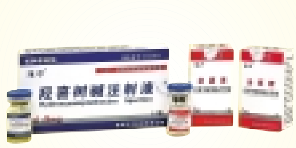


Hua Han Bio-Pharmaceutical Holdings Limited
華瀚生物製藥控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 587)

Annual Report 2005/2006

THE MISSION

Strive to be the leading pharmaceutical enterprise specialising in gynecological medicine and medicinal healthcare products for women in the People's Republic of China

CONTENTS

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. Chng Hwee Hong as his alternate)*
Mr. Tarn Sien Hao

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. Tarn Sien Hao

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. Chng Hwee Hong as his alternate)*

COMPANY SECRETARY

Mr. Zhu Ben Yu *(HKICPA)*

QUALIFIED ACCOUNTANT

Mr. Zhu Ben Yu *(HKICPA)*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

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

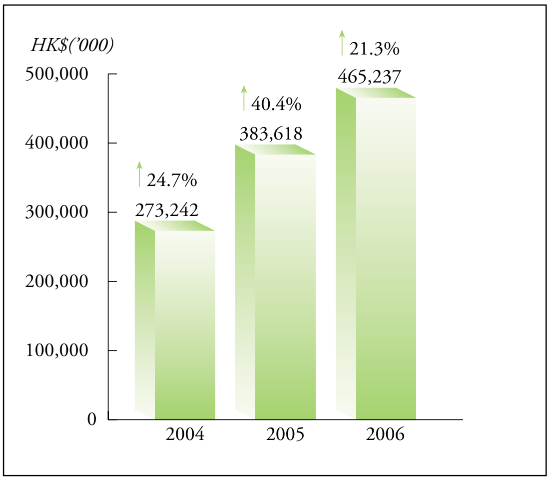
Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

FINANCIAL HIGHLIGHTS

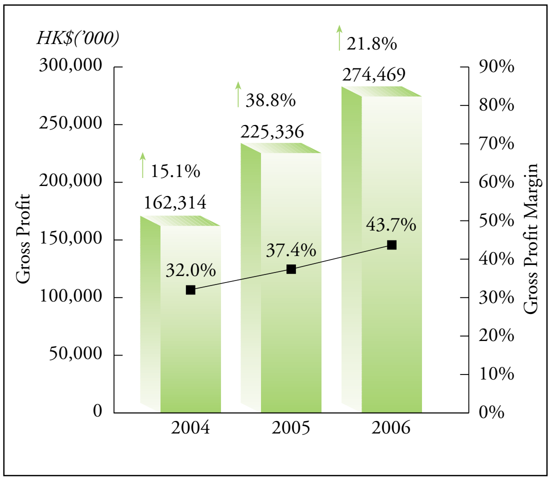
KEY FINANCIALS

	2006 *HK$'000*	2005 *HK$'000* (Restated)	% Change
Turnover	**627,925**	601,921	↑ 4.3%
• Manufacturing	**465,237**	383,618	↑ 21.3%
• Trading	**162,688**	218,303	↓ 25.5%
Net profit attributable to equity holders	**123,146**	101,427	↑ 21.4%
Diluted earnings per share (HK cents)	**14.0**	14.1	↓ 0.7%
Gearing ratio (%)	**18.7**	29.6	↓ 36.8%
Net Cash	**373,818**	276,954	↑ 35.0%

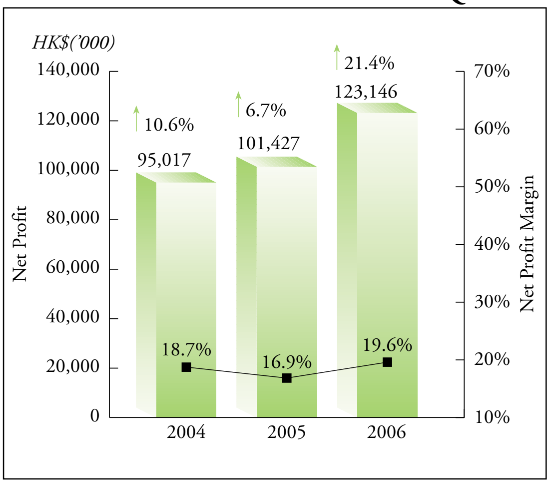
TURNOVER – MANUFACTURING



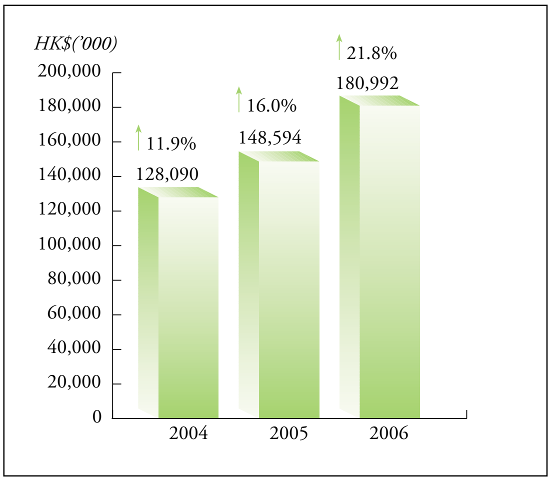
GROSS PROFIT



NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



EBITDA



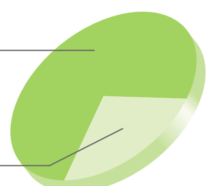
TURNOVER

2006

465,237 (74%)

Prescription Drugs	293,600	(63%)
Over-The-Counter Drugs	97,440	(21%)
Medicinal Healthcare Products	74,197	(16%)

162,688 (26%)



2005

383,618 (64%)

Prescription Drugs	270,878	(70%)
Over-The-Counter Drugs	75,104	(20%)
Medicinal Healthcare Products	37,636	(10%)

218,303 (36%)

Manufacturing   Trading

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 2006 ("**Year**").

BUSINESS REVIEW

Results of Hua Han for the Year continued to show an impressive growth. Turnover for the Year amounted to approximately HK$627.9 million, representing a growth of 4.3% as compared with HK$601.9 million for the preceding year. Approximately HK$465.2 million of the turnover was attributable to sales of the Group's own products, demonstrating a 21.3% growth over last year, while gross profit margin for the Year stood at a high level of 43.7%. Approximately HK$162.7 million of the turnover was derived from pharmaceutical trading business. Profit attributable to shareholders of the Company for the Year amounted to approximately HK$123.1 million, representing an increase of 21.4% over last year.

Guiyang De Chang Xiang Pharmaceutical Company Limited

Guizhou Hanfang Medicine Manufacture Co. Ltd.

OPERATION REVIEW

Prescription Drugs

Yeosure Series

Anti-tumour Medicines

During the Year, the pharmaceutical industry in China has been evolving swiftly under a continuously changing environment. Amid intensified pharmaceutical revolution and keen market competition in the entire pharmaceutical industry, enterprises increasingly faced ferocious elimination and active mergers and acquisitions. In light of such a prevailing situation, Hua Han attained significant improvement in operating results by capitalising on an extensive product mix, a competitive product series and an appealing product branding and through a widespread marketing network and nationwide distribution channels, coupled with its inherent business growth strategy of "**Prestigious Brand Name Building**", "**Legend Products**" and "**Nationwide Sales Network**".

Since **Fuke Zaizaowan (婦科再造丸)**, an over-the-counter ("**OTC**") classic Chinese gynecological recuperation drug, and "**Magic 美即**" branded feminine medicinal healthcare products were introduced into the market, they have become a new profit growing point of the Group. **Fuke Zaizaowan (婦科再造丸)** are mainly sold to the OTC market, and are put under effective marketing through brand and point-of-sale promotion. In addition, the widespread reach of the feminine medicinal healthcare products under the product series of "**Magic 美即**" and the steadily growing sales of prescription drugs are crucial attributes to the integration of our product ranges, brand names and distribution network resources, thereby setting a stably growing path for our results.

CHAIRMAN'S STATEMENT

PROSPECTS

OTC Drugs

Fuke Zaizaowan & Fuke Zaizao capsules

Given that organic factors for the continuous growth of the pharmaceutical industry including expanding population, increasing aging population and escalating medication level per capita in China remain unchanged, the domestic pharmaceutical demand is expected to continue to increase. Sales and profitability of the Chinese medicine industry is set to remain on a steadily growing track, while the sustainable growth and high profitability of the traditional Chinese medicine industry will create tremendous opportunities for the speedy growth of the core businesses of the Group.

In the current financial year, the Group will step up its strategic plan of becoming a leading enterprise in the manufacture and sales of gynecological pharmaceutical products and feminine medicinal healthcare products in the People's Republic of China ("**PRC**"). The Group will continue to place an emphasis on the integration of internal resources, optimisation of internal resources allocation and manifestation of the Group's comprehensive advantages in planning, products, marketing, production and operational management. The Group will devote greater marketing efforts to the promotion of OTC drugs, namely **Fuke Zaizaowan** (**婦科再造丸**) and feminine medicinal healthcare products under the product series of "**Magic 美即**". By expanding the market share of the abovementioned products, the Group can better project a positive image of Hua Han as a leader in gynecological pharmaceutical products and feminine medicinal healthcare products to its customers in the OTC market and healthcare market. To continue to boost the sales of prescription drugs in the hospital market, a category one new national medicine, namely **Human Nerve Growing Factor** (**人神經生長因子**), a product of the Group which has been granted an exclusive intellectual property right and a national patent right, will be the key product to be rolled out in the hospital market. The Group is confident that the introduction and sales of **Human Nerve Growing Factor** (**人神經生長因子**) will definitely enhance the recognition of the Group's products in the hospital market, thus advancing and strengthening the position of the Group's prescription drugs in hospital sales. The successful implementation of the above operational strategies will bring about lasting and maximum value to shareholders.

