rights and the unparalleled emphasis placed by the State. With the favourable underlying factors, the Directors believe that the market potential for Chinese medicines is enormous.

BUSINESS REVIEW

Despite challenges resulted from severe market competition in the pharmaceutical industry, Hua Han managed to achieve satisfactory results and its underlying strategy of focusing its development on becoming the leading pharmaceutical enterprise in the field of gynecological medicines and medicinal healthcare products for women was further realized by its competitive product lines and attractive product mix, extensive marketing network and nationwide distribution channel as well as our strategy of **“Prestigious Brand Name Building”**, **“Legend Products”** and **“Nationwide Sales Network”**.

FINANCIAL PERFORMANCE

The Group has achieved continuing growth in annual turnover and net profit for the three-year period from 2002 to 2005, at an annual compound growth rate of 30.4% and 10.4% in turnover and net profit of the Group's products respectively. For the Year, the Group recorded a total turnover of approximately HK\$601.9 million, approximately HK\$383.6 million (2004: approximately HK\$273.2 million) of which was attributable to the turnover of the Group's products, representing a growth of 40.4% over last year, and approximately HK\$218.3 million of which was revenue from the trading activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit of the Group's products for the Year was approximately HK\$211.4 million, representing a growth of 43.8% over that for last year of approximately HK\$147.0 million. The gross profit of trading products for the Year was approximately HK\$14.0 million. Profit attributable to shareholders for the Year was approximately HK\$102.1 million (2004: approximately HK\$95.0 million), representing an increase of 7.5% from that of last year.

Approximately HK\$78.3 million of turnover was attributable to the products of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司) and Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) since they became members of the Group during the 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\$105.8 million, representing 27.6% of total turnover of the Group's products.

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\$20.6 million, representing 5.4% 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)**, all of which are naturally sourced gynecological anti-tumour injection medicines, brought in total sales of approximately HK\$81.5 million, representing about 21.2% of the Group's total products turnover. Gross profit margin of the Camptothecine Series of products for the Year was 66.7%.

Medicine for Children

Cefadroxil Granules (毅達顆粒), an antibiotic for children, produced total sales of approximately HK\$32.0 million, representing 8.3% of the total turnover of the Group's products and an increase of 12.7% from that of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

OVER-THE-COUNTER (“OTC”) DRUGS

Gynecological Endocrine Products

Sales of **Huangqi Granules (黃芪顆粒)**, a gynecological endocrine product, was approximately HK\$34.5 million, representing 9.0% of total sales of the Group’s products and an increase by 21.6% compared to that of last year.

Sales of **Fuke Zaizaowan (婦科再造丸)**, a gynecological endocrine proprietary product from a subsidiary acquired during the Year, Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司) (“**DCX**”), was approximately HK\$23.0 million, representing 6.0% of total sales of the Group’s products. This is the flagship product of DCX that has been sold in the market for nearly 70 years, with a solid reputation particularly in Southwestern China. The Group will further develop this product as a leading gynecological Chinese medicine in China through brand-building and introduce it to unexplored provinces in China.

Sales of medicinal healthcare products under the brand series of “**Magic 美即**”, women’s medicinal healthcare products from another subsidiary acquired during the Year, Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司), was approximately HK\$37.6 million, representing 9.8% of total sales of the Group’s products. This is another major series of products that the Group will strongly develop, first to the whole of China through Watsons’ channel and intensive marketing campaigns, then possibly to overseas market in the coming years.

MERGERS & ACQUISITIONS

During the Year, the Group acquired 92.91% equity interest in DCX from Shenzhen Shi Dong Si Long Enterprise Management Consultancy Limited Liability Company (深圳市東斯隆企業管理顧問有限公司) and Guiyang De Chang Xiang Pharmaceutical Company Limited Labour Union (貴陽德昌祥藥業有限公司工會). DCX possesses over 120 approved pharmaceutical numbers (藥品批准文號), 21 of which are gynecological and obstetrical medicines and approximately 40 of which are proprietary protected medicines. DCX had an aggregate of approximately 267 employees as at 30 June 2005 and DCX, as a continued entity of its predecessor, has a history of over 100 years.

Five established production lines of DCX had successfully been granted Good Manufacturing Practice (“**GMP**”) certification issued by the State Food and Drug Administration of the PRC (中國國家食品藥品監督管理局) (“**SFDA**”) at December 2004. DCX then became the largest manufacturer in Guizhou producing traditional Chinese medicine and such certification laid a foundation that allows the Group to fully manifest the strength of various gynecological products as held by DCX. The strategic guidance of the Group has set its goal of development of, and the corporate strategy for, becoming the leading pharmaceutical manufacturer of classic Chinese gynecological medicines in China and is determined to expand steadily in the direction of turning “**Fuke Zaizaowan 婦科再造丸**” that has been sold in the market for nearly 70 years to be its core product and making the OTC sales to be its major market by means of brand name promotion and consolidation and integration of distribution channels. DCX is expected to develop “**Fuke Zaizaowan 婦科再造丸**”, a gynecological Chinese medicine renowned in Southwestern China region, into a renowned product in the whole country in about three years.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group also successfully acquired 70% equity interest in Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) (“**Guangdong Qunhe**”) during the Year. Guangdong Qunhe under our Group has expanded the medicinal healthcare product lines of “**Magic 美即**”, from originally 4 products to now 29 products under 3 main product series in the Year, covering facial treatment, eye treatment and body treatment. The products are sold in more than 10 cities, including Beijing, Guangzhou, Shenzhen, Wuhan, Chengdu, Chongqing, Tianjin, Urumqi and Dalin and such network has laid the foundation for establishing a nationwide distribution network in the coming two years. It is expected that an addition of 5 to 10 self-developed new products would be brought to the market this year.

Guangdong Qunhe has undertaken a strategy of all-round marketing promotion for the consumer products under the “**Magic 美即**” Series, and is committed to, under the corporate direction on marketing and publicity, entering the consumer market and quickly promoting the product awareness by placing advertisements on the internet, TV and magazines as well as in out-door areas and terminuses. During the Year, Guangdong Qunhe entered into a contract with the well-known chain store, Watsons, for its PRC market and has formally become the supplier of Watsons. Such arrangement allows the medicinal healthcare products of “**Magic 美即**” to be sold in 170 chain stores under Watsons in the PRC. The product series of “**Magic 美即**” was awarded the Golden Award of “New Product with Strongest Potential” by Watsons in 2004. Our “**Magic 美即**” Series was also awarded “The Most Favorite International Cosmetic Brand of Shenzhen Citizens (深圳市民最喜愛的國際化妝品品牌)” by China Cosmetics Association (Shenzhen Branch) and “深圳晶報” jointly.

These acquisitions allowed the Group to expand its product lines of gynecological products and to set foot in the market of medicinal healthcare products for women which manifests a strong potential of growth. This is an initiative of significance for the Group to improve its overall efficiency and competitiveness.

DISPOSAL OF INTEREST IN A PRC COMPANY

During the Year, the Group sold 10% equity interest in Hubei Kanglai Medicine Company Limited (湖北康萊醫藥有限公司) (“**Kanglai Medicine**”) (“**Disposal**”) to Wuhan San Tian Trading Company Limited (武漢三田商貿有限公司) (“**San Tian**”). The Group has an unconditional right to require San Tian to acquire from it any of its remaining 41.72% equity interest in Kanglai Medicine within two years from 20 October 2004.

Through the Disposal, the Group aims to take advantage of the expertise of the owners of San Tian to expand the Group’s sales and distribution network of its pharmaceutical products in the Hubei Province.

MANAGEMENT DISCUSSION AND ANALYSIS

RESEARCH AND DEVELOPMENT

To broaden the Group's product mix and to sustain the persistent growth of operations, the Group will continue to put a strong emphasis and commit resources for the development of new products. The Company has injected approximately HK\$3.9 million in research and development during the Year.

The Group has obtained the production approval of **Paclitaxel Injection (紫杉醇注射液)**, an anti-tumour medicine, and is intended to launch the product in the market by the end of 2005.

The Group engaged Beijing Venture-Sunshine Pharmaceutical Technology Company Limited (北京萬全陽光醫藥科技有限公司) to undertake the second and the third phases of clinical trials of **Fu Shu Le Tablets (婦舒樂片)**, a new Chinese medicine for curing gynecological atropic vaginitis, which is common for women at menopause. It is expected that the clinical trials will be completed in 2006.

The Group has also undertaken the second and third phases for clinical trials for **Zhitong Jiangu Capsules (止痛健骨膠囊)**, a Chinese medicine for curing pain associated with osteoarthritis of elderly and the trials are expected to be completed in 2006.

The Group has formulated the manufacturing process and completed the quality studies of **Omeprazole Sodium (奧美拉唑鈉)** and **Levofloxacin Lactate Injection 乳酸左氧氟沙星注射液** during the Year. The Group has also compiled all the relevant production information for registration with SFDA and an application has been made for the production approval. It is expected that the product will be approved for sales in 2006.

It is expected that **Secnidazole Tablets and Capsules (塞克硝唑片及膠囊)**, products curing gynecological trichomoniasis and anerobe, will obtain approval for sales from SFDA and be launched in the market in 2006.

