THIS CIRCULAR IS FOR YOUR INFORMATION ONLY AND YOU ARE ADVISED TO READ AND NOTE THE CONTENTS HEREIN

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all or any of your shares in Shanxi Central Pharmaceutical International Limited, you should hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

SHANXI CENTRAL PHARMACEUTICAL INTERNATIONAL LIMITED

正中藥業國際有限公司*

(incorporated in Bermuda with limited liability)

MAJOR TRANSACTION RELATING TO INVESTMENTS IN 94 HOSPITALS IN THE PRC

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* *for identification only*

14 February, 2003

CONTENTS

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Board"	the board of Directors of the Company
"Bozhou Company"	Bozhou City Medicinal Materials General Company of Anhui Province (安徽省亳州市藥材總公司), a medical equipment company incorporated in the PRC which is independent of, and not connected with any of the directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined under the Listing Rules)
"Bozhou Disposal Agreement"	the agreement entered into on 17 October, 2002 by Shanxi Zhengzhong as transferor and Bozhou Company as transferee in respect of disposal of all the Group's rights in 16 Rheumatic Treatment Centres
"Central Pharmaceutical (BVI)"	Central Pharmaceutical Holdings (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
"Company"	Shanxi Central Pharmaceutical International Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Cooperation Agreement(s)"	the cooperation agreement(s) entered into by Shanxi Zhengzhong with 94 hospitals in the PRC separately on different dates in late 2001 in respect of the Hospital Investments
"Director(s)"	the director(s) of the Company
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"HK$"	Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Group"	the Company and its subsidiaries
"Hospital Investments"	the investments amounting to approximately HK$164.6 million made by the Group with 94 hospitals in the PRC to establish the Rheumatic Treatment Centres and to install the necessary medical equipment for daily treatment of rheumatoid and/or arthritic conditions of the patients in these hospitals

"Latest Practicable Date"	13 February, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"PRC"	the People's Republic of China
"Purchase Agreements"	two purchase agreements entered into by Bozhou Company as supplier and Shanxi Zhengzhong as purchaser on 16 July, 2001 and 8 October, 2001 respectively in respect of the sale and purchase of appropriate medical equipment to be installed in 94 Rheumatic Treatment Centres
"Rheumatic Treatment Centre(s)"	the clinical centre(s) established by the Group and 94 hospitals across the PRC; each to apply the famous therapeutic treatment, Hou's Therapy (侯氏療法), and the use of the Group's pharmaceutical products for the treatment of rheumatoid and/or arthritic conditions of the patients in these hospitals
"Shanxi Taiyuan Kexing"	Shanxi Taiyuan Kexing Pharmaceutical Technology Research Company Limited, a wholly foreign-owned enterprise established in the PRC and a wholly owned subsidiary of the Company
"Shanxi Zhengzhong"	Shanxi Zhengzhong Pharmaceutical Co., Ltd., a Sino-foreign equity joint venture company established in the PRC and owned as to 99% by the Group (i.e. 98% by Central Pharmaceutical (BVI) and 1% by Shanxi Taiyuan Kexing respectively)
"Share(s)"	share(s) of HK$0.02 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Taiyuan Company"	Dayinpan Wholesale Department of Taiyuan Medical and Medicinal Materials Company (太原醫藥藥材公司大營盤批發部), a company incorporated in the PRC which is independent of, and not connected with any of the directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined under the Listing Rules)
"Taiyuan Disposal Agreement"	the agreement entered into on 15 October, 2002 by Shanxi Zhengzhong as transferor and Taiyuan Company as transferee in respect of disposal of all the Group's rights in 12 Rheumatic Treatment Centres
"%"	per cent.

SHANXI CENTRAL PHARMACEUTICAL INTERNATIONAL LIMITED
正中藥業國際有限公司*

(incorporated in Bermuda with limited liability)

Executive Directors:
Hou Li Ping
David Y.M. Shi
Luo Jian Xiang
Gao Guo Shi
Dai Zhong Cheng

Independent non-executive Directors:
Chan Bo Ching
Ko Siu Shing, Patrick
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Rooms 3710-3714
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14 February, 2003

To the shareholders

Dear Sir or Madam,

MAJOR TRANSACTION RELATING TO INVESTMENTS IN 94 HOSPITALS IN THE PRC

1. INTRODUCTION

On 4 November, 2002, the Board announced (the "**First Announcement**") that the Group had entered into the Cooperation Agreements in late 2001 with 94 hospitals dispersed in different provinces of the PRC to establish the Rheumatic Treatment Centres for the treatment of rheumatoid and/or arthritic conditions of the patients in these hospitals. The total original costs of the Hospital Investments in the 94 Rheumatic Treatment Centres amount to approximately HK$164.6 million. In order to provide the necessary medical equipment to the Rheumatic Treatment Centres, the Group had entered into the Purchase Agreements with Bozhou Company to purchase the appropriate medical equipment for the treatment of rheumatoid and/or arthritic conditions of the patients for a total consideration of approximately HK$134.7 million. The remaining balance of approximately HK$29.9 million are the initial establishment costs of the 94 Rheumatic Treatment Centres.

During the year ended 31 May, 2002, the Group carried out continuous assessment of the setting up and operation of the Rheumatic Treatment Centres. In view of the locations of the Rheumatic Treatment Centres being widely dispersed in the PRC and the unsatisfactory performances of some of these centres due to limited human and financial resources actually offered by the relevant hospitals, the Group had separately entered into the termination agreement to terminate the cooperation with the relevant hospital in respect of 36 Rheumatic Treatment Centres and

* *for identification only*

disposed of its rights in 16 Rheumatic Treatment Centres to Bozhou Company pursuant to the Bozhou Disposal Agreement and 12 Rheumatic Treatment Centres to Taiyuan Company pursuant to the Taiyuan Disposal Agreement when the performance of these centres could not be improved at the end of May, 2002 which is approximately six months after the date of the relevant Cooperation Agreement. As a result of the termination of 36 Rheumatic Treatment Centres, the Group incurred a loss of approximately HK$4.6 million for the return of the medical equipment in 36 Rheumatic Treatment Centres to Bozhou Company pursuant to the Purchase Agreements while the loss for the initial establishment costs of 64 Rheumatic Treatment Centres amounted to approximately HK$20.4 million.

The Directors would like to point out that when the Group commenced negotiations with the 94 hospitals, they were conducted on separate basis. The Cooperation Agreements were also executed on different dates. Each investing amount of the Hospital Investments constitutes less than 3% of the net tangible assets of the Group of HK$160.8 million with reference to the then latest published annual report of 2001. Therefore, the Directors are of the view that each of the Hospital Investments should be treated as a separate and individual transaction and not a notifiable transaction under the Listing Rules. In addition, the 94 hospitals are all independent third parties and the Hospital Investments were entered into on normal commercial terms in the ordinary and usual course of business of the Company at arm's length to expand its sales networks into hospitals.