APPRECIATION

Feminine Medicinal Healthcare Products

Magic

On behalf of the Board, I would like to express my gratitude to our management and staff for their contribution and dedication. In addition, I would like to express my appreciation to our shareholders for their continued support to the Group. We firmly believe that the concerted patronage and support from various parties to the Group lays a cornerstone for the Group to become a leading enterprise of gynecological pharmaceutical products and feminine medicinal healthcare products in the PRC.

Zhang Peter Y.
Chairman

Hong Kong
18 October 2006

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research and development ("**R&D**"), manufacture and sale of gynecological medicine and medicinal healthcare products for women in the PRC. During the Year, the Group continued to achieve a positive return through its own and joint national distribution channels as well as extensive marketing network.

MARKET REVIEW

During the Year, the pharmaceutical industry was further reformed with expedited restructuring pace in a favourable national macro-economic environment. Production and sales of pharmaceutical products grew more rapidly and prospect of the export segment remained positive. Compared with last year, both Chinese medicines and bio-pharmaceutical medicines segments registered an increase in profit growth, thereby demonstrating sustainable prospect for the Chinese medicines segment. On the other hand, there was a drop in the profit growth in the chemical pharmaceutical medicines segment.

During the Year, intensive reform was introduced in the domestic pharmaceutical industry. A series of policies were implemented, such as medicines classification system, regulation on medicine names by prohibition of multiple naming of medicines and prescription system with non-proprietary names. With the increase in prices of upstream raw/auxiliary materials and utilities (water and electricity), coal and transportation charges, the pharmaceutical industry development was faced with unprecedented challenges. On the other hand, the Directors believe that new socialist reforms introduced in the rural regions would bring great potentials and expedited growth to the rural market. Meanwhile, merger and acquisition ("**M&A**") activities continued to boom and consolidation progress proceeded further. Market competition was intensified with major foreign enterprises attempting to tap into the promising PRC pharmaceutical market.

BUSINESS REVIEW

Though the pharmaceutical market had generally become increasingly competitive, the Group achieved a steady growth during the Year. The Directors believed that the Group had managed to maintain satisfactory business performance during the Year, as a result of a number of factors, including the Group's fundamental strategic mission of developing itself as a top player in the field of gynecological medicines and medicinal healthcare products for women; the Group's quality hospital brand image over the years; the ownership of proprietary products and protected Chinese medicines with greater pricing autonomy; the Group's prestigious market position; the successful commercial launch of "**Magic 美即**" branded medicinal healthcare products and a professional marketing team.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the Year, the Group's turnover was approximately HK$627.9 million, of which approximately HK$465.2 million (74.1% of the Group's turnover) was derived from sales of the Group's own products, representing an increase of 21.3% as compared with approximately HK$383.6 million of last year. Prescription drugs contributed approximately HK$293.6 million in sales during the Year, representing approximately 63.1% of the total sales of the Group's own products. Over-the-counter ("**OTC**") drugs recorded approximately HK$97.4 million in sales, accounting for 20.9% of the total turnover of the Group's own products and a 29.7% increase over last year. Feminine medicinal healthcare products recorded approximately HK$74.2 million in sales, representing 16.0% of the total turnover of the Group's own products and a 97.3% increase over last year. In addition, approximately HK$162.7 million of the Group's turnover for the Year was attributable to trading business.

CONSOLIDATION

During the Year, the marketing strategy of the Group has been focused on segmentation of target markets, improvement of sales network infrastructure and penetration into distribution channels. As for prescription drugs, the Group continued to build a strong professional sales team by recruiting high-caliber professionals. To further improve the Group's results, the Group endeavoured to devote more sales and marketing efforts to its key products through a number of means including academic and public welfare promotion.

Fuke Zaizaowan (婦科再造丸) is the Group's core branded product under the OTC drugs category. The main promotional strategy of this product line lies in product branding and enhancement of the Group's corporate image through brand promotion and point-of-sales promotion. The Group's integrated marketing plan had yielded good results in Guizhou, Yunnan, Sichuan, Chongqing, Shaanxi and Gansu provinces and had been extended to more than 10 other regions including Guangdong, Hubei and Beijing. The overall sales of this drug was encouraging.

During the Year, in line with the trend of commercial restructuring in the PRC and as part of the Group's strategies, a brand strategy and a differentiation strategy were introduced to the "**Magic 美即**" series products. Overwhelming responses were received from the market and customers, with product varieties under the "**Magic 美即**" series products increasing from 35 products last year to approximately 50 products at present, covering three main categories of products, namely, facial treatment, eye treatment and body treatment. Sales of this product series had been conducted through the Group's strategic partners, including Watsons, Carrefour, Wal-Mart, Jusco and other famous nation-wide retail channels whose sales channels cover most of the major cities throughout the PRC. Points of sales for this product series had grown significantly from approximately 350 last year to around 700 during the Year. The Directors believe that the "**Magic 美即**" product series has a promising sales prospect.

MANAGEMENT DISCUSSION AND ANALYSIS

AWARDS

During the Year, **Yeosure Natural Medicine Lotion（目舒安洗液）** was granted a number of awards for its reputed quality and outstanding sales history over the past 13 years in the domestic hospital market:

I. It was recognized as "China's renowned brand name（中國著名品牌）" by the Social Survey Institute of China（中國社會調查所）("**SSIC**"), a renowned survey institute in China, in the "Product survey on market satisfaction and reputation（產品社會滿意度、信譽度公益性調查）" on gynecological medicinal products in 2005. It was awarded by SSIC a medal and an honourable certificate in December 2005.

II. It was awarded the title of "Top Ten Most Influential Brands in Gynecological Medicines in China（中國婦科用藥十大影響力品牌）" during the Second Annual Conference on China Brands' Influences（第二屆中國品牌影響力高峰論壇年會）held in Beijing.

III. Together with **Fuke Zaizaowan（婦科再造丸）** – a major product of Guiyang De Chang Xiang Pharmaceutical Company Limited（貴陽德昌祥藥業有限公司）("**DCX**"), it was granted the title of "Number 1 Brand in China Gynecological Medicines（中國婦科藥品第一品牌）" in the 2006 Top Brands Assessment in National Pharmaceutical Industry（2006年全國醫藥行業第一品牌評價工作）.

In line with the Group's strategic direction, consolidation effects of internal resources began to show on the hundred-year-old pharmaceutical firm, DCX. In 2006, the Group's proprietary product **Fuke Zaizaowan（婦科再造丸）** was granted two second-class awards in Guizhou Province, including outstanding new product and outstanding technical innovation. It also, together with **Yeosure Natural Medicine Lotion（目舒安洗液）**, received the title of "Number 1 Brand in China Gynecological Medicines（中國婦科藥品第一品牌）". The Group's new product, **Fuke Zaizao capsules（婦科再造膠囊）**, was also granted a second-class honour in Guiyang City as an outstanding new product (environmental protection product).

In addition, the Good Manufacturing Practice ("**GMP**") compliant production facility of DCX and the technological improvement of GMP compliant production facility of Guizhou Hanfang Medicine Manufacture Co., Ltd.（貴州漢方製藥有限公司）("**GHMM**") received an honour in Guiyang City on outstanding technological advancement (environmental protection category).

RESEARCH AND DEVELOPMENT

During the Year, the Group obtained production approval for **Jinbaka（金巴卡）– Paclitaxel Injection（紫杉醇注射液）**, a naturally-sourced anti-tumour medicine. The gynecological recuperation product **Fuke Zaizao capsules（婦科再造膠囊）** passed the technical assessment of the State Food and Drug Administration of the PRC（中國國家食品藥品監督管理局）("**SFDA**") and the Group was granted an exclusive right of production of this product. The Group has commenced the production and sales of these two products.

During the Year, the Group completed phase IIa of the clinical trials of **Fu Shu Le Tablets（婦舒樂片）**, a new Chinese medicine for curing gynecological atropic vaginitis which is common in women at menopause. It is currently undergoing phase IIb of the clinical trials. The Directors expect that phase IIb of the clinical trials will be completed by the end of 2006 and an application for the new medicine certification with SFDA will then be made.

Clinical trials of **Secmidazole Tablets and Capsules (塞克硝唑片及膠囊)**, a new product for curing gynecological trichomoniasis and anerobe, had been completed and reports on the clinical trials and other related information had been duly prepared. Application for production of this new medicine with SFDA will be made in the near future. The Directors expect that approval for sales of this product will be obtained in early 2007.

Other ongoing R&D projects mainly concern gynecological medicines and prescription drugs.

