



Wai Yuen Tong Medicine Holdings Limited
(Incorporated in Bermuda with limited liability)

Annual Report 2005



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tang Ching Ho (*Chairman*)

Mr. Chan Chun Hong, Thomas (*Managing Director*)

Non-executive Director

Mr. Leung Wai Ho

Independent non-executive Directors

Mr. Siu Man Ho, Simon

Mr. Yuen Chi Choi

Mr. Cho Wing Mou

COMPANY SECRETARY

Mr. Chan Chun Hong, Thomas

QUALIFIED ACCOUNTANT

Mr. Lao Wai Keung

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, Wai Yuen Tong Medicine Building

9 Wang Kwong Road

Kowloon Bay

Kowloon

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

DBS Bank (Hong Kong) Limited

Bank of America (Asia) Ltd

Dah Sing Bank, Limited

United Commercial Bank

LEGAL ADVISORS

Preston Gates Ellis

10th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

26th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

REGISTRAR IN HONG KONG

Secretaries Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

REGISTRAR IN BERMUDA

Butterfield Corporate Services Limited

Rosebank Centre

11 Bermudiana Road

P.O. Box HM 1540

Hamilton HM FX

Bermuda

HOMEPAGE

<http://www.waiyuentong.com>

STOCK CODE

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Garden Rooms A & B, 2nd Floor, Hotel Nikko Hong Kong, 72 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 12 August 2005 at 10:00 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 2005.
2. To re-elect Mr. Yuen Chi Choi, retiring director of the Company and to authorize the Board of Directors to fix the remuneration.
3. To re-appoint Deloitte Touche Tohmatsu as Auditors and to authorize the Board of Directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as ordinary resolutions of the Company:

(A) **"THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company ("**Directors**") during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company ("**Shares**") be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the Shares which may be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution, and the said approval shall be limited accordingly; and



Notice of Annual General Meeting

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda law or the Company's bye-laws to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

(B) **"THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional Shares, and to make or grant offers, agreements and options which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall be in addition to any other authorizations given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to:
 - (i) a Rights issue (as hereinafter defined);
 - (ii) the exercise of rights of subscription or conversion under terms of any convertible notes issued by the Company or any securities which are convertible into Shares;



Notice of Annual General Meeting

- (iii) the exercise of any option under the share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; and
- (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on the shares in accordance with the bye-laws of the Company in force from time to time,

shall not exceed 20% of the aggregate nominal amount of share capital of the Company in issue at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by Bermuda law or the Company's bye-laws to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means the allotment, issue or grant of Shares pursuant to an offer of Shares open for a period fixed by the Directors to holders of Shares or any class thereof on the register of members on a fixed record date in proportion to their then holdings of such Shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognized regulatory body or stock exchange in any territory outside Hong Kong)."



Notice of Annual General Meeting

(C) **“THAT** conditional upon the resolutions set out in paragraphs (A) and (B) of item 4 above, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with additional shares of the Company pursuant to the resolution set out in paragraph (B) of item 4 above be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to the resolution set out in paragraph (A) of item 4 above, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution.”

5. As special business, to consider and, if thought fit, pass with or without amendments the following resolution as an ordinary resolution of the Company:

“THAT, conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the shares (the **“Shares”**) of the Company to be allotted and issued by the Company upon the exercise of the options which may be granted under the Refreshed Scheme Mandate (as defined below), the refreshment of the general scheme mandate of the share option scheme of the Company adopted on 13 August 2004, up to 10% of the number of Shares in issue as at the date of passing this resolution (the **“Refreshed Scheme Mandate”**) be and is hereby approved and any director of the Company be and is hereby authorised to do such act and execute such document to effect the Refreshed Scheme Mandate.”

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SPECIAL RESOLUTION

6. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as a special resolution of the Company:

“THAT the bye-laws of the Company be and are hereby amended as follows:

- (a) by deleting the existing clause 87(1) in its entirety and substituting therefor the following new bye-law 87(1):

“Subject to the manner of retirement by rotation of Directors as from time to time prescribed under the rules and regulations of the Designated Stock Exchange and notwithstanding any contractual or other terms on which any director may be appointed or engaged, at each annual general meeting, one-third of the Directors



Notice of Annual General Meeting

for the time being (or if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Company at the annual general meeting at which a Director retires may fill the vacated office", and

- (b) by inserting the words "and shall continue to act as a Director throughout the meeting at which he retires" at the end of the first sentence "A retiring Director shall be eligible for re-election" in bye-law 87(2);

and the directors be and are hereby authorised to do all such acts, deeds and things as they shall, in their discretion deem fit in order to effect the foregoing.