However, the Stock Exchange considers that as all the medical equipment for the 94 Rheumatic Treatment Centres were purchased from Bozhou Company within a short period of time, the value of purchasing these medical equipment should be added together and thus constitute a major transaction under the Listing Rules. Under the Listing Rules, after the terms of a major transaction have been agreed, the Company must inform the Stock Exchange and publish a press notice in the newspapers as soon as possible. Within 21 days after such publication, the Company must send to its shareholders a circular which contains the detail information specified by the Listing Rules. In addition, a major transaction must be made conditional on approval by the Company's shareholders. Such approval may be obtained by convening a general meeting by shareholders who together hold more than 50% in nominal value of the Shares giving the right to attend and vote at such general meeting. Any shareholder who has a material interest in the major transaction shall abstain from voting at that general meeting. **Therefore, the Stock Exchange is of the view that the Company has breached the Listing Rules and reserves its rights against the Company and/or the Directors in respect of the Company's breach of the Listing Rules.**

The purpose of this circular is to provide you with further details of the Hospital Investments and other information relating to the Hospital Investments as required by the Listing Rules.

Under Rule 14.13(2) of the Listing Rules, this circular is required to be posted by the Company to its shareholders within 21 days after publication of the First Announcement. The Company had made respective announcements on 9 December, 2002, 31 December, 2002 and 29 January, 2003 in respect of the delay in dispatch of this circular. **The delay in dispatch of the Circular constitutes a breach of Rule 14.13(2) of the Listing Rules which requires the Company to dispatch circulars to its shareholders within 21 days after publication of the First Announcement in relation to the major transaction. The Stock Exchange reserves its right to take appropriate action against the Company and/or the Directors in respect of the breach of the Listing Rules.**

Further announcement in respect of the actions taken by the Stock Exchange against the Company and/or the Directors for the breach of the Listing Rules will be made as and when appropriate.

2. THE COOPERATION AGREEMENTS

Dates: different dates in late 2001 (From 1 August, 2001 to 5 October, 2001)

Parties: (1) Shanxi Zhengzhong

(2) 94 hospitals dispersed in different provinces of the PRC

These hospitals are independent third parties not connected with any of the directors, chief executives or substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules).

Major terms of the Cooperation Agreements

(a) The respective hospital is responsible for the establishment of the Rheumatic Treatment Centre within a time frame as prescribed in the relevant Cooperation Agreement. The ownership and day to day responsibility for the management and operation of the respective Rheumatic Treatment Centre vest with the relevant hospital.

(b) Shanxi Zhengzhong is responsible for the sourcing and provision of the appropriate medical equipment to be installed in the relevant Rheumatic Treatment Centre and the supply of the necessary anti-rheumatoid capsules and medicinal preparations produced by the Group for the treatment of rheumatoid and/or arthritic conditions of patients in the relevant Rheumatic Treatment Centre. Shanxi Zhengzhong will also be responsible for training of the staff of the relevant hospital to apply the famous therapeutic treatment, Hou's Therapy (侯氏療法), to cure the rheumatoid and/or arthritic conditions of patients in the relevant Rheumatic Treatment Centre.

(c) The profit generated from the operation of the Rheumatic Treatment Centres shall be distributed to the parties in accordance with the stipulated entitlements for the duration of the periods specified in the Cooperation Agreements, generally 12 years. According to the Cooperation Agreements, Shanxi Zhengzhong can share 50% profit after a 10% appropriation reserved for future development of the Rheumatic Treatment Centres, commencing from 1 January, 2003.

(d) Pursuant to the Cooperation Agreements, the hospitals shall not disclose the specific knowledge and methodologies of Hou's Therapy to any third party and the anti-rheumatoid capsules and medicinal preparations produced by the Group shall only be used for the treatment of rheumatoid and/or arthritic conditions of patients in the Rheumatic Treatment Centres and shall not be sold to other people.

(e) The parties agree that if due to certain force majeure factors which make the continuance of the Rheumatic Treatment Centres impossible, both parties shall then solve the issue and/or terminate the Cooperation Agreements base upon friendly terms and attitude.

Consideration

The total consideration of the Hospital Investments pursuant to the Cooperation Agreements amount to approximately HK$164.6 million of which approximately HK$134.7 million are the costs of purchasing the appropriate medical equipment and the remaining balance of approximately HK$29.9 million are the initial establishment costs of the Rheumatic Treatment Centres. The total consideration was arrived at after arm's length negotiation in the ordinary and usual course of business and had been fully paid up by the Group in late 2001 by internal financial resources. The total consideration of the Hospital Investments is an aggregate of the 94 different amounts paid by the Group in respect of the establishment of 94 Rheumatic Treatment Centres according to the relevant Cooperation Agreement. The individual consideration ranges from HK$1.31 million to HK$4.15 million. The individual consideration was concluded by the Group on separate basis after careful negotiation with the relevant hospital taking into consideration of its geographical location, size of operation, potential number of patients suffering from rheumatic and/or arthritic conditions in the relevant area, necessary and appropriate medical equipment required to be installed and human resources available for the treatment of these patients in the relevant hospital. The costs of purchasing the appropriate medical equipment are determined with reference to the price list of the medical equipment suggested by the PRC government. Base on these, the Directors believe that the consideration is fair and reasonable.

3. THE PURCHASE AGREEMENTS

Dates: 16 July, 2001 and 8 October, 2001

Parties: (1) Purchaser: Shanxi Zhengzhong

(2) Vendor: Bozhou Company which is an independent third party not connected with any of the directors, chief executives or substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules).

Major terms of the Purchase Agreements

(a) Shanxi Zhengzhong shall purchase from Bozhou Company the appropriate medical equipment for the treatment of rheumatoid and/or arthritic conditions of patients in 94 Rheumatic Treatment Centres for a total sum of approximately HK$134.7 million.

(b) Pursuant to the Purchase Agreements, Bozhou Company shall deliver the medical equipment to the designated place in accordance with Shanxi Zhengzhong's instruction and the transportation costs shall be born by Bozhou Company solely.

(c) Payment in respect of the purchase of the medical equipment shall be payable by Shanxi Zhengzhong to Bozhou Company by ten installments. The final payment date shall be 25 November, 2001.

(d) Both parties agree that if the Hospital Investments were not successful, Bozhou Company shall refund the costs of medical equipment to Shanxi Zhengzhong.

4. BOZHOU DISPOSAL AGREEMENT

Date: 17 October, 2002

Parties: (1) Transferor: Shanxi Zhengzhong

(2) Transferee: Bozhou Company

Major terms of the Bozhou Disposal Agreement

(a) Shanxi Zhengzhong agrees to dispose of its entire rights and interests in 16 Rheumatic Treatment Centres to Bozhou Company for a total consideration of HK$19.1 million.

(b) Bozhou Company agrees to pay 40% of the total consideration upon the execution of the Bozhou Disposal Agreement. While the remaining 60% of the consideration shall be payable as to 30% within six months after the Bozhou Disposal Agreement and as to 30% before 30 December, 2003.

(c) Bozhou Company will purchase the anti-rheumatoid capsules and medicinal preparations produced by the Group for the treatment of rheumatoid and/or arthritic conditions of patients in these Rheumatic Treatment Centres.

(d) Shanxi Zhengzhong promises to continue to supply the necessary training to the staff in 16 Rheumatic Treatment Centres in respect of Hou's Therapy.