In order to meet market demand, the R&D on product features and functionality of several reserve products under the "**Magic 美即**" series were completed. The results are the fruits of modern technological researches. Around 50 products under the "**Magic 美即**" series have been launched to the market.

PRODUCTION FACILITIES

GHMM and DCX are equipped with a total of 15 and 11 GMP compliant production lines respectively. To date, the Group has a total of 26 production lines which have been accredited with GMP certification issued by SFDA of the PRC, covering most types of medication. The present average utilization rate is approximately 40% to 50%, indicating that there is plenty of production capacity readily available for future development. In addition, the production lines of the two production enterprises are complementary to each other. Upon preliminary consolidation, the Group can share internal resources, which will enable it to further explore its internal potentials as well as save energy and costs. It will also provide the Group with greater flexibility in production planning, thereby bringing about corporate synergy. This will strengthen the Group's bargaining power with upstream raw material suppliers and upgrade the Group's production management. With the accreditation of GMP certifications of all its production lines, the Directors believe the Group is equipped with sufficient production resources and is well positioned to become one of the leading pharmaceutical manufacturing enterprises in terms of scale of production facilities and products varieties in the southwestern region of the PRC.

PROSPECTS

During the Year, the pharmaceutical industry in China has been growing steadily. This has laid a cornerstone for the sustainable and rapid development of the pharmaceutical sector. The domestic pharmaceutical market is expected to post over a double-digit growth per annum for the coming three years. Compared with other pharmaceutical industry segments, the Chinese medicine segment remains a sector with stronger industry edges, more distinct core competitiveness and relatively stable growth prospect.

The Directors believe the focuses of the future pharmaceutical industry will be product varieties, distribution channels and enhancing corporate strength through rapid M&A. The Group will adhere to its strategic goal of becoming "a leading manufacturer of gynecological pharmaceutical products and feminine medicinal healthcare products". In light of the prosperous developments in China, by identifying M&A opportunities with pharmaceutical enterprises possessing the potential to make significant contributions to the Group in terms of brand building, product varieties and marketing network and implementing effective integration, the Group will enhance its management quality, competitiveness, operation and efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

In the present year, the Group will continue to strengthen its internal consolidation through internal restructuring and asset reorganization in order to form an integrated operational platform. By constantly optimizing business flow and internal control systems, as well as tightening cost controls, the Group has improved its mode of operation and risk management ability in order to react promptly to the changing market conditions.

The Group has expedited the launch and sales of a category one new medicine, namely **Human Nerve Growing Factor（人神經生長因子）**, a product which has been granted an exclusive intellectual property right and a national patent right. **Human Nerve Growing Factor（人神經生長因子）** applies a biotechnological separation process to the Chinese medicine "Placenta（紫河車）", thereby obtaining a high purity cell factor which could be used for replenishing nutrition to human nerve cells and re-conditioning damaged nerve cells. The Directors are confident that the sales and introduction of the **Human Nerve Growing Factor（人神經生長因子）** will definitely enhance the Group's brand recognition in the prescription drugs market and strengthen its competitiveness, thus further improving its profitability in the field of prescription drugs. In addition, the separation process of "Placenta（紫河車）" will produce other products, which could be developed into various anti-ageing beauty products through further R&D. In that event, our medicinal healthcare product mix will certainly be enriched and our competitiveness will be further enhanced.

Being the most significantly growing business sector of the Group, medicinal healthcare products under "**Magic 美即**" series are becoming the focuses for the Group's future development. The product series of "**Magic 美即**" has established a nationwide coverage of approximately 700 hyper-markets. The Group will keep abreast of the consumer market trend in order to rapidly respond to changing market demands. The Group will take great leaps in establishing closer connections with large chain hyper-markets and supermarkets with a view to broadening our geographical coverage. The Group will devote more promotional efforts on media advertisement in focused regions in order to further build up the competitive strengths of the "**Magic 美即**" brand. Moreover, in reaction to market changes, and by capitalizing on the fruits of modern scientific research, the "**Magic 美即**" series products will be diversified and refined in terms of product varieties and functions. Our product varieties have been extended to a variety of feminine skin care segments. To consolidate our sales performance and network in Eastern China, Southern China and Northern China, we will also tap into cities in these regions in order to build up brand influence and boost sales of our "**Magic 美即**" series of products in the national market. To cope with the robust growth of the "**Magic 美即**" brand, the Group is planning to invest in the construction of a new plant in Guangzhou.

Furthermore, the Group will take great steps in flourishing high-margin agency business through acquiring exclusive operational rights. Meanwhile, with the development of new rural infrastructure and the implementation of new rural cooperative medical systems, the rural pharmaceutical market is expected to have tremendous growing potentials in the foreseeable future. The rural pharmaceutical market is expected to become a driving momentum for the pharmaceutical industry. With over a hundred types of medicines, pharmaceutical companies within the Group, namely DCX and GHMM, will both become the Group's gateway to its rapid expansion into the rural pharmaceutical market. The Group will take advantage of the expanding rural pharmaceutical market to sharply increase the Group's sales in the rural market and enlarge the Group's sales in order to yield higher profit return.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is confident of the future outlook. In the present year, as before, the Group will continue to actively carry out product R&D, enhance production quality management and explore new business opportunities. Meanwhile, the Group will implement marketing and channel penetration strategies with a view to consolidating and reinforcing its prominent position in the market.

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. As at 30 June 2006, the Group had unpledged cash and bank balances of approximately HK$523.9 million (30 June 2005: approximately HK$474.0 million). Its gearing ratio calculated as a ratio of total debt to equity attributable to equity holders of the Company was approximately 18.8% (30 June 2005: approximately 29.6% (restated)). Net current assets was approximately HK$649.4 million (30 June 2005: approximately HK$554.4 million) and the current ratio was maintained at the healthy level of approximately 3.7 (30 June 2005: approximately 3.4) as at 30 June 2006.

The finance costs of the Group for the Year amounted to approximately HK$11.3 million (2005: approximately HK$7.9 million), representing approximately 1.8% (2005: approximately 1.3%) of the Group's total turnover and an increase of approximately HK$3.4 million over last year. The increase in finance costs was principally due to increase in bank interest rates.

POST BALANCE SHEET EVENTS

The Group had the following significant post balance sheet events:

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

(b) Subsequent to the balance sheet date, the Group purchased a technical knowhow and the related exclusive intellectual property right and national patent right of a category one new medicine namely Human Nerve Growing Factor（人神經生長因子）, and in turn established a bio-technological company with paid up capital of HK$100 million in Mainland China for the manufacture and sale of the said medicine.

(c) Subsequent to the balance sheet date, the Group entered into a sale and purchase agreement with an independent third party for the disposal of the Group's entire available-for-sale equity investment.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group did not have any material contingent liabilities (30 June 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BANK BORROWINGS

As at 30 June 2006, the Group had outstanding bank loans of approximately HK$157.6 million from the banks in the PRC and Hong Kong (30 June 2005: approximately HK$197.0 million), approximately 75.7% (30 June 2005: approximately 59.8%) 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 2006, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain land and buildings of the Group; (iii) pledge of equity interests of certain subsidiaries of the Company; and (iv) corporate guarantees given by certain subsidiaries 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 generated 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 2006, the Group had contracted commitments of HK$13.2 million (30 June 2005: HK$3.7 million) and HK$34.0 million (30 June 2005: HK$1.8 million) in respect of purchases of technical knowhow and construction on property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2006, the Group had a total of 1,304 employees (2005: 1,224), of whom 1,297 were based in the PRC, with the rest stationed in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Year, staff costs (including Directors' remunerations) amounted to approximately HK$25,010,000 (2005: approximately HK$18,482,000). Staff costs accounted for 4.0% of the Group's turnover during the Year (2005: 3.1%). 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 recommended the payment of a final dividend of HK2 cents per share of the Company for the Year (2005: HK2 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 18 December 2006 to Thursday, 21 December 2006 (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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 pm on Friday, 15 December 2006 for registration.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhang Peter Y. **(張岳)**, aged 44, is the Chairman of the Company 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. Mr. Zhang was 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. 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. With more than 10 years of experience in corporate financial planning, Mr. Zhang is responsible for the Group's financial planning and control.

Mr. Deng Jie **(鄧杰)**, aged 42, is the Joint Vice Chairman of the Company, the Chief Executive Officer 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. For the past eight years, Mr. Deng has been actively involved in establishing the Group's sales network throughout the PRC and is experienced in training the Group's sales and marketing team. With over 10 years of experience in corporate management, Mr. Deng is responsible for the Group's strategic management and is in charge of the Group's investment projects. In addition, Mr. Deng plays an active role in maintaining close relationship between the Group and its strategic partners.

Mr. Xu Peng **(徐鵬)**, aged 43, is the Joint Vice Chairman of the Company 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.

Mr. Long Xian Feng **(龍險峰)**, aged 44, 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. In 1999, he was awarded a postgraduate certificate from Nankai University (南開大學) majoring in enterprise management. Mr. Long joined the Group in 1993, and is responsible for the Group's research and development of new products. 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 37, is an Executive Director and the Deputy General Manager of the Group responsible for public relations in the PRC. Mr. Wu graduated from Guizhou Industrial Institute (貴州工學院) and obtained a bachelor degree in engineering in 1991. 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 45, 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 Exchange. He is also a Director of various public listed companies namely, United Industrial Corporation Limited, Singapore Land Limited, UOL Group Limited and Hotel Plaza Limited, as well as a Board Member of Sentosa Development Corporation.