By Order of the Board

Wai Yuen Tong Medicine Holdings Limited

Chan Chun Hong, Thomas

Managing Director

Hong Kong, 18 July 2005

Notes:

- (1) A member entitled to attend and vote at the above meeting convened by the above notice, is entitled to appoint one or more that one proxy to attend and to vote in his stead. A proxy need not be a member of the Company.
- (2) To be valid, the form of proxy, together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's Hong Kong branch share registrar, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting at the Meeting or any adjournment thereof, if you so wish.



Chairman's Statement

During the year, the retail market continued its growth momentum on the back of the rapid recovery and globalization of the world economy. This has provided a favourable environment for the growth of the Chinese and Western pharmaceutical and health food product business of the Group.

With a view to consolidating its operations, the Group purchased the Wai Yuen Tong Medicine Building (the "WYT Building") in June 2004. The WYT Building does not only function as a management and operation office, it is also a manufacturing plant meeting the regulations of Good Manufacturing Practice (GMP). The Group invested over HK\$20 million to renovate and set up a Chinese medicine manufacturing plant in the WYT Building which is designed to comply with the internationally recognized GMP standards. We believe that this strategic move will further strengthen the product development and manufacturing capabilities of the Group. At present, we have already complied with the hardware requirements of the GMP and are awaiting the validation of its software and control procedures. The Group targets to obtain the Chinese Medical GMP Certificate by the end of 2005.

In order to consolidate our retail network, we purchased our flagship store with a floor area of over 2,800 sq.ft. in March 2005. The flagship store, is one of our largest retail shops, with one-stop health care services, including consultation with Chinese medicine practitioners, professional Chinese deep issue massage and herbs decocting services. It is located in Mongkok which is in a prime retail location with high pedestrian traffic flow. The Group believes that its excellent location will not only increase the Group's sale, but also greatly helps promote the brand name of "Wai Yuen Tong" in Hong Kong.

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To strengthen our production base and to acquire a new sourcing arm overseas, the Group acquired 100% interest in CNT Health Food Pte Limited ("CNT"), one of the largest bottled bird's nests contract manufacturers in Singapore. CNT is principally engaged in the manufacturing and sale of bottled bird's nest and herbal essence.

This year is Wai Yuen Tong's 108th anniversary and the Group took this opportunity to reward our loyal customers by sponsoring Cantonese opera performances by Koi Ming Fai of Ming Chee Sing Chinese Opera at around the 2005 Lunar New Year.



Chairman's Statement

During the year, capital raising exercises by way of a rights issue and a top-up placing of new shares were undertaken and, in aggregate, raised approximately HK\$290 million.

The continual improvement in the local economy, coupled with the effect of the Close Economic Partnership Arrangement ("CEPA") between the Mainland and the Hong Kong governments and the Individual Visit Scheme, provide positive impact on the Group's business. The Directors are cautiously optimistic on our future growth prospects and our ability to bring shareholders a steady long term return.

Tang Ching Ho

Chairman

6 July 2005



Management Discussion and Analysis

RESULTS

The Group's turnover and loss attributable to shareholders for the year amounted to HK\$326.9 million (2004: HK\$349.2 million) and HK\$ 67.0 million (2004: HK\$30.0 million) respectively.

DIVIDEND

No interim dividend was paid during the year under review (2004: Nil). The Directors do not recommend the payment of a final dividend (2004: Nil).

REVIEW OF OPERATIONS

The drop of 6% in Group's turnover was mainly due to the disposal of the business in the assembly of watches and manufacture of watch cases. Leaving aside the watch and cases business, the Group actually recorded an impressive increase of 73% in turnover in its continuing operation.

Wai Yuen Tong

The turnover of Wai Yuen Tong recorded a substantial increase of approximately 51% from HK\$151.9 million to HK\$228.7 million. In absolute terms, Hong Kong outperformed all the other markets with turnover increasing by HK\$76.8 million. Both retail and wholesale sales experienced a double digit growth.

(1) Turnover by Channels

Retail

Retail sales increased from HK\$99.9 million to HK\$159.1 million, an increase of 59% from last year. The improvement was attributable to an expansion in the retail networks and a diversification of the products and product series.



Management Discussion and Analysis

New products and successful implementation of advertising and marketing strategies resulted in improved sales from existing retail outlets. Our retail operations are being continually fine-tuned to cater for consumers' preferences. During the year, we opened 32 new retail outlets, including owned and franchised outlets, bringing the total number of outlets to a record 63 of which 20 franchised outlets operated in Mainland China as at 31 March 2005.