The technical evaluation procedure with respect to "**Fuke Zaizaowan capsules 婦科再造丸膠囊**", a proprietary product, has been completed and it is expected that we will obtain the exclusive rights for production in China.

The research and development of a total of 51 products under 9 categories of the "**Magic 美即**" Series has been completed and such products will involve more sophisticated technology and novel packaging design.

MANAGEMENT DISCUSSION AND ANALYSIS

PRODUCTION FACILITIES

To satisfy the requirements of SFDA that medicine production enterprises must obtain Good Manufacturing Practice (“GMP”) certification, and to allow the Group to be more competitive in the pharmaceutical industry, Guizhou Hanfang Medicine Manufacture Co., Ltd., (貴州漢方製藥有限公司) a subsidiary of Hua Han, has a total of 7 production lines in the existing production complex for the production of capsules (**Cephalosporins 頭孢菌素**), granules (**Cephalosporins 頭孢菌素**), tablets, powders, suppository, and raw medicines **Hydroxycamptothecine (羥喜樹碱)** and **Topotecan Hydrochloride (鹽酸拓撲替康)**, all of which have commenced operation upon obtaining the GMP certification during the Year. DCX has newly established a total of 6 production lines in the production complex for the production of vial, tinctures, mixture, syrup, mastic and aerosol after its existing 5 production lines, namely pills, capsules, tablets, granules and powder, have received the GMP certification. To date, we have a total of 26 production lines which have been accredited the GMP certification issued by SFDA. Such awards help improve the Group’s standards of technology and management, allowing the Group to become the leading pharmaceuticals manufacturing enterprise (in terms of the scale of production facilities and the products types available) in Southwestern region of the PRC.

PROSPECTS

Hua Han, as in the past, will endeavour in the strategic planning of establishing itself as the leading enterprise in the manufacture and sales of gynecological pharmaceuticals products and feminine medicinal healthcare products. The Group will put emphasis on the effective integration of its existing products, brand and sales network resources, optimization of internal resources allocation and manifestation of synergy of its products, production, sales and distribution management.

1. Three-year Target

We are devoted to turn Hua Han into the leading enterprise of gynecological pharmaceuticals products and feminine medicinal healthcare products in China within three years.

2. The general direction for operation and management

The effective integration of the Group’s existing resources on operation and the improvement on the standard of the Group’s operation and assets management will contribute to the maximization of the Company’s value and shareholders’ return.

The Group has perfected the development plan of prescription drugs, OTC medicines and medicinal healthcare products under its corporate strategy. The Group is determined to reinforce its edges and competitiveness of its products, to enlarge its scale of turnover and to raise its profitability.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will spare no efforts in building up the popularity of our products. Apart from further consolidating the market share of “**Yeosure 日安舒**” Series in the prescription drugs market, the Group also strives to promote “**Fuke Zaizaowan 婦科再造丸**” and “**Magic 美即**” Series of products in OTC market and the facial treatment products market respectively. Such strategy would allow the Group to have a significant improvement in results and attain a higher growth.

3. Principle for operation

To further improve the Group’s operation management system and corporate management structure that incorporates risk control measures, effective mode of operation and check-and-balance.

The Group also develops business strategies that can lead it to become a market leader.

4. Principle for assets management

To further improve the Group’s mechanism on corporate financial management that ensures the security of assets, improves the efficiency on the application of resources and reduces operating costs.

5. Operation strategy

1) *Prestigious Brand Name Building*

To maintain the steady growth of the prescription drugs in the hospital market and to build up the professional image of our prescription drugs in the hospital market. Meanwhile, with the full support of the Group’s resources, we are determined to enter the OTC market with “**Fuke Zaizaowan 婦科再造丸**” and the medicinal healthcare products market with the “**Magic 美即**” Series of products in order to give an impetus to the products sales.

2) *Legend Products*

This refer to the Group’s concerted efforts in raising the turnover and market share of “**Yeosure Series 日安舒系列**”, “**Fuke Zaizaowan 婦科再造丸**”, “**Magic 美即**” Series of products and “**Camptothecine Series 喜樹碱系列**”, making such products the major contributors to the Group’s profit and the brand name prestige as well as to the success of the subsequent products launched.

In terms of research and development, the Group will put stronger emphasis on gynecological prescription drugs and OTC medicinal products that have the strongest market potential in the hospital and retail markets.

MANAGEMENT DISCUSSION AND ANALYSIS

With respect to non-major products, the Group will undertake co-operation with pharmaceuticals agents through various ways with an objective of turning such products into the Group's major products that offer contribution to our profit.

3) *Nationwide Sales Network*

Building on the existing clinical network and our team of prescription drugs, such as gynecological anti-inflammatory products and anti-tumour products, we are determined to perfect the sales and distribution network on the basis of our knowledge-based marketing skills and with a focus on hospital clients. We will build up our sales network and marketing team for retail market as well as the sales and distribution platform for gynecological OTC products and medicinal healthcare products on the basis of “**Fuke Zaizaowan**” (婦科再造丸) and “**Magic 美即**” Series products.

The integration of the existing sales and distribution resources allow the medicine distribution entity under the Group to become a distribution enterprise which focuses on value-added agency services, enjoys competitive edges within the region and manifests the synergy effects with the Group's medicinal and healthcare products.

6. Strategy for the operation of our core business

Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司)

This company will concentrate itself on the production and promotion of the Group's high-tech gynecological prescription drugs with strong medical effects, including gynecological anti-tumour products. The Group's mission is to consolidate the Group's marketing network on prescription drugs and build up the Group's professional image.

Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司)

This company will focus itself on the production and promotion of classic gynecological Chinese medicines with the mission of becoming the leading enterprise in the retail market of gynecological products with the support of the Group's OTC marketing network and brand name prestige built with “**Fuke Zaizaowan 婦科再造丸**”.

Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司)

This company will put an emphasis on the production and marketing of products “**Magic 美即**” Series as trendy and healthy products and strive to become the leading enterprise in the skincare product market by establishing the marketing network of medicinal healthcare products and brand name prestige of “**Magic 美即**” Series.

MANAGEMENT DISCUSSION AND ANALYSIS

Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司)

This company is determined to become a medicine distribution enterprise which focuses on value-added agency services and enjoys competitive edges within the region and manifests the synergy effects with the Group's medicinal and healthcare products.

STRATEGIC ALLIANCE WITH HAW PAR

Haw Par Corporation Ltd. ("**Haw Par**") which is a company listed on the Singapore Exchange, has formed a strategic alliance with the Group by acquiring 21.08% shareholding in the Company on 10 June 2005 through Haw Par's wholly-owned subsidiary.

Haw Par is a long-established, renowned multinational enterprise with a business focus on healthcare and leisure. Its OTC pharmaceutical products such as "**Tiger Balm**" and "**Kwan Loong**" are household brandnames in many markets and convey positive image. Tiger Balm, for instance, is being sold in about 100 countries in the world. Forming a strategic alliance with Haw Par will be conducive to faster and healthier growth and development of the Group in the future.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. Haw Par subscribed 133,232,400 new shares on 10 June 2005 and injected a total cash inflow of approximately HK\$114.6 million into Hua Han. As at 30 June 2005, the Group had cash and bank balances of approximately HK\$474.0 million (30 June 2004: approximately HK\$271.4 million). Its gearing ratio calculated as a ratio of total debt to equity was approximately 29.4% (30 June 2004: approximately 34.3%). Net current asset value was approximately HK\$552.1 million (30 June 2004: approximately HK\$402.4 million) and the current ratio was maintained at the healthy level of approximately 3.40 (30 June 2004: approximately 3.08) as at 30 June 2005.

The finance costs of the Group for the Year amounted to approximately HK\$7.9 million (2004: approximately HK\$5.7 million), representing approximately 1.3% (2004: approximately 1.1%) of the Group's total turnover and an increase of approximately HK\$2.2 million over last year. The increase in finance costs was principally due to new bank loans obtained.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 30 June 2005, the Group did not have any material contingent liabilities (30 June 2004: Nil).

BANK BORROWINGS

As at 30 June 2005, the Group had outstanding bank loans of approximately HK\$197.0 million from the banks in the PRC and Hong Kong (30 June 2004: approximately HK\$143.0 million), approximately 60% (30 June 2004: approximately 60%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi and Hong Kong Dollar.

As at 30 June 2005, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) buildings of the Group; (iii) personal guarantees; (iv) pledge of equity interests of certain subsidiaries of the Group and (v) corporate guarantees executed by a subsidiary of 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 purpose.

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 and Hong Kong Dollar.

COMMITMENTS

As at 30 June 2005, the Group had contracted commitments of HK\$3.7 million (30 June 2004: HK\$3.0 million) and HK\$1.8 million (30 June 2004: nil) in respect of purchases of technical knowhow and construction-in-progress.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2005, the Group had a total of 1,224 employees (2004: 1,024), of whom 1,217 were based in the PRC, with the rest working in Hong Kong. The substantial growth in the number of employees was mainly contributed from the newly acquired subsidiaries. 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 Directors' remunerations) amounted to approximately HK\$22,022,000 (2004: approximately HK\$13,630,000). Staff costs accounted for 3.7% of the Group turnover (2004: 2.7%) during the Year. The Group participated in retirement benefit schemes for its staff both in 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.