Mr. Tarn Sien Hao (譚顯浩), aged 39, is a Non-Executive Director of the Company. 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 Exchange. Mr. Tarn was formerly an alternate Director to Mr. Wee Ee Lim, a Non-Executive Director, and became a Non-Executive Director on 8 May 2006.

Mr. Chng Hwee Hong (莊輝煌), aged 56, is appointed as an alternate Director of the Company to Mr. Wee Ee Lim on 8 May 2006. Mr. Chng holds a Bachelor of Science (Hons.) in Applied Chemistry and a Diploma in Business Administration from the University of Singapore. He is an executive director of Haw Par Corporation Limited, a public company listed on the Singapore Exchange.

Independent Non-Executive Directors

Professor Kung Hsiang Fu (孔祥復), aged 64, 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 300 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 65, 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 (香港中文大學) for 24 years, he has retired and currently is an adjunct professor of the department. Professor Tso's research interests include immobilised cell biotechnology, inorganic biochemistry and reproduction biochemistry. Professor Tso is devoted to social events. He was an honorary consultant of the scientific consultants team of the Hong Kong Government, a member to the Hong Kong Advisory Committee on the Quality of Water Supplies, and a member of the Advisory Committee on the Safety of the Daya Bay Nuclear Power Plant. He is also a deputy to the Ninth and Tenth National People's Congress of the Hong Kong Special Administrative Region. Professor Tso was awarded the Bronze Bauhinia Star award in 2002 by the Hong Kong Government for his meritorious public and community services.

Mr. Hon Yiu Ming, Matthew (韓耀明), aged 46, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zhu Ben Yu (朱本宇), aged 34, is the Financial Controller of the Group and the Company Secretary of the Company, and is responsible for the Group's financial management and internal auditing. Mr. Zhu is a member of The Association of Chartered Certified Accountants and an associate of Hong Kong Institute of Certified Public Accountants. Mr. Zhu graduated from The Chinese University of Hong Kong (香港中文大學) with a bachelor degree in business administration. Mr. Zhu has over 8 years of experience in auditing and financial management. Before joining the Group, he worked in an international accounting firm for 5 years. He was then employed as the Financial Controller and Company Secretary of a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, one of whose subsidiaries is a leading manufacturing company of printed circuits boards in Hong Kong.

Mr. Yao Rong (姚榮), aged 45, is the General Manager Assistant of the Group. Mr. Yao graduated from the Guizhou University (貴州大學) with a bachelor degree in philosophy in 1982. He joined the Group in 1993 and assists the General Manager who is responsible for operations of business in the PRC.

Mr. Bian Shu Guang (邊曙光), aged 48, 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 operation of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Mr. Yao Chang Fa (姚廠發), aged 41, 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. Zhang Kun Mou (張昆謀), aged 43, is the Deputy General Manager of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). Mr. Zhang 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. Zhang 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 45, is the Chief Engineer of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司). 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. Mr. He joined the Group in July 1994 and is responsible for the production handicraft, quality control and the research and development of new drugs of Chief Engineer of Guizhou Hanfang Medicine Manufacture Co., Ltd. (貴州漢方製藥有限公司).

Mr. Dai Li Gui (戴禮貴), aged 37, 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 and new drugs. 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, and he is still currently attending Doctorate degree courses. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

***Mr. Zhang Jin Yi* (*張勁翼*)**, aged 44, is the Chairman of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司). Mr. Zhang graduated from the Northwestern Polytechnical University (西北工業大學) 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 strategic positioning and financial planning and control 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 47, 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 operations of businesses of Guiyang De Chang Xiang Pharmaceutical Company Limited (貴陽德昌祥藥業有限公司).

***Mr. Tang Siu Kun, Stephen* (*鄧紹坤*)**, aged 41, is the Chairman of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司). Mr. Tang graduated from the Curtin University of Technology in Australia with a bachelor degree in commerce. Mr. Tang holds a master degree in international business management from the City University of Hong Kong, he is also a member of the CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Tang joined the Group in 2000 and has over 10 years experience in corporate accounting, financial control, treasury and strategic planning. He is responsible for the strategic planning, operation management and financial planning and controlling 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.

***Mr. She Yu Yuan* (*佘雨原*)**, aged 35, 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 (華南理工大學) in 1994. He joined the Group in 2004 and is responsible for the operations of businesses 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.

***Mr. Gao Fei* (*高飛*)**, aged 35, is a Director 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 assisting the chairman in formulation of strategy and public relation coordination work 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.

***Mr. Yang Cheng Quan* (*楊成全*)**, aged 42, 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 strategic positioning and financial planning and control of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司).

***Ms. Wu Li* (*吳莉*)**, aged 58, is the General Manager of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司). 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) for a long time and is responsible for the operation of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司).

REPORT OF THE DIRECTORS

The directors of the Company ("**Directors**") present their report and the audited financial statements of the Company and of the group ("**Group**") comprising the Company and its subsidiaries for the year ended 30 June 2006 ("**Year**").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group include the research and development, manufacture and sales of gynecological medicine and medicinal healthcare products for women. Details of the principal activities of the principal subsidiaries of the Company are set out in note 17 to the financial statements on pages 86 to 88 of the annual report. 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 of the Group at 30 June 2006 are set out in the financial statements on pages 37 to 109 of the annual report.

The Directors recommend the payment of a final dividend of HK2 cents per ordinary share of HK$0.10 each in the share capital of the Company ("**Share**") in respect of the Year, to the shareholders of the Company ("**Shareholders**") whose names appear on the register of members of the Company on 21 December 2006. The proposed dividend will be paid on or about 28 February 2007 if the recommendation is approved by the Shareholders at the forthcoming annual general meeting ("**Annual General Meeting**") of the Company to be held on 21 December 2006. 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 published audited financial statements and restated as appropriate, prepared on the basis set out therein, on page 110 of the annual report. This summary does not form part of the audited financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the financial statements on pages 81 to 83 of the annual report.

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 29 and 30 to the financial statements respectively on pages 97 to 101 of the annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association 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 31(b) to the financial statements on page 102 of the annual report and in the consolidated statement of changes in equity on pages 40 to 41 of the annual report, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2006, 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$377,268,000, of which HK$17,615,000 has been proposed as a final dividend for the Year. The amount of HK$358,645,000 (note 31(b)) 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. Chng Hwee Hong as his alternate) (Note)*	
Mr. Tarn Sien Hao	(appointed on 8 May 2006)
Mr. Han Ah Kuan *(Mr. Ong Sian Hin as his alternate)*	(resigned on 8 May 2006)

Note: *On 8 May 2006, Mr. Chng Hwee Hong was appointed by Mr. Wee Ee Lim as his alternate in replacement of Mr. Tarn Sien Hao.*

Independent non-executive Directors:

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

In accordance with the existing article 108(A) of the Company's articles of association, Mr. Zhang Peter Y., Mr. Xu Peng and Professor Kung Hsiang Fu will retire from the office of directorship by rotation at the Annual General Meeting. Each of Mr. Zhang Peter Y. and Professor Kung Hsiang Fu, being eligible, offers himself for re-election at such meeting, while Mr. Xu Peng has not offered himself to be re-elected as Director at such meeting.

Further, according to the existing article 112 of the Company's articles of association, any person who is appointed by the Directors as a Director to fill a casual vacancy on the board of Directors, under that article, shall hold office only until the next following general meeting and shall then be eligible for re-election at the meeting. Pursuant to such article, the office of directorship of Mr. Tarn Sien Hao, who was appointed as a non-executive Director on 8 May 2006, will end at the Annual General Meeting. Mr. Tarn Sien Hao, 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**").

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

The independent non-executive Directors and non-executive Directors are appointed for specific terms and are subject to retirement by rotation in accordance with the Company's articles of association.

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' REMUNERATION

The board of Directors has the general power of determining the Directors' remuneration, subject to the authorisation of the Shareholders given at the annual general meeting of the Company each year. The remuneration of the executive Directors is subject to the review of the Company's remuneration committee. As for the non-executive Directors, their remuneration is determined by the board of Directors, upon recommendation of the Company's remuneration committee, with reference to Directors' duties, responsibilities and performance and results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in note 35 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.