5. TAIYUAN DISPOSAL AGREEMENT

Date: 15 October, 2002

Parties: (1) Transferor: Shanxi Zhengzhong

(2) Transferee: Taiyuan Company which is an independent third party not connected with any of the directors, chief executives or substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules).

Major terms of the Taiyuan Disposal Agreement

(a) Shanxi Zhengzhong agrees to dispose of its entire rights and interests in 12 Rheumatic Treatment Centres to Taiyuan Company for a total consideration of HK$17.4 million.

(b) Taiyuan Company agrees to pay 40% of the total consideration upon the execution of the Bozhou Disposal Agreement. While the remaining 60% of the consideration shall be payable as to 30% within six months after the Taiyuan Disposal Agreement and as to 30% before 30 December, 2003.

(c) Taiyuan Company will purchase the anti-rheumatoid capsules and medicinal preparations produced by the Group for the treatment of rheumatoid and/or arthritic conditions of patients in these Rheumatic Treatment Centres.

(d) Shanxi Zhengzhong promises to continue to supply the necessary training to the staff in 12 Rheumatic Treatment Centres in respect of Hou's Therapy.

6. INFORMATION ON THE 94 HOSPITALS

The 94 hospitals with whom the Group has entered into the Cooperation Agreements are located in different provinces of the PRC including Hubei Province (8 hospitals), Shanxi Province (7 hospitals), Shandong Province (10 hospitals), Hebei Province (11 hospitals), Henan Province (10 hospitals), Guangdong Province (2 hospitals), Hunan Province (6 hospitals), Anhui Province (7 hospitals), Fujian Province (1 hospital), Gansu Province (2 hospitals), Jilin Province (3 hospitals), Zhejiang Province (1 hospital), Liaoning Province (4 hospitals), Xinjiang Autonomous Region (1 hospital), Neimonggo (6 hospitals), Guangxi Autonomous Region (1 hospital), Heilongjiang Province (2 hospitals), Jiangxi Province (5 hospitals), Shaanxi Province (4 hospitals), Sichuan Province (2 hospitals) and Yunnan Province (1 hospital). These provinces are considered to be the areas of high population of patients/potential patients suffering from rheumatoid disease in the PRC. The 94 hospitals are chosen by the Group to establish the Rheumatic Treatment Centres because they have certain clinical and technological cooperation relationship with the Group.

7. REASONS FOR THE HOSPITAL INVESTMENTS AND THE TERMINATION

The principal activities of the Group are (i) the development, manufacture and provision of Chinese pharmaceutical products, which are predominately medicinal preparations and anti-rheumatoid capsules primarily for the treatment of rheumatoid and/or arthritic conditions; (ii) the operation of Taiyuan City Rheumatoid Hospital which provides diagnosis and clinical treatment for patients with symptoms associated with rheumatism and/or arthritis; and (iii) the wholesale and retail of Chinese and Western pharmaceutical products and health care products in the PRC.

In view of the high incidence of rheumatoid disease in the provinces mentioned above and leveraging on the remarkable curative effects of the Group's anti-rheumatoid capsules and medicinal preparations and the famous therapeutic treatment, Hou's Therapy, the Group commenced market research and feasibility study in respect of the possibility of the establishment of the Rheumatic Treatment Centres for the treatment of rheumatic and/or arthritic conditions of patients and liaised with around 100 hospitals in these provinces from February 2001 to late 2001 and entered into the Cooperation Agreements with 94 hospitals separately in late 2001 to establish the Rheumatic Treatment Centres.

Before entering into the Cooperation Agreements, the Directors had made site visits to these hospitals and convened internal meetings among Board members of the Company to study the Hospital Investments on numerous occasions before formally entering into the Cooperation Agreements. The Directors were of the view that the establishment of additional sales networks for the Group's products through the Rheumatic Treatment Centres in 94 hospitals across the PRC will lead to an increase in demand for the Group's products and thus increase the Group's profitability which is an important factor in determining the reputation, recognition and earning power of a pharmaceutical company in the current competitive market in the PRC. The independent non-executive Directors had been informed and updated on the progress of the Hospital Investments and raised no objections as they also considered that the Hospital Investments is an important breakthrough in demand for the Group's products and will increase the Group's profit in the long term. As anticipated, the manufacturing revenue of the Group's products for the year ended 31 May, 2002 had increased 27% from the previous year.

During the year ended 31 May, 2002, the Group carried out continuous assessment of the setting up and operation of the Rheumatic Treatment Centres. In view of the locations of these Rheumatic Treatment Centres being widely dispersed in the PRC and the unsatisfactory performances of some of these centres due to limited human and financial resources actually offered by the relevant hospitals as none of such hospitals can afford any promoting expenses to bring the patients' awareness of the existence of the Rheumatic Treatment Centres whereas 36 hospitals cannot spare proper and adequate staff to manage these centres as stipulated in the Cooperation Agreements, the Group had separately entered into the termination agreement to terminate the cooperation with 36 Rheumatic Treatment Centres and disposed of its rights and interests in 16 Rheumatic Treatment Centres to Bozhou Company pursuant to the Bozhou Disposal Agreement and 12 Rheumatic Treatment Centres to Taiyuan Company pursuant to the Taiyuan Disposal Agreement.

8. FINANCIAL EFFECT OF TERMINATION AND DISPOSAL ON THE GROUP

The original costs of establishing 64 Rheumatic Treatment Centres (i.e. 36 Rheumatic Treatment Centres being terminated and 28 Rheumatic Treatment Centres being disposed) and purchasing medical equipment are HK$20.4 million and HK$82.5 million respectively. As a result of the termination of 36 Rheumatic Treatment Centres, the Group incurred a loss of HK$4.6 million for the return of the medical equipment in 36 Rheumatic Treatment Centres to Bozhou Company while the loss for the initial establishment costs of 64 Rheumatic Treatment Centres amounted to HK$20.4 million which were all charged to the profit and loss account of the Group for the year ended 31 May, 2002. As at the Latest Practicable Date, the Group has received a total of HK$40 million in relation to the return of the medical equipment in 36 Rheumatic Treatment Centres and disposal of 28 Rheumatic Treatment Centres. As to the remaining balance of HK$37.9 million (i.e. HK$19.6 million for the termination of 36 Rheumatic Treatment Centres and HK$18.3 million for the disposal of 28 Rheumatic Treatment Centres), the Directors believe that the outstanding sum will be received in accordance with the respective termination agreement entered into by the Group and the relevant hospital in respect of 36 Rheumatic Treatment Centres, Taiyuan Disposal Agreement and Bozhou Disposal Agreement and no further provisions need to be made regarding the investment in the 64 Rheumatic Treatment Centres. The Group does not anticipate that any future liabilities whether contingent or not will be incurred because of the termination and disposal of the 64 Rheumatic Treatment Centres.

As to the remaining 30 Rheumatic Treatment Centres, the Directors confirm that they are all still operating by the respective hospital in accordance with the terms and conditions in the relevant Cooperation Agreement. At present, the Directors have no intention to terminate these Cooperation Agreements.

9. GENERAL

This circular is issued for your information and in compliance with the Listing Rules and you are advised to take note of the contents herein. Your attention is also drawn to the general information set out in Appendix II to this circular.