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of HK2 cents per share of the Company for the Year (2004: HK2 cents).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 21 November 2005 to Wednesday, 23 November 2005 (both days inclusive) during which period no transfer of shares of the Company will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's Hong Kong branch share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 pm on Friday, 18 November 2005 for registration.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhang Peter Y. (張岳), aged 43, is the Chairman 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. Deng Jie (鄧杰), aged 41, is the Chief Executive Officer and Executive Director 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 being appointed as a member of the Eighth and the Ninth Chinese People's Political Consultative Conference in Guizhou (貴州省第八屆及第九屆政協委員) since 1998. In 1999, he was awarded a postgraduate certificate from Nankai University (南開大學) majoring in enterprise management. With over 10 years of experience in corporate management, Mr. Deng is responsible for the Group's strategic planning and operation management and is stationed in Hong Kong.

Mr. Xu Peng (徐鵬), aged 42, 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. 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.

Mr. Long Xian Feng (龍險峰), aged 43, 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 is responsible for operations of businesses in the PRC.

Mr. Wu Xian Peng (吳顯鵬), aged 36, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. Wee Ee Lim (黃一林), aged 44, is a Non-Executive Director of the Company. Mr. Wee holds a Bachelor of Arts (Economics) from Clark University. He is the President and Chief Executive Officer of Haw Par Corporation Limited, a public company listed on the Singapore Stock Exchange. He is also a Director of the public listed companies, United Industrial Corporation Limited and Singapore Land Limited, as well as a Board Member of Sentosa Development Corporation and Yong Siew Toh Conservatory of Music Governing Board. In October 2004, he resigned as a Non-Executive Director of Transit-Mixed Concrete Ltd, a public listed company in Singapore.

Mr. Han Ah Kuan (韓亞光), aged 57, is a Non-Executive Director of the Company. Mr. Han holds a Bachelor of Business Administration (Hons) from the National University of Singapore. He is an Executive Director of Haw Par Corporation Limited, a public company listed on the Singapore Stock Exchange. He is also a director of Haw Par Healthcare Limited (a subsidiary of Haw Par Corporation Limited) which was delisted from the Singapore Stock Exchange in June 2003.

Mr. Tarn Sien Hao (譚顯浩), aged 38, is an alternate Director of the Company to Mr. Wee Ee Lim. Mr. Tarn holds a Bachelor of Science from Columbia University, a Bachelor of Arts from the State University of New York and a Master of Business Administration from the University of Dubuque. He is the General Manager (Corporate Development) of Haw Par Corporation Limited, a public company listed on the Singapore Stock Exchange.

Mr. Ong Sian Hin (王祥興), aged 50, is an alternate Director of the Company to Mr. Han Ah Kuan. Mr. Ong holds a Bachelor of Accountancy (Hons) and a Master of Business Administration from the National University of Singapore. He is the Group Financial Controller and Company Secretary of Haw Par Corporation Limited, a public company listed on the Singapore Stock Exchange.

Independent Non-Executive Directors

Professor Kung Hsiang Fu (孔祥復), aged 63, 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. Professor Kung has served as the Chair Professor of the Institute of Molecular Biology of the University of Hong Kong (香港大學) for 7 years since 1998. Currently, he is a Professor of Virology of the Centre of Emerging Infectious Diseases of the Chinese University of Hong Kong (香港中文大學).

Professor Tso Wung Wai (曹宏威), aged 64, is an Independent Non-Executive Director of the Company. Professor Tso 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Hon Yiu Ming, Matthew (韓耀明), aged 45, 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.

SENIOR MANAGEMENT

Mr. Lai Chi Ho, Joe (黎志豪), aged 34, is the Company Secretary of the Company and Deputy Financial Controller of the Group. Mr. Lai is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He obtained a master degree in business administration from the University of Manchester in United Kingdom. Mr. Lai has over twelve years of financial and managerial experiences, and before joining the Group he was the financial controller in the regional procurement office in Southeast Asia of a multi-national firm.

Mr. Yao Rong (姚榮), aged 44, is the General Manager assistant of the Group. Mr. Yao joined the Group in 1993. He graduated from the Guizhou University (貴州大學) with a bachelor degree in philosophy in 1982.

Mr. Bian Shu Guang (邊曙光), aged 47, is the General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Mr. Bian graduated from Guiyang Teacher Training College (貴陽師範學院) in 1984 with a bachelor degree in Chinese. He joined the Group in 1993 and is responsible for the sales and marketing of the Group's prescription medicines.

Mr. Yao Chang Fa (姚廠發), aged 40, is the Deputy General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Mr. Yao graduated from Guiyang Chinese Medical College (貴陽中醫學院) in 1987 and acquired the professional qualification for principal Chinese medical practitioner in 1996. Mr. Yao joined the Group in 1992 and is responsible for the coordination of public relations and administration of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Mr. Chang Kun Mou (張昆謀), aged 42, is the Deputy General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Mr. Chang graduated from Harbin Engineering University and obtained a bachelor degree in engineering in 1984. In 1989, he graduated from Shanghai Donghua University (上海東華大學) (China Textile University) (中國紡織大學) with a master degree in engineering and served as a senior engineer. Mr. Chang joined the Group in 2000 and is responsible for the managerial affairs of production facilities of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Mr. He Qing (何慶), aged 44, joined the Group in July 1994. He is the Chief Engineer of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司) and is responsible for the production handicraft, quality control of the Group's medicine, and the research and development of new drugs. Mr. He was graduated from Tongji Medical University (同濟醫科大學) in 1994 with chief pharmacist technical position and is a qualified Chinese pharmacist.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Dai Li Gui (戴禮貴), aged 36, is the Marketing Executive of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司) and is responsible for the marketing of anti-tumor drugs in the PRC. Mr. Dai graduated from the department of medicine of Guiyang Medical College (貴陽醫學院) in 1992 with a bachelor degree in medicine. He attended part-time Master degree courses in Oncology at the Western China University of Medical Science (華西醫科大學) in 2002. Prior to joining the Group in 2000, Mr. Dai served in the Pulmonary Hospital of Guiyang City (貴陽市肺科醫院) as a clinical doctor for 8 years.

Mr. Chang Jin Yi (張勁翼), aged 43, is the Chairman of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Mr. Chang graduated from the Northwestern Polytechnical University and obtained a bachelor degree in engineering in 1984. He is a senior engineer. He joined the Group in 2004 and is responsible for the overall operation of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司).

Ms. Jiang Xiao Wen (蔣曉文), aged 46, is the General Manager of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Ms. Jiang graduated from Heilongjiang Business Institute (黑龍江商學院) in 1982 and is a Certified Pharmacist. She joined the Group in 2004 and acted as the general manager of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司) (formerly known as 貴陽中藥廠) and was responsible for the operation of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司).

Mr. Yang Cheng Quan (楊成全), aged 41, is the Chairman of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司). Mr. Yang graduated from Broadcasting and Television University of Sichuan (四川廣播電視大學) in 1990 and from the MBA postgraduate courses of Beihang University (北京航空航天大學) in 2003. He joined the Group in 1994 and is responsible for the overall operation of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司).

Ms. Wu Li (吳莉), aged 57, is the General Manager of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司) 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 has served as the general manager of Chengdu Hechuang Pharmacy Company Limited (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.

Mr. Gao Fei (高飛), aged 34, is the Chairman of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司). 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 the overall operation of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) and 廣州美即化妝品有限公司. Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) has shareholdings in 廣州美即化妝品有限公司.

Mr. She Yu Yuan (佘雨原), aged 34, is the General Manager of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司). Mr. She graduated from South China University of Technology in 1994. He joined the Group in 2004 and is responsible for the operation of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) and 廣州美即化妝品有限公司. Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) has shareholdings in 廣州美即化妝品有限公司.

REPORT OF THE DIRECTORS

The directors of the Company (“**Directors**”) present their report and the audited financial statements of the Company and the group (“**Group**”) comprising the Company and its subsidiaries for the year ended 30 June 2005 (“**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 16 to the financial statements. The principal activities of the Group 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 30 June 2005 are set out in the financial statements on pages 37 to 92 of the annual report.

The Directors recommend the payment of a final dividend of HK2 cents per ordinary share of the Company (“**Share**”) in respect of the Year, to the shareholders whose names appear on the register of members of the Company on 23 November 2005. The proposed dividend will be paid on or about 28 February 2006 if the recommendation is approved by the shareholders at the forthcoming annual general meeting (“**Annual General Meeting**”) of the Company to be held on 23 November 2005. 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, on page 92 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 13 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 32b to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2005, 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\$359,264,000, of which HK\$17,415,000 has been proposed as a final dividend for the Year. The amount of HK\$340,479,000 (*note 32b*) 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, 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

Non-executive Directors:

Mr. Wee Ee Lim (*Mr. Tarn Sien Hao as his alternate*) (appointed on 10 June 2005)
Mr. Han Ah Kuan (*Mr. Ong Sian Hin as his alternate*) (appointed on 10 June 2005)

Independent non-executive Directors:

Professor Kung Hsiang Fu
Professor Tso Wung Wai
Mr. Hon Yiu Ming, Matthew (appointed on 27 September 2004)

In accordance with the existing article 108(A) of the Company's articles of association, Mr. Long Xian Feng 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 the existing 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 each of Mr. Wee Ee Lim and Mr. Han Ah Kuan, who was appointed as a non-executive Director on 10 June 2005, will end at the Annual General Meeting. Each of Mr. Wee Ee Lim and Mr. Han Ah Kuan, being eligible for re-election, will offer himself for re-election at the Annual General Meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of his independence from the Group. The Company considers that each of such Directors to be independent from the Group based on the guidelines set out in Rule 3.13 of the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 21 of the annual report.