REPORT OF THE DIRECTORS

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

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company in the shares 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 Director	**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)*	35.10%
	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%
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 owned 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 30 June 2006, were 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 2006, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the options granted to the Directors under the Scheme (as defined below) and outstanding as at 30 June 2006 were as follows:

		Number of underlying Shares						
Name of Director	**Date of grant**	**Outstanding as at 1 July 2005**	**Granted during the Year**	**Exercised during the Year**	**Lapsed during the Year**	**Outstanding as at 30 June 2006**	**Exercise price per Share** *(HK$)*	**Exercise period**
Zhang Peter Y.	1/09/2004	600,000	–	–	–	600,000	0.64	01/09/2004 to 31/08/2006
Xu Peng	1/09/2004	600,000	–	–	–	600,000	0.64	01/09/2004 to 31/08/2006
		1,200,000	**–**	**–**	**–**	**1,200,000**		

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 a share option scheme ("**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;

(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 about 7.56% and 10%, respectively, of the issued share capital of the Company as at the date of this report and 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 of Directors, 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 options 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 of Directors, 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

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

Movement of the options to subscribe for Shares granted under the Scheme during the Year was as follows:

		Number of underlying Shares						
Class of grantee	**Date of grant**	**Outstanding as at 1 July 2005**	**Granted during the Year**	**Exercised**	**Lapsed**	**Outstanding as at 30 June 2006**	**Exercise price per Share** *(HK$)*	**Exercise period**
Directors *(Note 1)*	1/09/2004	1,200,000	–	–	–	1,200,000	0.64	01/09/2004 to 31/08/2006
Other employees *(Note 2)*	1/09/2004	5,400,000	–	(3,000,000) *(Note 3)*	–	2,400,000	0.64	01/09/2004 to 31/08/2006
Others	1/09/2004	7,000,000	–	(6,000,000) *(Note 3)*	–	1,000,000	0.64	01/09/2004 to 31/08/2006
		13,600,000	–	(9,000,000)	–	4,600,000		

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 weighted average closing price per Share immediately before the date on which options were exercised during the Year is HK$1.19.

During the Year, no option to subscribe for Shares either lapsed or was cancelled.

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 2006, the following persons or entities, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares 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	35.10%
Liu Yu *(Note 3)*	309,358,783 (L)	Interest of spouse	35.17%
Haw Par Pharmaceutical Holdings Pte. Ltd. *(Note 4)*	183,532,400 (L)	Beneficial owner	20.86%
Haw Par Corporation Limited *(Note 4)*	183,532,400 (L)	Interest of controlled corporation	20.86%
Jayhawk China Fund (Cayman) Ltd *(Note 5)*	49,280,000 (L)	Investment manager	5.60%
Kent C. McCarthy *(Note 5)*	49,280,000 (L)	Interest of controlled corporation	5.60%

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 therefore 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.

5. Jayhawk China Fund (Cayman) Ltd is wholly-owned by Kent C. McCarthy. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordiance, Kent C. McCarthy is deemed to be interested in all Shares in which Jayhawk China Fund (Cayman) Ltd is interested.

Save as disclosed above, as at 30 June 2006, no person or entity, other than a Director or chief executive of the Company, had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SF Ordinance.

CONNECTED TRANSACTIONS

The related party transactions disclosed in note 35 to the financial statements constituted exempted connected transactions or, as the case may be, continuing connected transactions under Chapter 14A 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 the Listing Rules, the following disclosures are included in respect of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company:

1. On 16 September 2004, a loan agreement was entered into between the Company and certain financial institutions in Hong Kong ("**Loan Agreement**"), which contained specific performance obligations on Mr. Zhang Peter Y. and Mr. Xu Peng.

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

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

A breach of any of the above specific performance obligations would constitute a default under the Loan Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Loan Agreement. The loan facility, together with all interests accrued on the loan facility, under the Loan Agreement was repaid in full by the Company on 17 July 2006.

2. The Company entered into a new facility agreement ("**Facility Agreement**") with certain financial institutions in Hong Kong and overseas on 30 June 2006. The Facility Agreement contains specific performance obligations on Mr. Zhang Peter Y. and Mr. Deng Jie. The Facility Agreement is for a term loan facility of up to HK$445,000,000 for a term of three years, with an option at the end of the third year to extend the loan for an additional two years.

   The Facility Agreement provides that so long as there remains any amount outstanding under the Facility Agreement: (1) Mr. Zhang Peter Y. shall remain to be the Chairman and the single largest shareholder of the Company; (2) Mr. Deng Jie, the Chief Executive Officer of the Company, shall remain to be a Director; (3) Mr. Zhang and Mr. Deng shall together, directly or indirectly, maintain not less than 30% of the issued voting share capital of the Company; and (4) Mr. Zhang should deposit not less than 30% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by public as at the date of this report.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the annual report, except for certain deviations. Please refer to the Corporate Governance Report on pages 30 to 35 of the annual report.

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, the primary duties of the Committee include reviewing and providing supervision over the financial reporting procedure process and internal controls of the Group. The Committee comprises Mr. Tarn Sien Hao, a non-executive Director, and Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming Matthew, the three independent non-executive Directors. The Group's financial statements for the Year have been reviewed by the Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

AUDITORS

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

On behalf of the Board

Zhang Peter Y.
Chairman

Hong Kong
18 October 2006

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board ("**Board**") of directors (each a "**Director**") of the Company is committed to maintaining high standards of corporate governance and endeavours in following the code provisions ("**Code Provisions**") of the "Code on Corporate Governance Practices" ("**Code**") as set out in Appendix 14 to the Rules ("**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**").

The Board has set up the remuneration committee of the Board ("**Remuneration Committee**") with written terms of reference prepared in accordance with the Code Provisions and has adopted a new set of terms of reference of the audit committee of the Board ("**Audit Committee**") which were prepared in accordance with the Code Provisions. The Board has also set up an internal audit team to monitor the effectiveness of the internal control of the Group. Throughout the year, the Company has complied with the Code Provisions, save for the deviations from Code Provisions A.1.1 and A.4.1.

According to Code Provision A.1.1, the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended 30 June 2006, the Board held three regular meetings. During the Year, the Directors discussed and considered the business development and performance of the Group on informal occasions in addition to regular Board meetings. Beginning from the year ending 30 June 2007, the Board will hold at least four regular meetings in each financial year in line with Code Provision A.1.1.

According to Code Provision A.4.1, non-executive Directors should be appointed for a specific term, subject to re-election. Starting from 1 January 2006, each of the independent non-executive Directors is appointed for a fixed term of directorship of one year or two years and is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association ("**Articles**").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and senior management of the Group on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules ("**Model Code**"). Having made specific enquiry of all Directors and senior management of the Group, all Directors and senior management of the Group have complied with the required standard set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors and senior management throughout the year ended 30 June 2006.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board is currently composed of five executive Directors comprising Mr. Zhang Peter Y. as the chairman, Mr. Xu Peng as the joint vice chairman, Mr. Deng Jie as the joint vice chairmen and the chief executive officer, Mr. Long Xian Feng and Mr. Wu Xian Peng; two non-executive Directors comprising Mr. Wee Ee Lim (Mr. Chng Hwee Hong as alternate) and Mr. Tarn Sien Hao; and three independent non-executive Directors comprising Professor Kung Hsiang Fu, Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew. The biographical details of the Directors are set out on pages 14 to 17 of the annual report of the Company. All Directors are subject to retirement by rotation and may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the Articles. Each non-executive Director is appointed for a term of one year and each independent non-executive Director is appointed for a term of one year or two years.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Each of the members of the Board has full access to relevant information at the meetings. During the year, the Board has convened three regular meetings and conducted the following activities:

(1) approved the interim and final results, interim and annual report, and matters to be considered at annual general meeting;

(2) reviewed and approved corporate strategies of the Group for the financial year ending 30 June 2007; and

(3) reviewed the performance and financial position of the Group.

Apart from the regular board meetings, the Board met on other occasions when a Board-level decision on a particular matter was required.

Details of the Directors' attendance records at the regular Board meetings during the year are as follows:

	Attendance
Executive Directors	
Mr. Zhang Peter Y. *(Chairman)*	3/3
Mr. Xu Peng *(Joint Vice Chairman)*	2/3
Mr. Deng Jie *(Joint Vice Chairman and Chief Executive Officer)*	3/3
Mr. Long Xian Feng	3/3
Mr. Wu Xian Peng	3/3
Non-executive Directors	
Mr. Wee Ee Lim *(Mr. Chng Hwee Hong as his alternate) (Note)*	3/3
Mr. Han Ah Kuan *(Mr. Ong Sian Hin as his alternate) (Note)*	2/2
Mr. Tarn Sien Hao *(Note)*	1/1

Note:

On 8 May 2006, the following changes in the non-executive Directors took place:

1) Mr. Chng Hwee Hong was appointed by Mr. Wee Ee Lim as his alternate in replacement of Mr. Tarn Sien Hao.

2) Mr. Han Ah Kuan resigned as a non-executive Director.

3) Mr. Tarn Sien Hao was appointed a non-executive Director.

By reason of the above changes, Mr. Han Ah Kuan and Mr. Tarn Sien Hao did not participate in all regular meetings during the year.

Independent non-executive Directors	
Professor Kung Hsiang Fu	3/3
Professor Tso Wung Wai	3/3
Mr. Hon Yiu Ming, Matthew	3/3

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The roles of the chairman of the Company and the chief executive officer of the Group are segregated and are not exercised by the same individual. During the year and up to the date of this report, Mr. Zhang Peter Y. has been acting as the chairman of the Company and Mr. Deng Jie as the chief executive officer of the Group.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee. The nomination of new Directors has been delegated to the Directors (other than the independent non-executive Directors). They review regularly the need to appoint additional Directors with appropriate professional knowledge and industry experience. The Board will then consider the appointment of the candidates nominated by them as Directors. During the year, Mr. Tarn Sien Hao was nominated and appointed as a non-executive Director.