Yours faithfully,
for and on behalf of the Board
Hou Li Ping
Chairman

1. AUDITED FINANCIAL STATEMENTS

Set out below is a summary of the audited consolidated profit and loss accounts of the Group for each of the three years ended 31 May, 2000, 2001 and 2002 and the consolidated balance sheets as at 31 May, 2001 and 2002 of the Group together with the relevant notes in the accounts as extracted from the audited financial statements of the Company for the years ended 31 May, 2001 and 2002.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 May		
		2002	**2001**	**2000**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	*5*	280,066	235,359	176,243
Cost of sales		(162,218)	(123,492)	(87,085)
GROSS PROFIT		117,848	111,867	89,158
Other revenue		639	1,345	–
Selling and distribution costs		(59,313)	(35,427)	(11,782)
Administrative expenses		(15,155)	(10,563)	(5,943)
Other operating expenses		(14,477)	(17,555)	–
PROFIT FROM OPERATING ACTIVITIES	*6*	29,542	49,667	71,433
Finance costs	*7*	(387)	–	–
PROFIT BEFORE TAX		29,155	49,667	71,433
Tax	*9*	(7,535)	(9,132)	(5,384)
PROFIT BEFORE MINORITY INTERESTS		21,620	40,535	66,049
Minority interests		(293)	(440)	(584)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	*10*	21,327	40,095	65,465
EARNINGS PER SHARE	*11*			
Basic		HK1.0 cent	HK2.1 cents	HK3.8 cents
Diluted		N/A	N/A	N/A

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

		Year ended 31 May	
		2002	**2001**
	Note	*HK$'000*	*HK$'000*
Surplus/(deficit) on revaluation of fixed assets	*24*	(2,785)	1,570
Net gains/(losses) not recognised in the profit and loss account		(2,785)	1,570
Net profit from ordinary activities attributable to shareholders		21,327	40,095
Total recognised gains and losses		18,542	41,665

CONSOLIDATED BALANCE SHEET

		As at 31 May	
		2002	**2001**
	Notes	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Fixed assets	*12*	18,292	23,555
Deferred development costs	*13*	5,565	13,171
Long term deposit	*14*	–	4,545
Long term investments	*16*	61,712	–
Investments held for disposal	*16*	10,953	–
		96,522	41,271
CURRENT ASSETS			
Investments held for disposal	*16*	66,929	–
Inventories	*17*	1,311	3,369
Accounts receivable	*18*	95,492	43,773
Prepayments, deposits and other receivables		12,886	7,375
Cash and cash equivalents	*19*	52,938	135,321
		229,556	189,838
CURRENT LIABILITIES			
Accounts payable	*20*	41,072	22,181
Accrued liabilities and other payables		43,027	25,978
Tax payable		2,022	7,450
Interest-bearing bank borrowings	*21*	19,031	–
		105,152	55,609
NET CURRENT ASSETS		124,404	134,229
TOTAL ASSETS LESS CURRENT LIABILITIES		220,926	175,500
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	*21*	18,000	–
Due to a director	*22*	8,500	–
		26,500	–
MINORITY INTERESTS		1,933	1,549
		192,493	173,951
CAPITAL AND RESERVES			
Issued capital	*23*	42,000	42,000
Reserves	*24*	150,493	131,951
		192,493	173,951

CONSOLIDATED CASH FLOW STATEMENT

		Year ended 31 May	
		2002	**2001**
	Notes	*HK$'000*	*HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	*25(a)*	25,158	44,332
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		639	1,326
Interest paid		(387)	–
Dividends paid		–	(8,400)
Dividends paid to the minority equity holder of a subsidiary		–	(91)
Net cash inflow/(outflow) from returns on investments and servicing of finance		252	(7,165)
TAX			
Overseas tax paid		(12,963)	(9,838)
INVESTING ACTIVITIES			
Increase in deferred development costs		–	(44)
Purchases of fixed assets		(806)	(5,679)
Decrease/(increase) in long term deposit		4,545	(4,545)
Increase in long term investments		(144,191)	–
Net cash outflow from investing activities		(140,452)	(10,268)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		(128,005)	17,061
FINANCING ACTIVITIES	*25(b)*		
Proceeds from issue of shares		–	63,750
Share issue expenses		–	(15,811)
Capital contribution from the minority equity holder of a subsidiary		91	150
New bank loan		30,000	–
Advance from a director		8,500	–
Net cash inflow from financing activities		38,591	48,089
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(89,414)	65,150
Cash and cash equivalents at beginning of year		135,321	70,171
CASH AND CASH EQUIVALENTS AT END OF YEAR		45,907	135,321
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		52,938	135,321
Trust receipt loan with original maturity of less than three months		(7,031)	–
		45,907	135,321

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities in the People's Republic of China, excluding Hong Kong (the "PRC"):

– the development, manufacturing and provision of Chinese pharmaceutical products, which are predominantly medicinal preparations and anti-rheumatoid capsules primarily for the treatment of rheumatoid and/or arthritic conditions;

– the wholesale and retail of Chinese and Western pharmaceutical products and healthcare products; and

– the operation of Taiyuan City Rheumatoid Hospital (the "Taiyuan Hospital") which provides diagnosis and clinical treatment for patients with symptoms associated with rheumatism and/or arthritis.

In the opinion of the directors the ultimate holding company of the Company as at 31 May, 2002 is Healthlink International Inc., which is incorporated in the British Virgin Islands.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of this revised SSAP. The revised requirements have not had a material effect on the amounts previously recorded in the financial statements and therefore, no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 27 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 May, 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

The prior year comparative consolidated financial statements have been prepared using the merger basis of accounting. Under this basis, the Company has been treated as the holding company of its subsidiaries prior to the date of their acquisition pursuant to a group reorganisation implemented on 25 June, 2000. Accordingly, the consolidated results of the Group for the year ended 31 May, 2001 include the results of the Company and its subsidiaries with effect from 1 June, 2000 or since their respective dates of incorporation/registration, where this is a shorter period, as if the current Group structure had been in existence throughout the year ended 31 May, 2001.

In the opinion of the directors, the comparative consolidated financial statements prepared on the above basis present more fairly the results of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

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

A joint venture company is treated as a subsidiary if the Company has unilateral control over the joint venture company.

Related parties

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

Impairment of assets

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

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

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

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

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses.

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

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

Depreciation is provided on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Short term leasehold land and buildings outside Hong Kong	Over the remaining lease terms
Plant and machinery	5 to 10 years
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures, motor vehicles and other equipment	5 to 10 years

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

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product 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 expected useful lives of the related products subject to a maximum period of five years commencing from the date when the products are available for use.

Operating 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 lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Investments in rheumatic treatment centres

The Group's investments in rheumatic treatment centres represent the costs incurred in relation to the establishment of rheumatic treatment centres for the treatment of rheumatoid and/or arthritic conditions (the "Rheumatic Treatment Centres") with certain hospitals in the PRC which are intended to be held on a long term basis.

Long term investments are stated at cost less any accumulated amortisation and any impairment losses. Such costs are amortised on the straight-line basis, over the terms of the contractual arrangements of twelve years commencing from the date when the Group is entitled to share the profits generated from the operation of the Rheumatic Treatment Centres.