REPORT OF THE DIRECTORS

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.

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 2005, 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 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 Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name of Directors | The Company/ name of associated corporation | Capacity | Number and class of Securities/percentage in equity interest (Note 1) | Approximate percentage of interest |
|--------------------------|--|---------------------------------------|--|---|
| Zhang Peter Y. | The Company | Interest of controlled corporation | 308,758,783 Shares (L) (Note 2a) | 35.46% |
| | The Company | Beneficial owner | 600,000 Shares (L) (Note 2b) | 0.07% |
| Xu Peng | The Company | Beneficial owner | 600,000 Shares (L) (Note 2b) | 0.07% |

REPORT OF THE DIRECTORS

| Name of Directors | The Company/ name of associated corporation | Capacity | Number and class of Securities/percentage in equity interest (Note 1) | Approximate percentage of interest |
|-------------------|---|---------------------------------------|--|--|
| Deng Jie | Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("GHXM") | Interest of controlled corporation | 5% (L) (Note 3) | 5% |

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares or, as the case may be, the equity interest of the Company or its associated corporations.
2.
 - a. These 308,758,783 Shares were held by Bull's-Eye Limited ("BEL"), more than one-third of the issued share capital of which is beneficially by Zhang Peter Y. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Zhang Peter Y. is deemed to be interested in all the Shares held by BEL.
 - b. These Shares were 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 share option scheme of the Company ("Scheme"). These options, all of which remained exercisable as at 31 December 2004, are exercisable at the subscription price of HK\$0.64 per Share at any time during a period of two years commencing from and including 1 September 2004 to 31 August 2006.
3. 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.

Save as disclosed above, as at 30 June 2005, none of the Directors and the chief executive of the Company had any interest and short positions in the shares, 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 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 Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the options granted to the Directors under the Scheme and outstanding as at 30 June 2005 were as follows:

| Name of Director | Date of grant | Outstanding as at 1 July 2004 | Number of underlying Shares | | | Outstanding as at 30 June 2005 | Exercise price per share (HK\$) | Exercise period |
|------------------|---------------|-------------------------------|-----------------------------|---------------------------|------------------------|--------------------------------|---------------------------------|--------------------------|
| | | | Granted during the Year | Exercised during the Year | Lapsed during the Year | | | |
| Zhang Peter Y. | 1/09/2004 | - | 600,000 | - | - | 600,000 | 0.64 | 01/09/2004 to 31/08/2006 |
| | 16/05/2003 | 500,000 | - | - | 500,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| Xu Peng | 1/09/2004 | - | 600,000 | - | - | 600,000 | 0.64 | 01/09/2004 to 31/08/2006 |
| | 16/05/2003 | 500,000 | - | - | 500,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| Deng Jie | 1/09/2004 | - | 6,000,000 | 6,000,000 | - | - | 0.64 | 01/09/2004 to 31/08/2006 |
| | 16/05/2003 | 5,000,000 | - | - | 5,000,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| Long Xian Feng | 1/09/2004 | - | 6,000,000 | 6,000,000 | - | - | 0.64 | 01/09/2004 to 31/08/2006 |
| | 16/05/2003 | 5,000,000 | - | - | 5,000,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| Wu Xian Peng | 1/09/2004 | - | 6,000,000 | 6,000,000 | - | - | 0.64 | 01/09/2004 to 31/08/2006 |
| | 16/05/2003 | 5,000,000 | - | - | 5,000,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| Wee Ee Lim | - | - | - | - | - | - | - | - |
| Han Ah Kuan | - | - | - | - | - | - | - | - |

REPORT OF THE DIRECTORS

| Name of Director | Date of grant | Number of underlying Shares | | | | Outstanding as at 30 June 2005 | Exercise price per share (HK\$) | Exercise period |
|-------------------------|---------------|-------------------------------|-------------------------|---------------------------|------------------------|--------------------------------|---------------------------------|--------------------------|
| | | Outstanding as at 1 July 2004 | Granted during the Year | Exercised during the Year | Lapsed during the Year | | | |
| Kung Hsiang Fu | 1/09/2004 | - | 500,000 | 500,000 | - | - | 0.64 | 01/09/2004 to 31/08/2006 |
| | 16/05/2003 | 250,000 | - | - | 250,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| Tso Wung Wai | 1/09/2004 | - | 500,000 | 500,000 | - | - | 0.64 | 01/09/2004 to 31/08/2006 |
| Hon Yiu Ming Matthew | - | - | - | - | - | - | - | - |
| | | <u>16,250,000</u> | <u>20,200,000</u> | <u>19,000,000</u> | <u>16,250,000</u> | <u>1,200,000</u> | | |

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 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 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 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;

REPORT OF THE DIRECTORS

- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (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 Scheme and any other share option scheme of the Group is 66,616,200, representing 10% of the issued share capital of the Company as at 29 November 2004, being the date of the 2004 annual general meeting of the Company at which an ordinary resolution was passed by the shareholders approving the renewal of the 10% mandate under the Scheme.

The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder or an independent non-executive director of the Company as explained below) 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 Scheme.

The subscription price for shares under the 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;
- (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

REPORT OF THE DIRECTORS

(iii) the nominal value of the shares of the Company.

Options to subscribe for an aggregate of 65,600,000 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 Scheme during the Year was as follows:

| Class of grantee | Date of grant | Outstanding as at 1 July 2004 | Number of underlying Shares | | | Outstanding as at 30 June 2005 | Exercise price per share (HK\$) (Note 4) | Exercise period |
|--------------------------|-----------------------|-------------------------------|-----------------------------|-------------------|-------------------|--------------------------------|---|--------------------------|
| | | | Granted during the Year | Exercised | Lapsed | | | |
| Directors (Note 1) | 16/05/2003 | 16,250,000 | - | - | 16,250,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| | 1/09/2004 (Note 3) | - | 20,200,000 | 19,000,000 | - | 1,200,000 | 0.64 | 01/09/2004 to 31/08/2006 |
| Other employees (Note 2) | 16/05/2003 | 25,100,000 | - | - | 25,100,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| | 1/09/2004 (Note 3) | - | 30,900,000 | 25,500,000 | - | 5,400,000 | 0.64 | 01/09/2004 to 31/08/2006 |
| Advisers to the Group | 16/05/2003 | 13,500,000 | - | - | 13,500,000 | - | 1.19 | 16/05/2003 to 15/05/2005 |
| | 1/09/2004 (Note 3) | - | 14,500,000 | 7,500,000 | - | 7,000,000 | 0.64 | 01/09/2004 to 31/08/2006 |
| | | <u>54,850,000</u> | <u>65,600,000</u> | <u>52,000,000</u> | <u>54,850,000</u> | <u>13,600,000</u> | | |

Notes:

1. Details of options granted to each of the Directors are set out in the paragraph headed "Directors' rights to acquire shares or debentures" in this report above.
2. 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 (Chapter 57 of the Laws of Hong Kong).
3. The closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on 31 August 2004, being the trading day immediately preceding the date of grant of the options on 1 September 2004, was HK\$0.62 per Share.

REPORT OF THE DIRECTORS

4. The weighted average closing price of the Shares immediately before the dates on which options were exercised during the Year is HK\$0.86.
5. None of the options granted under the Scheme have been cancelled during the Year.

During the Year, options to subscribe for an aggregate of 54,850,000 Shares lapsed, and no option was cancelled.

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 Scheme in accordance with the rules governing the Share Option Scheme, the Scheme will expire on 25 November 2012.

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

As at 30 June 2005, 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 |
|---|------------------------------|--|--|
| BEL (Note 2) | 308,758,783 (L) | Beneficial owner | 35.46% |
| Liu Yu (Note 3) | 309,358,783 (L) | Interest of spouse | 35.53% |
| Haw Par Corporation Limited (Note 4) | 183,532,400 (L) | Interest of controlled corporation | 21.08% |
| Haw Par Pharmaceutical Holdings Pte. Ltd. (Note 4) | 183,532,400 (L) | Beneficial owner | 21.08% |
| Daiwa SB Investments (HK) Limited | 48,500,000 (L) | Investment manager | 5.57% |
| Value Partners Limited | 46,100,000 (L) | Investment manager | 5.29% |
| Neon Liberty Capital Management, LLC | 44,180,000 (L) | Investment manager | 5.07% |
| UBS AG | 44,180,000 (L) | Person having a security interest in shares | 5.07% |

REPORT OF THE DIRECTORS

Notes:

1. The letter “L” represents the person’s or the entity’s interests in Shares.
2. More than one-third of the issued share capital of BEL is beneficially owned by Zhang Peter Y. By virtue of the provisions of Divisions 2 and 3 of part XV of the SF Ordinance, Zhang Peter Y., an executive Director, is deemed to be interested in all the Shares held by BEL.
3. 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 Divisions 2 and 3 of part XV of the SF Ordinance.
4. Haw Par Pharmaceutical Holdings Pte. Ltd. is a wholly owned subsidiary of Haw Par Corporation Limited, a company incorporated in Singapore whose shares are listed on the Singapore Exchange Securities Trading Limited. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Haw Par Corporation Limited is deemed to be interested in all Shares in which Haw Par Pharmaceutical Holdings Pte. Ltd is interested.