During the Year, one Board meeting was held at which, among others, the appointment of Mr. Tarn Sien Hao as a non-executive Director was approved and the resignation of Mr. Han Ah Kuan was accepted. Details of the Directors' attendance records at such Board meeting are as follows:

	Attendance
Executive Directors	
Mr. Zhang Peter Y.	1/1
Mr. Xu Peng	1/1
Mr. Deng Jie	1/1
Mr. Long Xian Feng	1/1
Mr. Wu Xian Peng	1/1
Non-executive Directors	
Mr. Wee Ee Lim	1/1
Mr. Han Ah Kuan	1/1
Mr. Tarn Sien Hao *(Note)*	N/A

Note:

Mr. Tarn Sien Hao was not yet a Director at the time such Board meeting was held and therefore did not participate in such meeting.

Independent non-executive Directors	
Professor Kung Hsiang Fu	1/1
Professor Tso Wung Wai	1/1
Mr. Hon Yiu Ming, Matthew	1/1

REMUNERATION COMMITTEE

The Remuneration Committee is currently composed of five members, comprising three independent non-executive Directors, namely Professor Kung Hsiang Fu (Chairman), Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew; one executive Director, Mr. Deng Jie and one non-executive Director, Mr. Wee Ee Lim (Mr. Chng Hwee Hong as alternate). It was established by the Board and its duties are clearly defined in its terms of reference which have been prepared and adopted according to the Code Provisions.

The Remuneration Committee meets annually to review the remuneration policies and packages for Directors and senior management of the Company. No Director takes part in any discussions about his own remuneration. During the year, it has convened one meeting with full attendance by its members (except Mr. Tarn Sien Hao, who was appointed a non-executive Director subsequent to the meeting) and conducted the following activities:

(1) reviewed the remuneration packages for senior management of the Company; and

(2) reviewed the terms of the service contracts of all the executive Directors by reference to their performance.

Generally, the employees of the Group (including the Directors) are remunerated based on their experience, qualifications, the Group's performance as well as market conditions.

AUDITORS' REMUNERATION

During the year, Ernst & Young, as the external auditors of the Company, have provided audit services to the Group in respect of 2005/2006 financial statements of the Group at the fee of HK$1,800,000 (2005: HK$1,934,000).

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Professor Kung Hsiang Fu (Chairman), Professor Tso Wung Wai and Mr. Hon Yiu Ming, Matthew and one non-executive Director, Mr. Tarn Sien Hao. The original terms of reference of the Audit Committee were prepared and adopted with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants. Pursuant to a resolution passed by Board at its meeting held on 21 March 2005, a new set of terms of reference of the Audit Committee which were prepared in accordance with and with reference to the Code Provisions were adopted in replacement of the original terms of reference and the new terms of reference came into effect on 21 March 2005.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the annual and interim reports of the Company prior to their approval by the Board, the effectiveness of the external and internal audit and of internal controls and risk evaluation.

During the year, the Audit Committee has convened two meetings and conducted the following activities:

(1) reviewed interim and annual results of the Company;

(2) reviewed the internal controls and financial matters of the Group in pursuance of the terms of reference;

(3) reviewed the audit plans and findings of the external auditors of the Company; and

(4) made recommendation to the Board on the re-appointment of the external auditors.

Details of attendance of each member of the Audit Committee during the year are as follows:

	Attendance
Independent non-executive Directors	
Professor Kung Hsiang Fu *(Chairman)*	2/2
Professor Tso Wung Wai	2/2
Mr. Hon Yiu Ming, Matthew	2/2
Non-executive Directors	
Mr. Han Ah Kuan *(Mr. Ong Sian Hin as his alternate) (Note)*	2/2
Mr. Tarn Sien Hao *(Note)*	N/A

Note:

On 8 May 2006, the following changes in the non-executive Directors took place:

1) Mr. Han Ah Kuan resigned as a non-executive Director.

2) Mr. Tarn Sien Hao was appointed a non-executive Director.

By reason of the above changes, Mr. Tarn Sien Hao did not participate in any meeting of the Audit Committee during the year.

There was no disagreement between the Board and the Audit Committee on the selection and re-appointment of the external auditors.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 30 June 2006, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

The responsibilities of the external auditors are set out in the Auditors' Report to the shareholders of the Company on page 36 of the annual report of the Company.

INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of internal control. During the year, the Board has reviewed the effectiveness of the internal control system of the Group through the Audit Committee and the internal audit team of the Company. There was no significant incidence of failure in connection with the financial, operational and compliance control during the year.

18 October 2006

REPORT OF THE AUDITORS

安永會計師事務所

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 109 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 Hong Kong Standards on Auditing 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 2006 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.

Hong Kong
18 October 2006

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2006

	Notes	2006 *HK$'000*	2005 *HK$'000* (Restated)
REVENUE	*5*	**627,925**	601,921
Cost of sales		**(353,456)**	(376,585)
Gross profit		**274,469**	225,336
Other income and gain	*5*	**7,974**	7,967
Selling and distribution costs		**(73,786)**	(47,980)
Administrative expenses		**(42,835)**	(50,651)
Finance costs	*6*	**(11,300)**	(7,947)
Share of losses of:			
Associate		**–**	(368)
Amortisation of goodwill on acquisition of an associate		**–**	(100)
Impairment of goodwill on acquisition of an associate		**–**	(300)
PROFIT BEFORE TAX	*7*	**154,522**	125,957
Tax	*9*	**(27,135)**	(23,404)
PROFIT FOR THE YEAR		**127,387**	102,553
Attributable to:			
Equity holders of the Company	*10*	**123,146**	101,427
Minority interests		**4,241**	1,126
		127,387	102,553
DIVIDEND			
Proposed final	*11*	**17,615**	17,415
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*12*		
– Basic		**HK14.1 cents**	HK14.7 cents
– Diluted		**HK14.0 cents**	HK14.1 cents

CONSOLIDATED BALANCE SHEET

30 June 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**128,301**	124,998
Prepaid land lease payments	14	**100,502**	98,838
Intangible assets	15	**13,760**	13,406
Goodwill:			
Goodwill	16	**18,865**	18,865
Negative Goodwill	16	**–**	(35,897)
Investment in a jointly-controlled entity	18	**–**	–
Investment in an associate	19	**100**	100
Available-for-sale equity investment/ long term investment	20	**12,434**	11,969
Long term deposits	21	**19,625**	7,483
Total non-current assets		**293,587**	239,762
CURRENT ASSETS			
Inventories	22	**25,064**	21,580
Accounts and bills receivables	23	**266,027**	241,470
Prepayments, deposits and other receivables	28, 32(c)(ii)	**65,753**	47,113
Pledged deposits	24	**7,517**	–
Cash and cash equivalents	24	**523,864**	474,000
Total current assets		**888,225**	784,163
CURRENT LIABILITIES			
Accounts and bills payables	25	**64,468**	57,344
Tax payable		**8,553**	8,933
Accrued liabilities and other payables		**46,186**	45,621
Bank loans	26	**119,211**	117,887
Convertible bonds	27	**390**	–
Total current liabilities		**238,808**	229,785
NET CURRENT ASSETS		**649,417**	554,378
TOTAL ASSETS LESS CURRENT LIABILITIES		**943,004**	794,140
NON-CURRENT LIABILITIES			
Bank loans	26	**38,352**	79,159
Convertible bonds	27	**–**	390
Deferred tax liabilities	28	**26,631**	16,729
Total non-current liabilities		**64,983**	96,278
Net assets		**878,021**	697,862

CONSOLIDATED BALANCE SHEET (continued)

30 June 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*29*	**87,973**	87,073
Reserves	*31(a)*	**735,861**	562,310
Proposed final dividend	*11*	**17,615**	17,415
		841,449	666,798
Minority interests		**36,572**	31,064
Total equity		**878,021**	697,862

Zhang Peter Y.
Director

Deng Jie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2006

	Attributable to equity holders of the Company								
	Issued capital	**Share premium account**	**Asset revaluation reserve**	**Statutory reserve fund**	**Retained profits**	**Proposed final dividend**	**Total**	**Minority interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2004									
As previously reported	65,630	89,482	2,267	20,117	225,863	13,167	416,526	35,824	452,350
Prior year adjustments *(note 2.4(b))*	–	–	(1,265)	–	–	–	(1,265)	(67)	(1,332)
As restated	65,630	89,482	1,002	20,117	225,863	13,167	415,261	35,757	451,018
Surplus on revaluation (restated)	–	–	2,648	–	–	–	2,648	–	2,648
Effect of deferred tax (restated)	–	–	(787)	–	–	–	(787)	–	(787)
Revaluation surplus attributable to minority interests (restated)	–	–	(112)	–	–	–	(112)	112	–
Total income and expense for the year recognised directly in equity	–	–	1,749	–	–	–	1,749	112	1,861
Profit for the year (restated)	–	–	–	–	101,427	–	101,427	1,126	102,553
Total income and expense for the year	–	–	1,749	–	101,427	–	103,176	1,238	104,414
Divestment of subsidiary *(note 32(b))*	–	–	–	–	–	–	–	(13,163)	(13,163)
Acquisition of subsidiaries *(note 32(a))*	–	–	–	–	–	–	–	7,232	7,232
Issue of shares upon conversion of convertible bonds *(note 29(a))*	2,920	16,185	–	–	–	–	19,105	–	19,105
Issue of shares upon exercise of share options *(note 29(b))*	5,200	28,031	–	–	–	–	33,231	–	33,231
Issue of shares upon allotment *(note 29(c))*	13,323	101,257	–	–	–	–	114,580	–	114,580
Share issue expenses	–	(5,388)	–	–	–	–	(5,388)	–	(5,388)
Transfer to statutory reserve fund *(note 31(a))*	–	–	–	15,099	(15,099)	–	–	–	–
Final 2004 dividend declared	–	–	–	–	–	(13,167)	(13,167)	–	(13,167)
Proposed final dividend *(note 11)*	–	–	–	–	(17,415)	17,415	–	–	–
At 30 June 2005	87,073	229,567	2,751	35,216	294,776	17,415	666,798	31,064	697,862