Wholesale

Wholesale sales rose from HK\$52.0 million to HK\$69.6, an increase of 34% from last year. Hong Kong and Mainland China recorded strong growth. Currently we supply our products to 3 provinces in Mainland China and this number is expected to grow.

To further exploit the global market potential, we proactively seek channel partnerships with distributors worldwide to take advantage of their extensive distribution networks.

The Group expects to benefit from the Close Economic Partnership Arrangement ("CEPA") between the Mainland and the Hong Kong governments. CEPA will be a strong driver for our wholesale business in Mainland China as the cost savings enjoyed under the zero-tariff arrangement are invested into more advertising and promotion activities, thus, strengthening Wai Yuen Tong's brand name in Mainland China.

(2) Products

Sales of the Group's products enjoyed steady growth, particularly the sales of young yum pills, bottled bird's nest, ganoderma lucidum spores, pak fung pill and cordyceps are encouraging.

Product development is an ongoing and critical process. The Group has continued to develop and offer new health food products to our customers. Apart from the renowned "Classic Series", "Prophylactic Series", "Metro Series", "Beauty and Slimming Series" and "Soup Series", we have also launched two new product series to cater for the markets – Men Series and Women Series.

Men Series – Golden Deer's Tail, Dura-gizer, Prostate Clearer



Management Discussion and Analysis

Women Series – Pearl Powder, Pearl Whitening Mask, Bird’s Nest Moisturizing Mask, Ganoderma Lucidum Anti-Winkle Mask, Ginseng Rejuvenating Renewal Mask, Ginseng and Pearl Facial Cream, Pearl and Aloe Vera Body Lotion, Health-promoting and Fat-clearing Essence

In addition, to cater for the needs and preference of the younger consumers, we have repackaged some of our products by producing smaller-sized pills and capsules and using aluminium foil wrapper.

(3) *Good Manufacturing Practice Certificate (“GMP”)*

Wai Yuen Tong has completed the installation of the machinery and equipment at its main plant at the Wai Yuen Tong Medicine Building and our application for the Chinese Medical GMP Certificate is now in the process of validation. We target to obtain the GMP Certificate by the end of 2005.

The gist of a GMP Certificate is quality assurance. Wai Yuen Tong will ensure that its pharmaceutical products are of the highest quality. Following this principle, Wai Yuen Tong has to ensure that production is carried out under strict controls and meets the highest quality control standards, and the production environment is controlled by a centralized computer system. All our production equipment and facilities are designed to meet the stringent demands of modern pharmaceutical manufacturing.

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Luxembourg

The turnover of Luxembourg core business of Western pharmaceutical and health products rose by approximately 80%, from HK\$37.4 million to HK\$67.2 million. This was mainly attributable to the full year effect of the Group’s acquisition of this business in August 2003 and the growth in the sale of cough syrup and the various personal health-care, health food and household products. The principal products are listed below:

- Madame Pearl’s – Medical products such as Cough Syrup, Herbal Cough Syrup, Chesty Cough Syrup and Cough Syrup F2 for Children
- Health Concept – Nutritional products such as Milk Calcium Candy with milk and chocolate flavour, OPC and DHA
- Natural Spa – Personal health-care products such as shower gels and bath set



Management Discussion and Analysis

- Natural Plus – Health food products such as Bio-Fiberact, Trimpower, Extra Slimming Tea
- Pearl's – Household hygiene products such as Adult Antiseptic Diaper, Disinfectant Liquid, Laundry Detergent and Fabric Softener

The products are sold through a network of distributors, drugstores, convenience and chain stores.

CNT Health Food ("CNT")

CNT became a wholly-owned subsidiary of the Company in July 2004 and the turnover of the Chinese health food products for the period of 9 months from the date of acquisition to the financial year end date recorded a satisfactory turnover approximately HK\$29.2 million in this year.

CNT is one of the largest bottled bird's nests contract manufacturers in Singapore and its core business is the manufacturing and sale of bird's nest products; it also provides very diversified range of high quality health products such as hashima, herbal essence, herbal jelly.

CNT possesses the Hazard Analysis Critical Control Points ("HACCP") certification for bottled bird's nest drinks and herbal essence of cordyceps and American ginseng. HACCP is an internationally recognized codex standard on food safety and quality to ensure the food product is safe for consumption. The award is the recognition of CNT's meticulous and stringent controls scheme applied to the whole process of the bottled bird's nest and herbal essence production; from cleaning the main ingredients, cooking, temperature control and sterilizing, to bottling, packing, storing and delivery.