Save as disclosed above, as at 30 June 2005, 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:

On 16 September 2004, a loan agreement was entered into between the Company and certain financial institutions in Hong Kong (“**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.

REPORT OF THE DIRECTORS

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.

SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 4 June 2005 the Company entered into a subscription agreement (“**Subscription Agreement**”) with Haw Par Pharmaceutical Holdings Pte. Ltd. (“**Haw Par**”), whereby Haw Par has conditionally agreed to subscribe for 133,232,400 new Shares (“**Subscription Shares**”), having an aggregate nominal value of HK\$13,323,240 and representing approximately 18.67% of the issued share capital of the Company as at the date of the Subscription Agreement and approximately 15.30% of the issued share capital of the Company as at 10 June 2005, being the completion date of the Subscription Agreement, as enlarged by the allotment and issue of the Subscription Shares, at HK\$0.86 per Subscription Share (“**Subscription**”). On 10 June 2005, completion of the Subscription Agreement took place and the Subscription Shares were allotted and issued to Haw Par under the general mandate granted to the Board at the Annual General Meeting of the Company held on 29 November 2004

Haw Par, which is a company incorporated in Singapore, is a wholly-owned subsidiary of Haw Par Corporation Limited whose shares are listed on the Singapore Stock Exchange.

The subscription price per Subscription Share represents (i) a discount of 3.59% to HK\$0.89, being the average closing price per Share for the five consecutive trading days prior to the date of the Subscription Agreement (being from 30 May 2005 to 3 June 2005) as quoted on the Stock Exchange and (ii) a discount of 5.49% to HK\$0.91, being the closing price per Share on 3 June 2005, being the last trading day immediately before the date of the Subscription Agreement, as quoted on the Stock Exchange, given that the date of the Subscription Agreement was a non-trading day.

The net proceeds of the Subscription amounts to approximately HK\$108.9 million in cash, and the net price per Subscription Share is HK\$0.82. As at the date of this report, less than 10% of the net proceeds has been utilised by the Group as general working capital of the Group. The remaining net proceeds is deposited in interest-bearing accounts with licensed banks.

The Directors believe that, as a result of the Subscription, the Group has formed a strategic alliance with Haw Par Corporation Limited, of which Haw Par is a wholly-owned subsidiary. Since Haw Par Corporation Limited is a renowned and long-established multi-national pharmaceutical enterprise, such alliance is conducive to faster and better growth and development of the Group’s business. Incidentally, the Subscription has enlarged the shareholders’ and capital base of the Company and provided resources for the development of the business of the Group.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the Year.

CORPORATE GOVERNANCE

The Group has complied throughout the Year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the List of Securities on The Stock Exchange of Hong Kong Limited in force immediately before 1 January 2005, except that the independent non-executive Directors are not appointed for a fixed term.

COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

On 20 September 2002 the Company adopted its securities dealing code (“**Substituted Code**”) regarding the dealings of the Directors and members of the senior management of the Group in securities of the Company on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules then in force.

The Company adopted on 27 September 2004 its new securities dealing code (“**New Code**”) on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers set out in the revised Appendix 10 to the Listing Rules which came into effect on 31 March 2004.

The Company, having made specific enquiry with all Directors, is not aware of any non-compliance by any Director during the Year with the New Code or, as the case may be, the Substituted Code and Appendix 10 to the Listing Rules then in force.

AUDIT COMMITTEE

The Board established the audit committee (“**Committee**”) on 20 September 2002 and re-constituted the Committee on 27 September 2004 and 5 September 2005, 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 Mr. Han Ah Kuan, a non-executive Director, and 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.

REPORT OF THE DIRECTORS

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
28 October 2005

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 37 to 92 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 2005 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

Hong Kong

28 October 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2005

| | <i>Notes</i> | 2005 HK\$'000 | 2004 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| TURNOVER | 5 | 601,921 | 507,064 |
| Cost of sales | | <u>(376,585)</u> | <u>(344,750)</u> |
| Gross profit | | 225,336 | 162,314 |
| Other revenue and gain | 5 | 7,967 | 7,669 |
| Selling and distribution costs | | (47,980) | (22,879) |
| Administrative expenses | | <u>(50,005)</u> | <u>(26,923)</u> |
| PROFIT FROM OPERATING ACTIVITIES | 6 | 135,318 | 120,181 |
| Finance costs | 7 | (7,947) | (5,692) |
| Share of losses of: | | | |
| Jointly-controlled entity | | – | – |
| Associate | 18 | (368) | (32) |
| Amortisation of goodwill on acquisition of an associate | 18 | (100) | (100) |
| Impairment of goodwill on acquisition of an associate | 18 | <u>(300)</u> | <u>–</u> |
| PROFIT BEFORE TAX | | 126,603 | 114,357 |
| Tax | 9 | <u>(23,404)</u> | <u>(18,126)</u> |
| PROFIT BEFORE MINORITY INTERESTS | | 103,199 | 96,231 |
| Minority interests | | <u>(1,126)</u> | <u>(1,214)</u> |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 10 | <u>102,073</u> | <u>95,017</u> |
| DIVIDEND | | | |
| Proposed final | 11 | <u>17,415</u> | <u>13,167</u> |
| EARNINGS PER SHARE | 12 | | |
| – Basic | | <u>HK14.8 cents</u> | <u>HK15.0 cents</u> |
| – Diluted | | <u>HK14.1 cents</u> | <u>HK14.5 cents</u> |

CONSOLIDATED BALANCE SHEET

30 June 2005

| | <i>Notes</i> | 2005 HK\$'000 | 2004 HK\$'000 |
|---|--------------|--------------------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | <i>13</i> | 231,962 | 125,074 |
| Intangible assets | <i>14</i> | 13,406 | 12,074 |
| Goodwill: | | | |
| Goodwill | <i>15</i> | 18,865 | 3,673 |
| Negative goodwill | <i>15</i> | (35,897) | (36,947) |
| Investment in a jointly-controlled entity | <i>17</i> | – | – |
| Investment in an associate | <i>18</i> | 100 | 868 |
| Long term investment | <i>19</i> | 11,969 | – |
| Long term deposits | <i>20</i> | 7,483 | 3,745 |
| Pledged deposit | <i>24</i> | – | 20,049 |
| | | <hr/> 247,888 | <hr/> 128,536 |
| CURRENT ASSETS | | | |
| Inventories | <i>21</i> | 21,580 | 49,460 |
| Accounts receivable | <i>22</i> | 241,470 | 197,607 |
| Prepayments, deposits and other receivables | <i>23</i> | 44,852 | 77,163 |
| Cash and cash equivalents | <i>24</i> | 474,000 | 271,365 |
| | | <hr/> 781,902 | <hr/> 595,595 |
| CURRENT LIABILITIES | | | |
| Accounts payable | <i>25</i> | 57,344 | 81,219 |
| Tax payable | | 8,933 | 9,080 |
| Accrued liabilities and other payables | | 45,621 | 17,799 |
| Bank loans | <i>26</i> | 117,887 | 85,074 |
| Finance lease payables | <i>27</i> | – | 40 |
| | | <hr/> 229,785 | <hr/> 193,212 |
| NET CURRENT ASSETS | | <hr/> 552,117 | <hr/> 402,383 |

CONSOLIDATED BALANCE SHEET (continued)

30 June 2005

| | <i>Notes</i> | 2005 HK\$'000 | 2004 <i>HK\$'000</i> |
|---------------------------------------|--------------|--------------------------------|-------------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 800,005 | 530,919 |
| NON-CURRENT LIABILITIES | | | |
| Bank loans | 26 | 79,159 | 57,899 |
| Convertible bonds | 28 | 390 | 19,495 |
| Deferred tax liabilities | 29 | 18,450 | 1,175 |
| | | 97,999 | 78,569 |
| MINORITY INTERESTS | | 31,339 | 35,824 |
| | | 670,667 | 416,526 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 30 | 87,073 | 65,630 |
| Reserves | 32(a) | 566,179 | 337,729 |
| Proposed final dividend | 11 | 17,415 | 13,167 |
| | | 670,667 | 416,526 |