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 based on normal level of activity. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Accounts receivable

Trade debtors, which generally have credit terms of not more than 90 days, are recognised and carried at the original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from bank repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

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) the provision of clinical and medicinal services, and medicinal preparations, when the services are rendered; and

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

Dividends

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

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

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. The MPF Scheme has operated since 1 December, 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the manufacturing segment engages in the development, manufacturing and provision of Chinese pharmaceutical products;

(b) the trading segment engages in the trading of Chinese and Western pharmaceutical products and healthcare products; and

(c) the hospital operation segment engages in the operation of the Taiyuan Hospital which provides diagnosis and clinical treatment for patients with symptoms associated with rheumatism and/or arthritis.

In determining the Group’s geographical segments, revenues and results 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 and results are derived from customers based in the PRC, and over 90% of the Group’s assets are located in the PRC.

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

Group	Manufacturing		Trading		Hospital operation		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	249,252	195,845	24,620	33,354	6,194	6,160	280,066	235,359
Segment results	36,394	54,460	224	973	120	(320)	36,738	55,113
Interest income							639	1,326
Net unallocated expenses							(7,835)	(6,772)
Profit from operating activities							29,542	49,667
Finance costs							(387)	–
Profit before tax							29,155	49,667
Tax							(7,535)	(9,132)
Profit before minority interests							21,620	40,535
Minority interests							(293)	(440)
Net profit from ordinary activities attributable to shareholders							21,327	40,095
Segment assets	307,341	214,266	11,214	3,508	5,492	5,914	324,047	223,688
Unallocated assets							2,031	7,421
Total assets							326,078	231,109
Segment liabilities	69,515	41,721	7,919	7,697	1,037	1,331	78,471	50,749
Unallocated liabilities							53,181	4,860
Total liabilities							131,652	55,609
Other segment information:								
Depreciation and amortisation	5,011	2,431	5	3	520	392	5,536	2,826
Impairment losses recognised in the profit and loss account	9,874	–	–	–	–	–	9,874	–
Other non-cash expenses	2,349	35	–	–	2	–	2,351	35
Capital expenditure	483	13,440	8	21	298	106	789	13,567
Unallocated amounts							17	475

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and services provided. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

6. PROFIT FROM OPERATING ACTIVITIES

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

	2002	**2001**
	HK$'000	*HK$'000*
Auditors' remuneration	1,150	850
Amortisation of deferred development costs*	2,329	1,464
Cost of inventories sold	157,557	118,518
Cost of services provided	4,661	4,974
Minimum lease payments under operating leases in respect of land and buildings	1,544	1,819
Depreciation	3,207	1,362
Provision for impairment of deferred development costs*	5,277	–
Loss on disposal of fixed assets	77	35
Provision for impairment of long term investments*	4,597	–
Provision for bad and doubtful debts*	2,274	–
Research and development expenses*	–	16,091
Staff costs (excluding directors' remuneration, note 8)		
Wages and salaries	5,155	9,538
Retirement benefits contributions	17	14
	5,172	9,552
Interest income on bank balances	(639)	(1,326)

* *Included in "Other operating expenses" on the face of the consolidated profit and loss account.*

Costs of inventories sold and services provided include HK$3,333,000 (2001: HK$1,950,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for these types of expenses.

7. FINANCE COSTS

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Interest expense on bank borrowings wholly repayable within five years	387	–

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Details of the remuneration of the directors of the Company 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 are as follows:

	2002	**2001**
	HK$'000	*HK$'000*
Fees:		
Executive directors	–	–
Independent non-executive directors	400	640
	400	640
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,596	1,500
	1,996	2,140

The remuneration of each director fell within the nil – HK$1,000,000 band.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2001: Nil).

Five highest paid employees

The five highest paid employees during the year included four (2001: three) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining non-director, highest paid employee (2001: two), which fell within the nil – HK$1,000,000 band are as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	507	455
Retirement benefits contributions	12	6
	519	461

During the year, no emoluments were paid by the Group to the directors, or the non-director, highest paid employee as an inducement to join or upon joining the Group, or as compensation for loss of office (2001: Nil).

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 May, 2002 and 2001.

9. TAX

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Current year provision – outside Hong Kong	7,535	9,132

Hong Kong profits tax has not been provided (2001: Nil) as the Group had no assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the subsidiaries operated during the year based on existing legislation, interpretations and practices in respect thereof.

PRC income tax for all of the subsidiaries operating in the PRC is calculated at a unified tax rate of 33% (2001: 33%) on their taxable profits unless waivers are granted by relevant tax authorities during the year.

Shanxi Zhengzhong Pharmaceutical Co., Ltd. ("Shanxi Zhengzhong") was exempted from PRC income tax for two years from its first profit-making year of operations, which was the year ended 31 December, 1998, and thereafter is eligible for a 50% relief from PRC income tax for the following three years under the Income Tax Law of the PRC.

Deferred tax has not been provided (2001: Nil) because the Company and the Group had no significant timing differences at 31 May, 2002.

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 May, 2002 dealt with in the financial statements of the Company is HK$1,000 (2001: net profit of HK$8,499,000).

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$21,327,000 (2001: HK$40,095,000), and the weighted average number of 2,100,000,000 (2001: 1,874,452,055) ordinary shares, as adjusted for the sub-division of one ordinary share of HK$0.10 each into five ordinary shares of HK$0.02 each (note 23), of the Company during the year.

Diluted earnings per share for the years ended 31 May, 2002 and 2001 have not been calculated as no dilutive events existed during the two years ended 31 May, 2002.

12. FIXED ASSETS

Group

	Short term leasehold land and buildings outside Hong Kong	**Plant and machinery**	**Leasehold improvements, furniture, fixtures, motor vehicles and other equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:				
At 1 June, 2001	16,890	2,754	7,968	27,612
Additions	–	403	403	806
Disposals	–	(16)	(82)	(98)
Deficit on revaluation	(5,137)	–	–	(5,137)
At 31 May, 2002	11,753	3,141	8,289	23,183
Accumulated depreciation:				
At 1 June, 2001	97	2,205	1,755	4,057
Provided during the year	2,255	275	677	3,207
Disposals	–	(7)	(14)	(21)
Reversal upon revaluation	(2,352)	–	–	(2,352)
At 31 May, 2002	–	2,473	2,418	4,891
Net book value:				
At 31 May, 2002	11,753	668	5,871	18,292
At 31 May, 2001	16,793	549	6,213	23,555
Analysis of cost or valuation:				
At cost	–	3,141	8,289	11,430
At valuation	11,753	–	–	11,753
	11,753	3,141	8,289	23,183

The valuation of the leasehold land and buildings were carried out by Castores Magi Surveyors Limited, an independent firm of professional valuers, at depreciated replacement cost basis as at 31 May, 2002. A revaluation deficit of HK$2,785,000, resulting from the above valuation, has been debited to the asset revaluation reserve (note 24).

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$6,005,000 (2001: HK$8,023,000) as at 31 May, 2002.