Having obtained this Certificate, the Group is confident that CNT can obtain a bigger market share in Singapore. The future target is to expand the CNT sales network to cover Hong Kong and Mainland China.

CAPITAL REORGANIZATION

The capital reorganization was completed on 28 June 2004 whereby the nominal value of each of the issued share was reduced from HK\$0.10 each to HK\$0.01 each by the cancellation of HK\$0.09 paid up on each share, the authorised but unissued share capital of the Company was cancelled and then restored and the credit of approximately HK\$49.8 million resulting from the cancellation of HK\$0.09 of the paid up capital for each issued share was applied to general reserve and to set off against the accumulated loss of the Company.



Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

With a view to broaden the Company's shareholder base and to improve the financial position of the Group, rights issue and top-up placing which, in aggregate, raised net proceeds of approximately HK\$290.0 million, were undertaken during the year.

As at 31 March 2005, the Group's total borrowings amounted to HK\$159.8 million (2004: HK\$82.9 million) which included bank borrowings of HK\$143.2 million (2004: HK\$19.4 million), long term loan due to a Shareholder of nil (2004: HK\$7.0 million), long term convertible notes of HK\$16.0 million (2004: HK\$56.5 million) and obligations under finance leases of HK\$0.6 million (2004: Nil).

In order to further reduce the level of Group's interest bearing debt, convertibles notes in the aggregate amount of HK\$56.5 million had been redeemed and HK\$14.0 million, which represented partial convertible notes outstanding, were converted into share capital during the year.

The gearing ratio, defined as the ratio of the total borrowings to capital and reserves, was approximately 27.0% as at 31 March 2005 (2004: 23.4%). The Group's investment properties and fixed assets with an aggregate net book value of HK\$229.6 million (2004: nil) were pledged to banks to secure the Group's general banking facilities, approximately HK\$85.1 million of which was utilized at 31 March 2005.

The Group's contingent liabilities and capital commitments as at 31 March 2005 amounted to approximately HK\$3.7 million (2004: HK\$2.1 million) and HK\$0.8 million (2004: HK\$2.2 million), respectively.

The Group currently holds over HK\$48.6 million in cash.



Management Discussion and Analysis

MANAGEMENT AND STAFF

As at 31 March 2005, the Group had over 580 employees, approximately 73% of whom were located in Hong Kong. Staff requirement is regularly monitored with reference to the actual needs of the Group. Remuneration packages, which comprise salaries, provident fund contributions and medical benefits, are periodically reviewed based on market trends, performance appraisals, working experience and industry practice.

PROSPECTS

After all the corporate restructuring exercises during the past year and up to June 2005, the Group has now attained a stable and healthy financial position.

Taking advantage of the continuing growth of the Mainland China and Hong Kong economy and increasing public awareness of personal healthcare, the Directors are optimistic on the Group's future growth prospects.



Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Tang Ching Ho, aged 43, has been the Chairman of the Company since August 2001. He is responsible for the strategic planning, policy making and business development of the Group. He is also the Chairman and Managing Director of Wang On Group Limited and has extensive experience in corporate management.

Mr. Chan Chun Hong, Thomas, aged 41, is the Managing Director and Secretary of the Company. He is responsible for managing the corporate matters and overall management and supervision of the Group. He graduated from the Hong Kong Polytechnic University with a degree in Accountancy and is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants. He is also an executive director of Wang On Group Limited.

NON-EXECUTIVE DIRECTORS

Mr. Leung Wai Ho, aged 55, was previously the executive director of the Company and was re-designated to a non-executive director of the Company in March 2004. He was appointed in January 1995 as a District Affairs Advisors in relation to the establishment of the Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR"). He was also appointed a member of the Selection Committee for the First Government of HKSAR. He was further elected as the president of The Hong Kong Young Industrialists Council in 1996 and 1997 respectively. In January 2000, he was elected to be the Chairman of Hong Kong Chamber of Commerce in China-Guangdong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Siu Man Ho, Simon, aged 31, joined the Company as an independent non-executive director in August 2001. He is a practicing solicitor of the High Court of Hong Kong. He obtained a bachelor of Laws degree from the University of Hong Kong in 1996 and is a partner of the law firm, Sit, Fung, Kwong & Shum. His areas of practice include corporate finance, capital markets, securities, mergers and acquisitions; joint ventures and general commercial matters.



Biographical Details of Directors and Senior Management

Mr. Yuen Chi Choi, aged 44, joined the Company as an independent non-executive director in August 2001. He is a certified public accountant in Hong Kong. Apart from being a fellow member of The Association of Chartered Certified Accountants, Mr. Yuen is also an associate member of The Hong Kong Institute of Certified Public Accountants and The Canadian Chartered Institute of Finance and Accountancy. He has more than 15 years of audit experience.