Zhang Peter Y.
Director

Deng Jie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2005

| | 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 2003 | 56,800 | 20,765 | 2,267 | 12,617 | 151,513 | 187,162 | 12,411 | 256,373 | |
| Final 2003 dividend declared | - | - | - | - | - | - | (12,411) | (12,411) | |
| Issue of shares upon exercise of share options (<i>note 30(a)</i>) | 4,975 | 34,067 | - | - | - | 34,067 | - | 39,042 | |
| Issue of shares upon conversion of convertible bonds (<i>note 30(b)</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 11</i>) | - | - | - | - | (13,167) | (13,167) | 13,167 | - | |
| At 30 June and 1 July 2004 | 65,630 | 89,482 | 2,267 | 20,117 | 225,863 | 337,729 | 13,167 | 416,526 | |
| Final 2004 dividend declared (<i>note 11</i>) | - | - | - | - | - | - | (13,167) | (13,167) | |
| Surplus on revaluation (<i>note 13</i>) | - | - | 5,881 | - | - | 5,881 | - | 5,881 | |
| Effect of deferred tax | - | - | (1,854) | - | - | (1,854) | - | (1,854) | |
| Revaluation surplus attributable to minority interest | - | - | (320) | - | - | (320) | - | (320) | |
| Net gains and losses not recognised in the profit and loss account | - | - | 3,707 | - | - | 3,707 | - | 3,707 | |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 30 June 2005

| | 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> | | | |
| Issue of shares upon exercise of convertible bonds (<i>note 30(c)</i>) | 2,920 | 16,185 | – | – | – | 16,185 | – | 19,105 |
| Issue of shares upon exercise of share options (<i>note 30(d)</i>) | 5,200 | 28,031 | – | – | – | 28,031 | – | 33,231 |
| Issue of shares upon allotment (<i>note 30(e)</i>) | 13,323 | 101,257 | – | – | – | 101,257 | – | 114,580 |
| Share issue expenses (<i>note 30(e)</i>) | – | (5,388) | – | – | – | (5,388) | – | (5,388) |
| Net profit for the year | – | – | – | – | 102,073 | 102,073 | – | 102,073 |
| Transfer to statutory reserve fund (<i>note 32(a)</i>) | – | – | – | 15,099 | (15,099) | – | – | – |
| Proposed final dividend (<i>note 11</i>) | – | – | – | – | (17,415) | (17,415) | 17,415 | – |
| At 30 June 2005 | <u>87,073</u> | <u>229,567</u> | <u>5,974</u> | <u>35,216</u> | <u>295,422</u> | <u>566,179</u> | <u>17,415</u> | <u>670,667</u> |
| Reserves retained by: | | | | | | | | |
| Company and subsidiaries | 87,073 | 229,567 | 5,974 | 35,216 | 296,362 | 567,119 | 17,415 | 671,607 |
| Jointly-controlled entity | – | – | – | – | (140) | (140) | – | (140) |
| Associate | – | – | – | – | (800) | (800) | – | (800) |
| At 30 June 2005 | <u>87,073</u> | <u>229,567</u> | <u>5,974</u> | <u>35,216</u> | <u>295,422</u> | <u>566,179</u> | <u>17,415</u> | <u>670,667</u> |
| 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) |
| At 30 June 2004 | <u>65,630</u> | <u>89,482</u> | <u>2,267</u> | <u>20,117</u> | <u>225,863</u> | <u>337,729</u> | <u>13,167</u> | <u>416,526</u> |

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2005

| | <i>Notes</i> | 2005 HK\$'000 | 2004 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 126,603 | 114,357 |
| Adjustments for: | | | |
| Depreciation | 6 | 10,648 | 6,886 |
| Provision for doubtful debts | 6 | – | 106 |
| Amortisation of intangible assets | 6 | 1,939 | 1,507 |
| Goodwill amortisation | 6 | 2,385 | 566 |
| Negative goodwill recognised as income | 6 | (1,050) | (1,050) |
| Loss on write-off/disposal of fixed assets | 6 | 49 | 430 |
| Provision for impairment of goodwill on acquisition of an associate | | 300 | – |
| Provision against inventories | | 117 | – |
| Interest income | 5 | (5,279) | (3,765) |
| Finance costs | 7 | 7,947 | 5,692 |
| Share of loss of an associate | | 368 | 32 |
| Amortisation of goodwill on acquisition of an associate | 18 | 100 | 100 |
| Gain on divestment of a subsidiary | 5 | (407) | – |
| Operating profit before working capital changes | | 143,720 | 124,861 |
| Decrease/(increase) in inventories | | 1,427 | (9,461) |
| Increase in accounts receivable | | (48,786) | (82,753) |
| Decrease/(increase) in prepayments, deposits and other receivables | | (11,711) | 27,650 |
| Increase in accounts payable | | 17,599 | 21,963 |
| Increase in accrued liabilities and other payables | | 16,812 | 4,471 |
| Cash generated from operations | | 119,061 | 86,731 |
| Interest received | | 5,279 | 3,765 |
| Interest paid | | (7,946) | (5,681) |
| Interest element on finance lease rental payments | | (1) | (11) |
| Taxes paid | | (24,622) | (14,767) |
| Net cash inflow from operating activities | | 91,771 | 70,037 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | 13 | (37,125) | (28,684) |
| Proceeds from disposal of fixed assets | | 91 | – |
| Acquisition of intangible assets | 14 | (3,271) | (13) |
| Acquisition of subsidiaries | 33(a) | (34,751) | 14,095 |
| Divestment of a subsidiary | 33(b) | (13,680) | – |
| Acquisition of interest in an associate | | – | (1,000) |
| Decrease/(increase) in long term deposits | | (3,738) | 2,287 |
| Increase in deposits for potential investments | 23 | – | (14,210) |
| Decrease/(increase) in pledged time deposit | | 20,049 | (20,049) |
| Net cash outflow from investing activities | | (72,425) | (47,574) |

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 30 June 2005

| | <i>Notes</i> | 2005 HK\$'000 | 2004 HK\$'000 |
|--|-------------------|--------------------------------|------------------|
| Net cash outflow from investing activities | | (72,425) | (47,574) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | <i>30(d), (e)</i> | 147,811 | 39,042 |
| Share issue expenses | | (5,388) | (4,361) |
| New bank loans | | 139,147 | 77,550 |
| Repayment of bank and other loans | | (85,074) | (18,064) |
| Proceeds from issue of convertible bonds | <i>28</i> | – | 62,361 |
| Capital element of finance lease rental payments | | (40) | (234) |
| Dividends paid | | (13,167) | (12,411) |
| Net cash inflow from financing activities | | 183,289 | 143,883 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 202,635 | 166,346 |
| Cash and cash equivalents at beginning of year | | 271,365 | 105,019 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 474,000 | 271,365 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | <i>24</i> | 474,000 | 271,365 |

BALANCE SHEET

30 June 2005

| | <i>Notes</i> | 2005 HK\$'000 | 2004 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | <i>16</i> | 133,700 | 133,700 |
| Pledged deposit | <i>24</i> | – | 20,049 |
| | | <u>133,700</u> | <u>153,749</u> |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | <i>24</i> | 1,168 | 44,806 |
| Due from subsidiaries | <i>16</i> | 417,933 | 102,068 |
| | | <u>419,101</u> | <u>146,874</u> |
| CURRENT LIABILITIES | | | |
| Accrued liabilities and other payables | | 6,074 | 791 |
| Bank loans | <i>26</i> | 28,500 | – |
| | | <u>34,574</u> | <u>791</u> |
| NET CURRENT ASSETS | | <u>384,527</u> | <u>146,083</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 518,227 | 299,832 |
| NON-CURRENT LIABILITIES | | | |
| Bank loans | <i>26</i> | 71,500 | – |
| Convertible bonds | <i>28</i> | 390 | 19,495 |
| | | <u>71,890</u> | <u>19,495</u> |
| | | <u>446,337</u> | <u>280,337</u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | <i>30</i> | 87,073 | 65,630 |
| Reserves | <i>32(b)</i> | 341,849 | 201,540 |
| Proposed final dividend | <i>11</i> | 17,415 | 13,167 |
| | | <u>446,337</u> | <u>280,337</u> |

Zhang Peter Y.
Director

Deng Jie
Director

NOTES TO FINANCIAL STATEMENTS

30 June 2005

1. CORPORATE INFORMATION

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

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

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice (“**SSAPs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2005. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

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

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

Joint venture companies

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

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

A joint venture company is treated as:

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

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

Associates

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of a period up to a maximum of 20 years. In the case of an associate, any unamortised goodwill is included in the carrying amount thereof, rather than as a separate identified asset on the consolidated balance sheet.

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

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

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

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

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

Related parties

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

Impairment of assets

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

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

Fixed assets and depreciation

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Technical know-how

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

Research and development costs

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

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

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

Leased assets

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Long term investments

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

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

Revenue recognition

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Retirement benefits schemes

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

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

Share option scheme

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

Provisions

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

Foreign currencies

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

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

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

Cash and cash equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

4. SEGMENT INFORMATION

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

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

- (a) the manufacturing segment engages in the manufacture and sale of Chinese and western pharmaceutical products, naturally-sourced anti-tumour medicine and medicinal healthcare products for women in Mainland China; and
- (b) the trading segment engages in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment.