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 30 June 2006

	Attributable to equity holders of the Company								Minority interests	Total equity
	Issued capital	Share premium account	Asset revaluation reserve	Statutory reserve fund	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2005										
As previously reported	87,073	229,567	5,974	35,216	–	295,422	17,415	670,667	31,339	702,006
Prior year adjustments *(note 2.4(b))*	–	–	(3,223)	–	–	(646)	–	(3,869)	(275)	(4,144)
Opening adjustments *(note 2.4(b))*	–	13,306	–	–	–	22,591	–	35,897	–	35,897
As restated	87,073	242,873	2,751	35,216	–	317,367	17,415	702,695	31,064	733,759
Exchange realignment	–	–	–	–	27,310	–	–	27,310	1,243	28,553
Deficit on revaluation	–	–	(16)	–	–	–	–	(16)	–	(16)
Effect of deferred tax	–	–	(7)	–	–	–	–	(7)	–	(7)
Revaluation deficit attributable to minority interests	–	–	(24)	–	–	–	–	(24)	24	–
Total income and expense for the year recognised directly in equity	–	–	(47)	–	27,310	–	–	27,263	1,267	28,530
Profit for the year	–	–	–	–	–	123,146	–	123,146	4,241	127,387
Total income and expense for the year	–	–	(47)	–	27,310	123,146	–	150,409	5,508	155,917
Issue of shares upon exercise of share options *(note 29(d))*	900	4,860	–	–	–	–	–	5,760	–	5,760
Transfer to statutory reserve fund *(note 31(a))*	–	–	–	12,541	–	(12,541)	–	–	–	–
Final 2005 dividend declared *(note 11)*	–	–	–	–	–	–	(17,415)	(17,415)	–	(17,415)
Proposed final dividend *(note 11)*	–	–	–	–	–	(17,615)	17,615	–	–	–
At 30 June 2006	87,973	247,733	2,704	47,757	27,310	410,357	17,615	841,449	36,572	878,021

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**154,522**	125,957
Adjustments for:			
Depreciation	7	**8,859**	8,289
Amortisation of prepaid land lease payments	7	**2,261**	2,359
Amortisation of intangible assets	7	**4,050**	1,939
Goodwill amortisation	7	**–**	2,385
Negative Goodwill recognised as income	7	**–**	(1,050)
Loss on write-offs/disposals of items of property, plant and equipment	7	**159**	49
Deficit on revaluation of leasehold buildings	7	**114**	646
Impairment of accounts and bills receivables	7	**451**	–
Provision against inventories	7	**–**	117
Interest income	5	**(4,882)**	(5,279)
Finance costs	6	**11,300**	7,947
Share of loss of an associate		**–**	368
Amortisation of goodwill on acquisition of an associate		**–**	100
Impairment of goodwill on acquisition of an associate		**–**	300
Gain on divestment of a subsidiary	5	**–**	(407)
Operating profit before working capital changes		**176,834**	143,720
Decrease/(increase) in inventories		**(2,869)**	1,427
Increase in accounts and bills receivables		**(20,596)**	(48,786)
Increase in prepayments, deposits and other receivables		**(7,736)**	(11,711)
Increase in accounts and bills payables		**5,867**	17,599
Increase in accrued liabilities and other payables		**565**	16,812
Cash generated from operations		**152,065**	119,061
Interest received		**4,882**	5,279
Interest paid		**(11,300)**	(7,946)
Interest element on finance lease rental payments		**–**	(1)
Overseas taxes paid		**(27,515)**	(24,622)
Net cash inflow from operating activities		**118,132**	91,771

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 30 June 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,853)**	(37,125)
Proceeds from disposal of items of property, plant and equipment		**–**	91
Acquisition of intangible assets	*15*	**(3,883)**	(3,271)
Acquisition of subsidiaries	*32(a)*	**–**	(34,751)
Divestment of a subsidiary	*32(b)*	**–**	(13,680)
Increase in long term deposits		**(15,891)**	(3,738)
Decrease/(increase) in pledged deposits		**(7,517)**	20,049
Net cash outflow from investing activities		**(31,144)**	(72,425)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	*29*	**5,760**	147,811
Share issue expenses		**–**	(5,388)
New bank loans		**18,447**	139,147
Repayment of bank loans		**(57,930)**	(85,074)
Capital element of finance lease rental payments		**–**	(40)
Dividend paid		**(17,415)**	(13,167)
Net cash inflow/(outflow) from financing activities		**(51,138)**	183,289
NET INCREASE IN CASH AND CASH EQUIVALENTS		**35,850**	202,635
Cash and cash equivalents at beginning of year		**474,000**	271,365
Effect of foreign exchange rate changes, net		**14,014**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**523,864**	474,000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*24*	**523,864**	474,000

BALANCE SHEET

30 June 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*17*	**133,700**	133,700
CURRENT ASSETS			
Due from subsidiaries	*17*	**404,951**	417,933
Prepayments, deposits and other receivables		**119**	–
Cash and cash equivalents	*24*	**2,707**	1,168
Total current assets		**407,777**	419,101
CURRENT LIABILITIES			
Accrued liabilities and other payables		**4,346**	6,074
Bank loans	*26*	**57,250**	28,500
Convertible bonds	*27*	**390**	–
Total current liabilities		**61,986**	34,574
NET CURRENT ASSETS		**345,791**	384,527
TOTAL ASSETS LESS CURRENT LIABILITIES		**479,491**	518,227
NON-CURRENT LIABILITIES			
Bank loans	*26*	**14,250**	71,500
Convertible bonds	*27*	**–**	390
Total non-current liabilities		**14,250**	71,890
Net assets		**465,241**	446,337
EQUITY			
Issued capital	*29*	**87,973**	87,073
Reserves	*31(b)*	**359,653**	341,849
Proposed final dividend	*11*	**17,615**	17,415
Total equity		**465,241**	446,337

Zhang Peter Y.
Director

Deng Jie
Director

1. CORPORATE INFORMATION

Hua Han Bio-Pharmaceutical Holdings Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 704, 7th Floor, Aon China Building, 29 Queen's Road Central, Hong Kong.

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which also include Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings which have been measured at fair value. These financial statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

(a) HKAS 17 – Leases

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

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

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

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

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

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

(ii) Convertible bonds

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

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

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

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

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

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

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

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

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

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

(d) HKFRS 2 – Share-based Payment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

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

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

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

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

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

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

* Adjustments taken effect prospectively from 1 July 2005

\# Adjustments/presentation taken effect retrospectively

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

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

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

* Adjustments taken effect prospectively from 1 July 2005

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

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

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

Adjustments taken effect retrospectively

* Adjustments taken effect prospectively from 1 July 2005

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

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

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

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

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

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

Associates

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative Goodwill

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

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

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

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

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

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

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

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

Impairment of assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Intangible assets (other than goodwill)

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

Technical knowhow

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

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Project development expenditure which does not meet these criteria is expensed when incurred.

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

Leases

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Investments and other financial assets

Applicable to the year ended 30 June 2005

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

Long term investment

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

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

Applicable to the year ended 30 June 2006

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

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

Loans and receivables

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 30 June 2006 (continued)

Available-for-sale investments

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

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

Fair value

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

Impairment of financial assets

Applicable to the year ended 30 June 2006

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

Assets carried at amortised cost

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Applicable to the year ended 30 June 2006 (continued)

Assets carried at amortised cost (continued)

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

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

Assets carried at cost

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

Derecognition of financial assets

Applicable to the year ended 30 June 2006

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Applicable to the year ended 30 June 2006 (continued)

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

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

Interest-bearing loans and borrowings

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

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

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

Convertible bonds

Applicable to the year ended 30 June 2005

Convertible bonds were stated at amortised cost.