13. DEFERRED DEVELOPMENT COSTS

	Group
	HK$'000
Cost:	
At 1 June, 2001 and at 31 May, 2002	14,635
Accumulated amortisation and impairment:	
At 1 June, 2001	1,464
Provided during the year	2,329
Impairment during the year recognised in the profit and loss account	5,277
At 31 May, 2002	9,070
Net book value:	
At 31 May, 2002	5,565
At 31 May, 2001	13,171

14. LONG TERM DEPOSIT

The balance at 31 May, 2001 represented a deposit paid in respect of the acquisition of a factory located in the PRC (the "Factory Acquisition"). The agreement for the Factory Acquisition was terminated during the year. As a result, the deposit was refunded to the Group during the year ended 31 May, 2002.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted investments, at cost	84,347	84,347

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the principal subsidiaries are set out below:

Name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company 2002	2001	Principal activities
Directly held					
Central Pharmaceutical Holdings (BVI) Limited ("CBVI")	British Virgin Islands	Ordinary US$500,000	100	100	Investment holding
Indirectly held					
Shanxi Zhengzhong Pharmaceutical Co., Ltd.	People's Republic of China	RMB30,000,000 (2001: RMB20,000,000)	99 *note (a)*	99	Provision of medicinal preparations and the sale of Chinese pharmaceutical products

Name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company 2002	2001	Principal activities
Shanxi Taiyuan Kexing Pharmaceutical Technology Research Company Limited	People's Republic of China	RMB500,000	100 *note (b)*	100	Development of new medicines, clinical research and medical information technology
Taiyuan City Rheumatoid Hospital	People's Republic of China	RMB3,000,000	99.4	99.4	Provision of therapy for patients with symptoms associated with rheumatoid and/or arthritic conditions
Beijing Zhengzhongyuan Pharmaceutical Technology Development Company Limited	People's Republic of China	RMB1,000,000	99.2	99.2	Development of medical technology and the provision of consultancy services
Beijing Zhengzhong Sante Medicine and Medicinal Materials Company Limited	People's Republic of China	RMB500,000	79.4 *note (c)*	79.4	Wholesale and retail of Chinese and Western pharmaceutical products and healthcare products

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:

(a) Shanxi Zhengzhong was established by Shanxi Taiyuan Kexing Pharmaceutical Technology Research Company Limited ("Kexing") and a foreign partner for an original period of 12 years commencing on 9 December, 1993. In 1999, the tenure of Shanxi Zhengzhong was extended for a further eight years to 9 December, 2013.

(b) In March 2000, Kexing became a wholly foreign owned enterprise with a tenure of five years commencing on 22 November, 1999, the date of issuance of its business licence.

(c) Beijing Zhengzhong Sante Medicine and Medicinal Materials Company Limited ("Beijing Sante") is a limited liability company with a registered capital of RMB500,000.

Prior to the acquisition of 80% of its equity interest by the Group in September 1999, Beijing Sante was wholly-owned by an independent third party. Pursuant to the agreements dated 1 January, 1996 and 25 July, 1998, Shanxi Zhengzhong obtained the entire operational and management rights of Beijing Sante for a period of six years expiring on 31 December, 2001. During the contracted period, an annual fee of RMB150,000 was payable by the Group to Beijing Sante, while all profits and losses derived from Beijing Sante's operations were to be vested in or borne by the Group.

Upon execution of an agreement entered into on 20 September, 1999, the Group acquired an 80% equity interest in Beijing Sante which became an 80%-owned subsidiary of the Group thereafter. On 10 November, 1999, the date that the business licence of Beijing Sante was granted, the agreement dated 25 July, 1998 was replaced by another agreement with the same terms, except that the contracted period will now expire on 9 November, 2009.

16. LONG TERM INVESTMENTS AND INVESTMENTS HELD FOR DISPOSAL

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Unlisted investments, at cost	144,191	–
Provision for impairment	(4,597)	–
	139,594	–
Investments held for disposal	(77,882)	–
Long term investments	61,712	–
Investments held for disposal	77,882	–
Portion classified as current assets	(66,929)	–
Long term portion	10,953	–

During the year, the Group signed various agreements (the "Agreements") with 94 hospitals in the PRC for the establishment of the Rheumatic Treatment Centres in these hospitals.

Pursuant to the Agreements, the hospitals are responsible for the establishment of the Rheumatic Treatment Centres within a time frame prescribed in the Agreements. The ownership and day to day responsibility for the operation of the Rheumatic Treatment Centres vest with the hospitals. The Group is responsible for the sourcing of appropriate medical equipment, supply of the necessary medicinal preparations and anti-rheumatoid capsules for the treatment of rheumatoid and/or arthritic conditions for the Rheumatic Treatment Centres. Pursuant to the purchase agreements entered into with the medical equipment supplier (the "Supplier"), the medical equipment can be returned to the Supplier should the medical equipment not meet the Group's requirements. The Group also funds part of the initial establishment costs of the Rheumatic Treatment Centres which are non-refundable. In return, the Group receives a participating right in the Rheumatic Treatment Centres' profits for the duration of the periods specified in the Agreements, generally 12 years. Pursuant to the Agreements, the Group can share 50% of the profit generated from the operation of the Rheumatic Treatment Centres, after a 10% appropriation reserved for future development of the Rheumatic Treatment Centres, commencing from 1 January, 2003. The total original cost of investments in Rheumatic Treatment Centres, after taking into account the initial establishment costs of the Rheumatic Treatment Centres as further detailed below, amounted to approximately HK$164.6 million.

The remaining amortisation period of the investments in Rheumatic Treatment Centres, which will commence in January, 2003, is approximately ten years and nine months.

During the year, the Group carried out continuous assessment of the setting up and operation of the Rheumatic Treatment Centres. In view of the locations of these Rheumatic Treatment Centres are widely dispersed in the PRC and the unsatisfactory performance of some of these centres, the Group decided either to terminate the cooperation with some of these hospitals or dispose of its rights of some of these centres.

Subsequent to the balance sheet date, in August and September 2002, the Group entered into various termination agreements (the "Termination Agreements") with 36 hospitals for the termination of its investments in the Rheumatic Treatment Centres (the "Terminated Centres") due to their unsatisfactory performance. Pursuant to the Termination Agreements, all the medical equipment delivered to the Terminated Centres were returned to the Group and the cooperation with these 36 hospitals were terminated. On the other hand, the Group entered into an agreement (the "Supplier Agreement") with the Supplier. Pursuant to the Supplier Agreement, the Supplier agreed to buy back those medical equipment returned from the Terminated Centres at aggregate consideration of approximately HK$41.4 million, representing 90% of the original cost, resulting in a loss of approximately HK$4.6 million, which was incorporated into these financial statements. The initial establishment costs of the Terminated Centres of a total of approximately HK$11.5 million are not refundable and hence were charged to the profit and loss account. Pursuant to the Supplier Agreement, the Group received approximately HK$21.8 million from the Supplier in September 2002. In accordance with the Supplier Agreement, the remaining balance will be settled as to approximately HK$5.5 million and approximately HK$14.1 million in November 2002 and January, 2003, respectively.

In October 2002, the Group entered into sale and purchase agreements (the "Disposal Agreements") with two independent third parties (the "Purchasers") to dispose of its entire interests in the investments in the Rheumatic Treatment Centres with some other 28 hospitals (the "Disposed Centres") at aggregate consideration of approximately HK$36.5 million. The initial establishment costs of the Disposed Centres of a total of approximately HK$8.9 million were charged to the profit and loss account. The Group received non-refundable deposits of a total of approximately HK$18.2 million from the Purchasers in October 2002 in accordance with the Disposal Agreements. The remaining balance will be settled as to approximately HK$7.3 million and approximately HK$11.0 million by the Purchasers in April 2003 and December 2003, respectively, according to the Disposal Agreements.