NOTES TO FINANCIAL STATEMENTS

30 June 2005

4. SEGMENT INFORMATION (continued)

Business segments

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

Group

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

5. TURNOVER, REVENUE AND GAIN

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

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

6. PROFIT FROM OPERATING ACTIVITIES

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

6. PROFIT FROM OPERATING ACTIVITIES (continued)

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

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

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

Directors' remuneration (continued)

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

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

(a) Independent non-executive directors

| | 2005 HK\$'000 | 2004 HK\$'000 |
|-----------------------|------------------|------------------|
| Hon Yiu Ming, Matthew | 100 | – |
| Kung Hsiang-Fu | 100 | 100 |
| Tsoi Wung-Wai | 100 | 100 |
| | <u>300</u> | <u>200</u> |

(b) Executive directors

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

| | 2005 HK\$'000 | 2004 HK\$'000 |
|----------------|------------------|------------------|
| Zhang Peter Y. | 720 | 144 |
| Xu Peng | 720 | 144 |
| Deng Jie | 600 | 120 |
| Long Xian Feng | 600 | 96 |
| Wu Xian Peng | 600 | 96 |
| | <u>3,240</u> | <u>600</u> |

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

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

Five highest paid employees

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

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

During the year, no emoluments were paid by the Group to the directors, or the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2004: Nil).

9. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to an approval received from 貴州省科學技術廳 on 25 December 2000, Guizhou Hanfang Medicine Manufacture Co., Ltd. ("GHMM"), a subsidiary of the Company, was classified as one of the approved "High and New Technology Enterprises" in Mainland China. Accordingly, GHMM is entitled to a preferential Mainland Corporate Income Tax rate of 15% starting from 1 January 2002. In addition, pursuant to an approval received from the local tax bureau during 2003, 貴陽德昌祥藥業有限公司 ("DCX"), a subsidiary of the Company, was approved to enjoy a Mainland Corporate Income Tax rate of 15% from years 2003 to 2007 with respect to the preferential tax policy granted by the local government for the entity established in western Mainland China.

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

9. TAX (continued)

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

Group – 2005

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

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 years | – | 64 | 64 |
| Estimated tax losses not recognised | <u>–</u> | <u>116</u> | <u>116</u> |
| Tax charge at the Group's effective rate | <u>–</u> | <u>(18,126)</u> | <u>(18,126)</u> |

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

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

11. DIVIDENDS

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Proposed final – HK2 cents (2004: HK2 cents per ordinary share) | <u>17,415</u> | <u>13,167</u> |

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

12. EARNINGS PER SHARE

The calculation of basic earnings per share, on a consolidated basis, is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$102,073,000 (2004: HK\$95,017,000) and the weighted average of 691,346,066 (2004: 631,962,798) ordinary shares in issue during the year.

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

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

12. EARNINGS PER SHARE (continued)

Shares

| | Number of shares | |
|--|---------------------------|---------------------------|
| | 2005 | 2004 |
| Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation | 691,346,066 | 631,962,798 |
| Weighted average number of ordinary shares: | | |
| Assumed issued at no consideration on deemed exercise of all pre-initial public offering ("IPO") share options outstanding during the year (<i>note 31(a)</i>) | – | 5,840,274 |
| Assumed issued at no consideration on deemed exercise of all post-IPO share options outstanding during the year (<i>note 31(b)</i>) | 24,427,565 | 7,247,036 |
| Assumed issued at no consideration on deemed exercise of all the subscription rights attached to convertible bonds outstanding during the year (<i>note 31(c)</i>) | – | 218,510 |
| Assumed issued on deemed exercise of all convertible bonds outstanding during the year (<i>note 28</i>) | 5,944,393 | 15,631,019* |
| Weighted average number of ordinary shares used in diluted earnings per share calculation | <u>721,718,024</u> | <u>660,899,637</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 determined by the bondholder. The weighted average number of ordinary shares in respect of the deemed exercise of all convertible bonds was assumed to be converted at HK\$1.4879 per ordinary share.

NOTES TO FINANCIAL STATEMENTS

30 June 2005

13. FIXED ASSETS

Group

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

13. FIXED ASSETS (continued)

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

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

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

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

At 30 June 2005, the Group's land and buildings, and plant and machinery with carrying values of approximately HK\$78,314,000 (2004: HK\$81,534,000) and HK\$6,579,000 (2004: HK\$23,968,000), respectively, were pledged to secure certain banking facilities granted to the Group (*note 26*).

The net book value of a motor vehicle held under a finance lease included in the total amount of fixed assets at 30 June 2005 amounted to HK\$Nil (2004: HK\$287,000).

NOTES TO FINANCIAL STATEMENTS

30 June 2005

14. INTANGIBLE ASSETS

Group

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

15. GOODWILL AND NEGATIVE GOODWILL

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

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

16. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost | 133,700 | 133,700 |
| Due from subsidiaries | 417,933 | 102,068 |
| | <hr/> | <hr/> |
| | <u>551,633</u> | <u>235,768</u> |
| | <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 2005

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

16. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

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

Notes:

1. Pursuant to an agreement entered into between the Group and the minority equity holder of Guizhou Co., the minority equity holder agreed to waive its 10% entitlement of the results of and its voting right in Guizhou Co. in return for an aggregate annual fee of RMB1 commencing from 2003 when Guizhou Co. was acquired by the Group. The minority equity holder also confirmed in the agreement that the paid-up capital of Guizhou Co. attributable to the minority equity holder was contributed by the Group. Accordingly, the minority equity holder did not share of any assets and results of Guizhou Co..
2. Pursuant to an agreement entered into between the Group and the minority equity holder of Chengdu Co., the minority equity holder agreed to waive its 4.76% entitlement of the results of and its voting right in Chengdu Co. in return for an aggregate annual fee of RMB1 commencing from 2003 when Chengdu Co. was acquired by the Group. The minority equity holder also confirmed in the agreement that the paid-up capital of Chengdu Co. attributable to the minority equity holder was contributed by the Group. Accordingly, the minority equity holder did not share any assets and results of Chengdu Co..

NOTES TO FINANCIAL STATEMENTS

30 June 2005

17. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

| | Group | |
|---------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | — | — |

Particulars of the jointly-controlled entity are as follows:

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

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

During the year, the Group did not share any of the losses of GHMR as, according to the JV Agreement, the Group’s share of losses of GHMR is limited to its capital contribution to GHMR (2004: Nil).

18. INVESTMENT IN AN ASSOCIATE

| | Group | |
|-------------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | 100 | 468 |
| Goodwill on acquisition | — | 400 |
| | 100 | 868 |

NOTES TO FINANCIAL STATEMENTS

30 June 2005

18. INVESTMENT IN AN ASSOCIATE (continued)

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

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

Particulars of the associate are as follows:

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

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

19. LONG TERM INVESTMENT

| | Group | |
|--|--------------------------------|--------------------------------|
| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Unlisted equity investments outside Hong Kong, at cost | 11,969 | – |

NOTES TO FINANCIAL STATEMENTS

30 June 2005

19. LONG TERM INVESTMENT (continued)

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

20. LONG TERM DEPOSITS

The long term deposits represent deposits paid in respect of:

| | Group | |
|--------------------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Purchases of fixed assets | 3,749 | – |
| Purchases of technical knowhow | 3,734 | 3,745 |
| | <u>7,483</u> | <u>3,745</u> |

21. INVENTORIES

| | Group | |
|------------------|-----------------|-----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 5,758 | 2,790 |
| Work in progress | 1,027 | – |
| Finished goods | 14,795 | 46,670 |
| | <u>21,580</u> | <u>49,460</u> |

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

22. ACCOUNTS RECEIVABLE

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

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

24. CASH AND BANK BALANCES AND PLEDGED DEPOSIT

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

At 30 June 2005, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$360,853,000 (2004: HK\$226,240,000). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS

30 June 2005

25. ACCOUNTS PAYABLE

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

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

26. BANK AND OTHER LOANS

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

26. BANK AND OTHER LOANS (continued)

At 30 June 2005, the Group's bank loans were supported by the following:

- (a) the pledge of the Group's land and buildings, and plant and machinery of HK\$78,314,000 and HK\$6,579,000 respectively (*note 13*);
- (b) corporate guarantees executed by a subsidiary of the Company;
- (c) the personal guarantees from Zhang Peter Y. and Xu Peng, directors and beneficial shareholders of the Company; and
- (d) the pledge of equity interests in certain subsidiaries held by the Group.