Applicable to the year ended 30 June 2006

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

Applicable to the year ended 30 June 2006

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Government grants

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

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

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

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

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Staff retirement schemes

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

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

Dividends

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

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

Foreign currencies

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT

Judgement

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

Impairment of assets

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

4. SEGMENT INFORMATION

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

4. SEGMENT INFORMATION (continued)

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

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

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

Business segments

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

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

4. SEGMENT INFORMATION (continued)

Business segments (continued)

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

5. REVENUE AND OTHER INCOME AND GAIN

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

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

6. FINANCE COSTS

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

7. PROFIT BEFORE TAX

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

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

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

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

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

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

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

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

(a) Independent non-executive directors

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

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

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

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

Directors' remuneration (continued)

(b) Executive directors and non-executive directors

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

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

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

Five highest paid employees

The five highest paid employees during the year included three (2005: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining two (2005: three), non-director, highest paid employees, each of which fell within the nil to HK$1,000,000 band, are set out as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**504**	1,310
Retirement scheme contributions	**19**	46
	523	1,356

During the year, no emoluments were paid by the Group to the directors, or the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2005: Nil).

9. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the Year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to an approval received from 貴州省科學技術廳 on 25 December 2000, Guizhou Hanfang Medicine Manufacture Co., Ltd. ("**GHMM**"), a subsidiary of the Company, was classified as one of the approved "High and New Technology Enterprises" in Mainland China. Accordingly, GHMM is entitled to a preferential Mainland China Corporate Income Tax rate of 15% effective from 1 January 2002. In addition, pursuant to an approval received from the local tax bureau during 2003, Guiyang De Chang Xiang Pharmaceutical Company Limited ("**DCX**"), a subsidiary of the Company, was approved a Mainland China Corporate Income Tax rate of 15% effective from year 2003 to 2010 with respect to the preferential tax policy granted by the local government for the entity established in the western part of Mainland China.

9. TAX (continued)

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

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective rate is as follows:

Group

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

9. TAX (continued)

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

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

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

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

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

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

11. DIVIDEND

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

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

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

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

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

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

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

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

Shares

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

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

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

13. PROPERTY, PLANT AND EQUIPMENT

Group

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

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

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

14. PREPAID LAND LEASE PAYMENTS

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

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

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

15. INTANGIBLE ASSETS

Group

	Technical knowhow	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
30 June 2006			
Cost:			
At 1 July 2005	13,504	5,674	19,178
Additions	3,883	–	3,883
Exchange realignment	524	220	744
At 30 June 2006	17,911	5,894	23,805
Accumulated amortisation:			
At 1 July 2005	1,982	3,790	5,772
Provided during the year	3,377	673	4,050
Exchange realignment	76	147	223
At 30 June 2006	5,435	4,610	10,045
Net carrying amount:			
At 30 June 2006	12,476	1,284	13,760
At 30 June 2005	11,522	1,884	13,406
30 June 2005			
Cost:			
At 1 July 2004	10,233	5,674	15,907
Additions	3,271	–	3,271
At 30 June 2005	13,504	5,674	19,178
Accumulated amortisation:			
At 1 July 2004	821	3,012	3,833
Provided during the year	1,161	778	1,939
At 30 June 2005	1,982	3,790	5,772
Net carrying amount:			
At 30 June 2005	11,522	1,884	13,406
At 1 July 2004	9,412	2,662	12,074

16. GOODWILL AND NEGATIVE GOODWILL

Group

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

16. GOODWILL AND NEGATIVE GOODWILL (continued)

Group (continued)

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

17. INTERESTS IN SUBSIDIARIES

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

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

Particulars of the principal subsidiaries are as follows:

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

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
GHMM*	Mainland China	HK$151,830,000	–	100	Manufacture and sale of gynaecological pharmaceutical products and feminine medical health care products
貴州漢方息烽藥業有限公司**	Mainland China	RMB3,000,000	–	95	Property holding
貴州禾創經營管理有限公司 **("Guizhou Co.")**** *(note 1)*	Mainland China	RMB20,000,000	–	100	Investment holding
成都禾創藥業有限公司 **("Chengdu Co.")**** *(note 2)*	Mainland China	RMB21,000,000	–	100	Trading of pharmaceutical products, healthcare products, and medical appliances and equipment
深圳市新創生物醫藥創業投資有限公司** **("SXBPI")**	Mainland China	RMB50,000,000	–	51	Investment holding
廣東群禾藥業有限公司** **("Guangdong Qunhe")**	Mainland China	RMB10,000,000	–	70	Trading of medical healthcare products
廣州美即化妝品有限公司** **("Guangzhou Magic")**	Mainland China	RMB1,000,000	–	49	Manufacture and sale of medical healthcare products

17. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

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

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

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

Notes:

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

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

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

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

Particulars of the jointly-controlled entity are as follows:

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

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

19. INVESTMENT IN AN ASSOCIATE

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

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

19. INVESTMENT IN AN ASSOCIATE (continued)

Particulars of the associate are as follows:

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

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

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

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

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

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

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

21. LONG TERM DEPOSITS

The long term deposits represent deposits paid in respect of:

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

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

22. INVENTORIES

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

23. ACCOUNTS AND BILLS RECEIVABLES

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

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

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

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

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

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

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

25. ACCOUNTS AND BILLS PAYABLES

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

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

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

26. BANK LOANS

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

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

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

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

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

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

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

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

26. BANK LOANS (continued)

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

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

27. CONVERTIBLE BONDS

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

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

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

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

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

27. CONVERTIBLE BONDS (continued)

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

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

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

28. DEFERRED TAX

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

Deferred tax liabilities

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

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

28. DEFERRED TAX (continued)

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

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

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

29. SHARE CAPITAL

Shares

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

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

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

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

29. SHARE CAPITAL (continued)

(c) On 4 June 2005, the Company entered into a subscription agreement with Haw Par Pharmaceutical Holdings Pte Limited ("**Haw Par**"), a company incorporated in Singapore and then independent to the Group, to subscribe for 133,232,400 shares of HK$0.10 each in the Company at HK$0.86 per share for a total cash consideration of approximately HK$114,580,000, before share issue expenses.

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

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

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

Share options

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

30. SHARE OPTION SCHEME

(a) Post-IPO share options scheme

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

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

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

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

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

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

30. SHARE OPTION SCHEME (continued)

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

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

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

The exercise price of the post-IPO share options of HK$0.64 per share is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

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

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

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

30. SHARE OPTION SCHEME (continued)

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

At the balance sheet date, the Company had 4,600,000 share options outstanding under the Scheme, which represented approximately 0.5% of the Company's shares in issue as at that date. The exercise in full of the post-IPO share options would, under the present capital structure of the Company, result in the issue of 4,600,000 additional ordinary shares of the Company for an aggregate cash consideration of HK$2,944,000, before issue expenses.

(b) Subscription rights attaching to the convertible bonds

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

31. RESERVES

(a) Group

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

The share premium account of the Group includes shares issued at a premium; and the difference between the nominal value of the aggregate share/registered capital of the subsidiaries acquired pursuant to the group reorganisation completed in 2002 (the "Group Reorganisation"), over the nominal value of the Company's shares issued in exchange therefor.

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

31. RESERVES (continued)

(b) Company

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

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

Under the Companies Law, Cap. 22 (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Major non-cash transactions

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

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

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

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

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

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

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

(b) As lessee

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

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

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

34. COMMITMENTS

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

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

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

35. RELATED PARTY TRANSACTIONS

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

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

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

(b) Outstanding balances with related parties

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

(c) Compensation of key management personnel of the Group

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Cash flow interest rate risk

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

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

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

Liquidity risk

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

Credit risk

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

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

37. POST BALANCE SHEET EVENTS

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

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

37. POST BALANCE SHEET EVENTS (continued)

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

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

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests, restated as appropriate, of the Group for the last five financial years prepared on the basis set out in the notes below.

RESULTS

	Year ended 30 June				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000* (Restated)	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**627,925**	601,921	507,064	219,043	173,176
Profit before tax	**154,522**	125,957	114,357	106,219	92,022
Tax	**(27,135)**	(23,404)	(18,126)	(17,186)	(13,378)
Profit for the year	**127,387**	102,553	96,231	89,033	78,644
Attributable to:					
Equity holders of the Company	**123,146**	101,427	95,017	85,883	75,869
Minority interests	**4,241**	1,126	1,214	3,150	2,775
	127,387	102,553	96,231	89,033	78,644

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 30 June				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000* (Restated)	*HK$'000* (Restated)	*HK$'000* (Restated)	*HK$'000*
Total assets	**1,181,812**	1,023,925	722,144	381,376	196,178
Total liabilities	**(303,791)**	(326,063)	(271,125)	(126,140)	(79,318)
Minority interests	**(36,572)**	(31,064)	(35,757)	(127)	(3,414)
	841,449	666,798	415,262	255,109	113,446

Notes:

(i) The summary of the consolidated results of the Group for the year ended 30 June 2002 and of the assets and liabilities of the Group as at 30 June 2002, which were extracted from the Company's listing prospectus dated 28 November 2002, 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 (the "2002 Group Structure") (date of the Group Reorganisation) had been in existence throughout that year.

(ii) The summary of the consolidated results of the Group for the year ended 30 June 2003 have been prepared as if the 2002 Group Structure had been in existence throughout that year.

(iii) The amounts for each of the four years ended 30 June 2005 were extracted from the audited financial statements of the Group and, where appropriate, restated to conform with the current year's presentation and accounting treatment.