The directors, after taking into account a valuation report performed by an independent professional valuer and the operations of the remaining 30 Rheumatic Treatment Centres, consider that there is no impairment in value on the investments in the Rheumatic Treatment Centres with the remaining 30 hospitals of approximately HK$61.7 million.

17. INVENTORIES

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Raw materials	280	398
Work in progress	737	519
Finished goods	294	2,452
	1,311	3,369

At 31 May, 2002, no inventories were stated at net realisable value (2001: Nil).

18. ACCOUNTS RECEIVABLE

An aged analysis of the accounts receivable as at the balance sheet date, based on the date of goods delivered, is as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Less than 90 days	54,356	42,384
91 – 180 days	40,252	1,153
Over 180 days	884	236
	95,492	43,773

19. CASH AND CASH EQUIVALENTS

The cash and cash equivalents are mainly denominated in Renminbi. Renminbi is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

20. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on the date of goods received, is as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
Less than 90 days	27,472	13,280
91 – 180 days	8,593	2,193
Over 180 days	5,007	6,708
	41,072	22,181

21. INTEREST-BEARING BANK BORROWINGS

	Group 2002 HK$'000	Group 2001 HK$'000
Trust receipt loan, unsecured	7,031	–
Unsecured bank loan repayable:		
Within one year	12,000	–
In the second year	12,000	–
In the third to fifth years, inclusive	6,000	–
	37,031	–
Portion classified as current liabilities	(19,031)	–
Long term portion	18,000	–

At 31 May, 2002, the banking facilities of the Group were supported by:

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

(ii) personal guarantees executed by two directors of the Company.

22. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and not repayable within twelve months.

23. SHARE CAPITAL

	Company 2002 HK$'000	Company 2001 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.02 each (2001: 2,000,000,000 ordinary shares of HK$0.10 each)	200,000	200,000
Issued and fully paid:		
2,100,000,000 ordinary shares of HK$0.02 each (2001: 420,000,000 ordinary shares of HK$0.10 each)	42,000	42,000

Pursuant to an ordinary resolution passed in a special general meeting of the Company held on 25 July, 2001, each of the shares of HK$0.10 each in the issued and unissued share capital of the Company was sub-divided into 5 shares of HK$0.02 each. As a result, the Company's authorised share capital was changed from 2,000,000,000 shares of HK$0.10 each to 10,000,000,000 shares of HK$0.02 each, while the Company's issued share capital was changed from 420,000,000 shares of HK$0.10 each to 2,100,000,000 shares of HK$0.02 each. All the shares, after adjustment for the sub-division, rank pari passu with each other in all respect.

A summary of the movements in the issued share capital of the Company is as follows:

	Number of shares in issue *('000)*	Share capital *HK$'000*
Shares allotted and issued nil paid on incorporation	1,000	–
On acquisition of CBVI:		
Shares issued as consideration	1,000	100
Application of contributed surplus to pay up nil paid shares	–	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	343,000	–
Pro forma share capital as at 31 May and 1 June, 2000	345,000	200
New issue on public listing	75,000	7,500
Capitalisation of the share premium account	–	34,300
Share capital as at 31 May and 1 June, 2001	420,000	42,000
Sub-division of 1 ordinary share of HK$0.10 each into 5 ordinary shares of HK$0.02 each	1,680,000	–
Share capital as at 31 May, 2002	2,100,000	42,000

Subsequent to the balance sheet date, in July 2002, the Company issued convertible debentures of HK$20,000,000 (the "Convertible Debentures"), bearing interest at 4.5% per annum, to an independent third party.

HK$9,750,000 of the Convertible Debentures were converted into 150,000,000 shares in September 2002 (note 30(a)). As a result, the issued share capital of the Company increased to HK$45,000,000 comprising 2,250,000,000 ordinary shares of HK$0.02 each.

Share options

The Company operates a share option scheme (the "Scheme"), details of which are set out under the heading "Share option scheme" in the Report of the Directors.

Up to 31 May, 2002, no share options had been granted under the Scheme.

24. RESERVES

Group

	Share premium account HK$'000	Asset revaluation reserve HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 June, 2000	–	7,396	4,500	72,251	84,147
Issue of shares to public	56,250	–	–	–	56,250
Share issue expenses	(15,811)	–	–	–	(15,811)
Capitalisation issue of shares	(34,300)	–	–	–	(34,300)
Revaluation surplus	–	1,570	–	–	1,570
Net profit for the year	–	–	–	40,095	40,095
At 31 May and 1 June, 2001	6,139	8,966	4,500	112,346	131,951
Revaluation deficit	–	(2,785)	–	–	(2,785)
Net profit for the year	–	–	–	21,327	21,327
At 31 May, 2002	6,139	6,181	4,500	133,673	150,493

The contributed surplus arose as a result of the Group reorganisation in 2000 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share/registered capital of the subsidiaries acquired.

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
Arising on acquisition of CBVI	–	84,247	–	84,247
Applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation	–	(100)	–	(100)
Issue of shares to public	56,250	–	–	56,250
Share issue expenses	(15,811)	–	–	(15,811)
Capitalisation issue of shares	(34,300)	–	–	(34,300)
Net profit for the year	–	–	8,499	8,499
2000 final dividend paid	–	–	(8,400)	(8,400)
At 31 May and 1 June, 2001	6,139	84,147	99	90,385
Net loss for the year	–	–	(1)	(1)
At 31 May, 2002	6,139	84,147	98	90,384

The contributed surplus of the Company arose as a result of the Group reorganisation in 2000 and represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 *HK$'000*	2001 *HK$'000*
Profit from operating activities	29,542	49,667
Interest income	(639)	(1,326)
Depreciation	3,207	1,362
Amortisation of deferred development costs	2,329	1,464
Provision for impairment of deferred development costs	5,277	–
Loss on disposal of fixed assets	77	35
Provision for impairment of long term investments	4,597	–
Provision for bad and doubtful debts	2,274	–
Decrease in inventories	2,058	277
Increase in accounts receivable	(53,993)	(7,503)
Decrease/(increase) in prepayments, deposits and other receivables	(5,511)	7,656
Increase in accounts payable	18,891	4,048
Increase/(decrease) in accrued liabilities and other payables	17,049	(11,348)
Net cash inflow from operating activities	25,158	44,332

(b) Analysis of changes in financing during the year

	Issued capital and share premium account *HK$'000*	Bank loan *HK$'000*	Due to a director *HK$'000*	Minority interests *HK$'000*
Balance at 1 June, 2000	200	–	–	1,050
Net cash inflow from financing	47,939	–	–	–
Capital contribution from the minority equity holder of a subsidiary	–	–	–	150
Share of profit for the year	–	–	–	440
Dividend distributed to a minority equity holder of a subsidiary	–	–	–	(91)
At 31 May and 1 June, 2001	48,139	–	–	1,549
Net cash inflow from financing	–	30,000	8,500	–
Capital contribution from the minority equity holder of a subsidiary	–	–	–	91
Share of profit for the year	–	–	–	293
At 31 May, 2002	48,139	30,000	8,500	1,933

26. CONTINGENT LIABILITIES

As at 31 May, 2002, the Company had provided corporate guarantees for banking facilities utilised by certain subsidiaries of HK$37,031,000 (2001: Nil).