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

27. FINANCE LEASE PAYABLE

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

27. FINANCE LEASE PAYABLE (continued)

At 30 June 2005, the total future minimum lease payments under the finance lease and their present values were as follows:

Group

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|------------------------|----------|---|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Amounts payable: | | | | |
| Within one year | – | 41 | – | 40 |
| In the second year | – | – | – | – |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total minimum finance lease payments | – | 41 | – | 40 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Future finance charges | – | (1) | | |
| | <hr/> | <hr/> | | |
| Total net finance lease payables | – | 40 | | |
| | <hr/> | <hr/> | | |
| Portion classified as current liabilities | – | (40) | | |
| | <hr/> | <hr/> | | |
| Long term portion | – | – | | |
| | <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 2005

28. CONVERTIBLE BONDS (continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

29. DEFERRED TAX

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

2005

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

2004

| | Revaluation of land and buildings <i>HK\$'000</i> |
|---------------------------------|--|
| At 1 July 2003 and 30 June 2004 | <u>1,175</u> |

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

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

30. SHARE CAPITAL

Shares

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

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

- (a) On various dates during the year ended 30 June 2004, a total of 48,000,000 shares and 1,750,000 shares in the Company of HK\$0.10 each were allotted and issued pursuant to the exercise of pre-IPO share options and post-IPO share options at subscription prices of HK\$0.77 per share (*note 31(a)*) and HK\$1.19 per share (*note 31(b)*), respectively, for a total cash consideration, before expenses, of HK\$39,042,000.
- (b) On various dates during the year ended 30 June 2004, convertible bonds in the amount of US\$5,500,000 issued to CSFB were converted into 38,552,000 ordinary shares of HK\$0.10 each in the Company.
- (c) On various dates during the year ended 30 June 2005, convertible bonds with a total principle amount of US\$2,450,000 were converted into 29,200,000 shares of the Company of HK\$0.10 each.
- (d) On various dates during the year ended 30 June 2005, a total of 52,000,000 shares in the Company of HK\$0.10 each were allotted and issued pursuant to the exercise of share option at a subscription price of HK\$0.64 per share (*note 31(b)*) for a total cash consideration of HK\$33,231,000.
- (e) On 4 June 2005, the Company entered into a subscription agreement with Haw Par Pharmaceutical Holdings Pte Limited ("Haw Par"), a company incorporated in Singapore and independent to the Group, to subscribe for 133,232,400 shares of HK\$0.10 each in the Company at HK\$0.86 per share.

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

30. SHARE CAPITAL (continued)

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

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

Share options

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

31. SHARE OPTION SCHEMES

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

(a) Pre-IPO share options scheme

The pre-IPO share options were granted to certain minority shareholders of IFL (the "**Private Investors**") prior to the group reorganisation completed in 2002 (the "**Group Reorganisation**") and the listing of the Company's shares on the Stock Exchange in order to recognise their significant contribution to the Group.

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

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

(b) Post-IPO share option scheme

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

31. SHARE OPTION SCHEMES (continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

31. SHARE OPTION SCHEMES (continued)

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

| Name or category of participants | Number of Post-IPO share options | | | | | Date of grant of post-IPO share options | Exercise period of post-IPO share options | Exercise price of share options* HK\$ | Price of the Company's share at the date of grant of options** HK\$ | Price of the Company's share at the date of exercise of options** HK\$ |
|--|----------------------------------|-------------------------|---------------------------|------------------------|-------------------|---|---|--|--|---|
| | At 1 July 2004 | Granted during the year | Exercised during the year | Lapsed during the year | At 30 June 2005 | | | | | |
| Mr. Long Xian Feng | 5,000,000 | 6,000,000 | (6,000,000) | (5,000,000) | - | 1 September 2004 | 1 September 2004 to 31 August 2006 | 0.64 | 0.64 | 1.00 |
| Mr. Wu Xian Peng | 5,000,000 | 6,000,000 | (6,000,000) | (5,000,000) | - | 1 September 2004 | 1 September 2004 to 31 August 2006 | 0.64 | 0.64 | 1.00 |
| <i>Independent non-executive</i> Professor Kung Hsiang-Fu | 250,000 | 500,000 | (500,000) | (250,000) | - | 1 September 2004 | 1 September 2004 to 31 August 2006 | 0.64 | 0.64 | 0.96 |
| Professor Tso Wung Wai | - | 500,000 | (500,000) | - | - | 1 September 2004 | 1 September 2004 to 31 August 2006 | 0.64 | 0.64 | 0.71 |
| | <u>16,250,000</u> | <u>20,200,000</u> | <u>(19,000,000)</u> | <u>(16,250,000)</u> | <u>1,200,000</u> | | | | | |
| Other employees *** | | | | | | | | | | |
| In aggregate | 25,100,000 | 30,900,000 | (25,500,000) | (25,100,000) | 5,400,000 | 1 September 2004 | 1 September 2004 to 31 August 2006 | 0.64 | 0.64 | 0.79 |
| Others | | | | | | | | | | |
| In aggregate | 13,500,000 | 14,500,000 | (7,500,000) | (13,500,000) | 7,000,000 | 1 September 2004 | 1 September 2004 to 31 August 2006 | 0.64 | 0.64 | 0.98 |
| | <u>54,850,000</u> | <u>65,600,000</u> | <u>(52,000,000)</u> | <u>(54,850,000)</u> | <u>13,600,000</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 at the date of the grant of the post-IPO share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

31. SHARE OPTION SCHEMES (continued)

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

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

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

(c) Subscription rights attaching to the convertible bonds

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

32. RESERVES

(a) **Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 40 and 41 of the financial statements.

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

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 | | |
| At 1 July 2003 | | 131,677 | 338 | 132,015 | 12,411 | 144,426 |
| Final 2003 dividend declared | | – | – | – | (12,411) | (12,411) |
| Issue of shares upon exercise of share options | 30(a) | 34,067 | – | 34,067 | – | 34,067 |
| Issue of shares upon conversion of convertible bonds | 30(b) | 39,011 | – | 39,011 | – | 39,011 |
| Share issue expenses | | (4,361) | – | (4,361) | – | (4,361) |
| Net profit for the year | | – | 13,975 | 13,975 | – | 13,975 |
| Proposed final dividend | 11 | – | (13,167) | (13,167) | 13,167 | – |
| At 30 June 2004 and 1 July 2004 | | 200,394 | 1,146 | 201,540 | 13,167 | 214,707 |
| Final 2004 dividend declared | 11 | – | – | – | (13,167) | (13,167) |
| Issue of shares upon conversion of convertible bonds | 30(c) | 28,031 | – | 28,031 | – | 28,031 |
| Issue of shares upon exercise of share options | 30(d) | 16,185 | – | 16,185 | – | 16,185 |
| Issue of shares upon allotment | | 101,257 | – | 101,257 | – | 101,257 |
| Share issue expenses | 30(e) | (5,388) | – | (5,388) | – | (5,388) |
| Net profit for the year | | – | 17,639 | 17,639 | – | 17,639 |
| Proposed final dividend | 11 | – | (17,415) | (17,415) | 17,415 | – |
| At 30 June 2005 | | <u>340,479</u> | <u>1,370</u> | <u>341,849</u> | <u>17,415</u> | <u>359,264</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 6 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

NOTES TO FINANCIAL STATEMENTS

30 June 2005

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

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

(a) Acquisition of subsidiaries (continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

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

(b) Divestment of subsidiary

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

30 June 2005

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

(c) Major non-cash transactions

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

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

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

| | Group | |
|---|-----------------|--------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Within one year | 2,147 | 707 |
| In the second to fifth years, inclusive | 2,677 | 1,260 |
| | <u>4,824</u> | <u>1,967</u> |

(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.

NOTES TO FINANCIAL STATEMENTS

30 June 2005

34. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

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

| | Group | |
|---|------------|--------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Within one year | 952 | 645 |
| In the second to fifth years, inclusive | 43 | 2,708 |
| After five years | – | 1,947 |
| | <u>995</u> | <u>5,300</u> |

35. COMMITMENTS

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

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

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

36. CONNECTED AND RELATED PARTY TRANSACTIONS

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

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

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

37. APPROVAL OF THE FINANCIAL STATEMENTS

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

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 3 to the financial statements, is set out below:

RESULTS

| | Year ended 30 June | | | | |
|---|--------------------|------------------|------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Turnover | <u>601,921</u> | <u>507,064</u> | <u>219,043</u> | <u>173,176</u> | <u>160,958</u> |
| Profit before tax | 126,603 | 114,357 | 106,219 | 92,022 | 85,505 |
| Tax | <u>(23,404)</u> | <u>(18,126)</u> | <u>(17,186)</u> | <u>(13,378)</u> | <u>(10,787)</u> |
| Profit before minority interests | 103,199 | 96,231 | 89,033 | 78,644 | 74,718 |
| Minority interests | <u>(1,126)</u> | <u>(1,214)</u> | <u>(3,150)</u> | <u>(2,775)</u> | <u>(2,562)</u> |
| Net profit from ordinary activities attributable to shareholders | <u>102,073</u> | <u>95,017</u> | <u>85,883</u> | <u>75,869</u> | <u>72,156</u> |

ASSETS, LIABILITIES AND MINORITY INTERESTS

| | As at 30 June | | | | |
|--------------------|------------------|------------------|--------------------------------|------------------|------------------|
| | 2005 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 (Restated) | 2002 HK\$'000 | 2001 HK\$'000 |
| Total assets | 1,029,790 | 724,131 | 383,363 | 196,178 | 173,768 |
| Total liabilities | (327,784) | (271,781) | (126,796) | (79,318) | (70,552) |
| Minority interests | <u>(31,339)</u> | <u>(35,824)</u> | <u>(194)</u> | <u>(3,414)</u> | <u>(2,816)</u> |
| | <u>670,667</u> | <u>416,526</u> | <u>256,373</u> | <u>113,446</u> | <u>100,400</u> |

Notes:

- The summary of the combined results of the Group for each of the two years ended 30 June 2002 was extracted from the Prospectus. This summary includes the results of the Company and the companies comprising the Group with effect from 1 July 2000 or since their respective dates of incorporation/establishment, whichever 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 two 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 2005 and 2004 are those set out on page 37 of this annual report.

- The summary of the combined balance sheets as at 30 June 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 2004 and 2005 are those set out from page 38 to page 39 of this annual report.