The Group had no significant contingent liabilities at the balance sheet date (2001: Nil).

27. OPERATING LEASE ARRANGEMENTS

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

At 31 May, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	**2001**
	HK$'000	*HK$'000*
		(Restated)
Within one year	1,302	1,376
In the second to fifth years, inclusive	783	1,834
	2,085	3,210

The Company had no significant operating lease arrangements at the balance sheet date (2001: Nil).

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee above, have been restated to accord with the current year's presentation.

28. COMMITMENTS

In addition to the operating lease commitments detailed in note 27 above, the Group had contracted for capital commitments of HK$455,000 (2001: HK$145,000) in respect of decoration work for the Group's premises in the PRC at the balance sheet date.

As at 31 May, 2001, the Group had a capital commitment of HK$4,400,000 in respect of the Factory Acquisition. During the year, as a result of the termination of the Factory Acquisition, the deposit was refunded (note 14) to the Group. In addition, the Group was discharged with the outstanding contracted commitment of HK$4,400,000.

The Company had no significant commitments at the balance sheet date (2001: Nil).

29. RELATED PARTY AND CONNECTED TRANSACTIONS

Details of the amount due to a director and certain guarantees executed by two directors of the Company in respect of banking facilities granted to the Group are set out in notes 21 and 22 to the financial statements.

30. POST BALANCE SHEET EVENTS

(a) In July 2002, the Company issued Convertible Debentures, bearing interest at 4.5% per annum, to Honest Concord Enterprises Limited, an independent third party.

The Convertible Debentures are convertible into new shares of the Company at any time after 29 July, 2002 and up to the maturity date of the Convertible Debentures of 29 July, 2004. The conversion price of the debentures is determined based on the higher of (i) the fixed conversion price of HK$0.065 per share, subject to adjustment; and (ii) 93% of the average closing price of the shares of the Company during the 10 business days immediately prior to conversion of the Convertible Debentures.

Details in respect of the above Convertible Debentures have been included in an announcement of the Company dated 30 July, 2002.

In September 2002, a portion of the Convertible Debentures were converted into 150,000,000 shares of the Company of HK$0.02 each at a conversion price of HK$0.065 per share (note 23).

(b) During the period from August 2002 to October 2002, the Group entered into various agreements for the termination and disposal of a portion of its investments in the Rheumatic Treatment Centres. Details of the arrangements are set out in note 16 to the financial statements.

(c) On 28 August, 2002, the Group entered into an agreement with an independent third party for the acquisition of 11% equity interest in a PRC entity which is also engaged in the pharmaceutical industry for a consideration of HK$20,000,000 (the "Acquisition"). The Group had fully settled the consideration of HK$20,000,000 up to October 2002. At the date of these financial statements, the Acquisition remained conditional, subject to the satisfaction of certain conditions as set out in the agreement.

31. COMPARATIVE AMOUNTS

As further explained in notes 2 and 27 to the financial statements, due to the adoption of SSAP 14 (Revised) during the current year, the presentation of operating lease commitments in the financial statements has been revised to comply with the new requirements. Accordingly, the related comparative amounts have been revised to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the directors on 29 October, 2002.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

All of the Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge opinions expressed herein have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS IN SHARE CAPITAL

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "**SDI Ordinance**")) which had been notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance), or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Number of Shares			
Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**
David Y.M. Shi *(Note)*	–	–	872,252,344	–

Note: These shares are owned by Healthlink International Inc., the entire issued share capital of which is legally and beneficially owned by Mr. David Y.M. Shi.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or were deemed to have any interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance), or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

3. ASSOCIATED CORPORATION

As at the Latest Practicable Date, two executive directors of the Company, Mr. David Y. M. Shi and Madam Hou Li Ping, have beneficial interests in Shanxi Zhengzhong Enterprise Group Company Limited ("**Shanxi Enterprise**"), a limited liability company incorporated in the PRC. Shanxi Enterprise and the Group beneficially own 1% and 99% respectively of the equity interests in the registered capital of Shanxi Zhengzhong.

4. SUBSTANTIAL SHAREHOLDER IN THE SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares	Approximate Percentage (%)
Healthlink International Inc. *(Note)*	872,252,344	38.77

Note: The entire issued share capital of Healthlink International Inc. is beneficially owned by Mr. David Y. M. Shi.

Save as disclosed herein, the Directors are not aware of any person who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and/or its subsidiaries as at the Latest Practicable Date.

5. DISCLOSURE OF INTERESTS

(a) Particulars of executive Directors' service contracts

The Company entered into a service contract with each of Mr. Gao Guo Shi ("**Mr. Gao**") and Mr. Dai Zhong Cheng ("**Mr. Dai**") on 29 January, 2003, for a period of three years commencing from 29 January, 2003. Pursuant to the service contracts, each of Mr. Guo and Mr. Dai is entitled to a remuneration of HK$50,000 per annum plus a bonus payable at the discretion of the Board.

Save as disclosed herein, no other Directors has entered or is proposing to enter into a service contract with the Company and/or any of its subsidiaries (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

(b) Disclaimer

(i) None of the Directors has any direct or indirect interest in any assets which have, since 31 May, 2002, the date to which the latest published audited accounts of the Group were made up, been acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

(ii) None of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

6. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 May, 2002, the date to which the latest published audited consolidated accounts of the Group were made up.

8. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Company or its subsidiaries within two years preceding the date of this circular and are or may be material:

(a) the Cooperation Agreements;

(b) the Purchase Agreements;

(c) the Bozhou Disposal Agreement;

(d) the Taiyuan Disposal Agreement;

(e) the subscription agreement dated 29 July, 2002 between the Company and Honest Concord Enterprises Limited in relation to the issue of an aggregate principal amount of HK$20,000,000 4.5% convertible debentures due 2004; and

(f) the conditional agreement dated 28 August, 2002 between the Company and an independent third party for the acquisition of 11% equity interest in a PRC pharmaceutical enterprise for a consideration of HK$20 million.

Save as disclosed above, there are no other material contracts entered into by the Company or its subsidiaries within two years preceding the date of this circular.

9. WORKING CAPITAL

Taking into account the existing cash resources and present available banking facilities held by the Company, the Directors are of the opinion that the Company has sufficient working capital for its present requirements.

10. MISCELLANEOUS

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda and the head office and principal place of business is at Rooms 3710-3714, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

(b) The branch share registrar of the Company in Hong Kong is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Ha Chun, a solicitor of the High Court of Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's head office and principal place of business at Rooms 3710-3714, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong, up to and including 28 February, 2003:

(a) the memorandum and bye-laws of the Company;

(b) the annual report of the Company for the year ended 31 May, 2002;

(c) the service contracts referred to in paragraph 5(a) of this Appendix II to this circular; and

(d) the material contracts referred to in paragraph 8 of this Appendix II to this circular.