Mr. Cho Wing Mou, aged 64, joined the Company as an independent non-executive director in September 2001. He has over 40 years' experience in banking industry and was formerly as a director and deputy general manager of Hua Chiao Commercial Bank Limited and The China State Bank, Limited. He is a committee member of the 8th Political Consultative Conference Guangxi, a committee member of the 1st and 2nd Political Consultative Conference of Yulin City, Guangxi Province and a committee member of Political Consultative Conference of Maoming City, Guangdong Province and also the Chairman of Supervisor Gee Tuck General Association Hong Kong Limited and the vice president of Gee Tuck World Association Limited.

SENIOR MANAGEMENT

Mr. Lao Wai Keung is the qualified accountant of the Company. He is a certified public accountant, an associate member of the Hong Kong Institute of Public Accountants and an associate member of The Association of Chartered Certified Accountants. Prior to joining the Group in 2002, he had more than 10 years of experience in financial position in Hong Kong and Mainland China.

Mr. Lung Chi Ho, Markus, is the Factory Manager and Pharmacist of the Company. He is in charge of all aspects in the manufacturing plant including quality control, quality assurance, engineering, warehouse & logistics issues. Prior to joining the Group in March 2002, he has over 5 years experiences working in a local GMP pharmaceutical plant. He graduated from The Chinese University of Hong Kong with a bachelor degree in Pharmacy and also obtained a bachelor degree in Pharmacy in Chinese Medicines at the University of Hong Kong.

Ms. Tang Mui Fun, Karen is a director of Wai Yuen Tong Medicine Company Limited. She is responsible for overall management of Wai Yuen Tong. Prior to joining the Group in November 2000, she had 4 years of experience in the accounting and auditing fields and 5 years of experience in general management. She graduated from the University of Hull (England) with a bachelor degree in Accountancy. She is a sister of Mr. Tang Ching Ho.



Biographical Details of Directors and Senior Management

Ms. Wong Shuk Fong, Jaime is the Sales Director of the Group's sales and marketing division. She joined the Group in April 2003. Ms. Wong has more than 11 years of working experience in the sales and marketing in Hong Kong and overseas.

Mr. Yiu Chun Kit, Kelvin joined the Group as the Financial Controller in August 2003. Mr Yiu has over 15 years of experience in senior managerial and financial positions in Hong Kong. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.



Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the production and sale of traditional Chinese and Western pharmaceutical, health food products and property holding.

RESULTS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated income statement on page 31 of the annual report.

The directors do not recommend the payment of a dividend.

SUBSIDIARIES AND ASSOCIATES

Acquisition of WOD Investments Limited ("WOD")

In April 2004, the Group entered into a conditional sale and purchase agreement with Wang On Group Limited ("Wang On"), a substantial shareholder of the Company, to acquire the entire interests in, and shareholders' loan to, WOD for a cash consideration of approximately HK\$65.4 million. WOD is engaged in property holding, with its principal assets being certain leasehold land and building situated in Hong Kong.

The acquisition of WOD was approved by the shareholders of the Company at a special general meeting held on 4 June 2004 and completed on the same date, details of which are set out in a circular to the shareholders of the Company dated 12 May 2004.



Directors' Report

Acquisition of CNT Health Food Pte Ltd ("CNT")

In July 2004, the Group entered into a conditional sale and purchase agreement with Mr. Ng Tee Khiang, Wing Huat Loong (Pte) Limited and Mr. Toh Pang Seng, all being independent third parties of the Company, to acquire the entire interests in CNT for a cash consideration of approximately HK\$14.7 million, subject to adjustments on the audited net profit after taxation of CNT for each of the two years ending 31 March 2006. The maximum consideration to be payable by the Group under this arrangement amounted to approximately HK\$22.8 million. CNT is engaged in the business of manufacturing, wholesale and retail of bottled bird's nest drinks, herbal essence, health tonics and other Chinese proprietary medicines in Singapore.

The acquisition of CNT was completed on 21 July 2004, details of which are set out in a circular to the shareholders of the Company dated 9 August 2004.

Acquisition of April Full Limited ("April Full")

In August 2004, the Group entered into a conditional sale and purchase agreement with Mr. Wong Lam Ping ("Mr. Wong"), an independent third party of the Company, to acquire 72.86% interests in April Full for a cash consideration of approximately HK\$29.0 million. April Full has 70% equity interest in Huzhou Longhai Biomedicament Co., Limited ("Huzhou Longhai"), a sino foreign joint ventures established in the People's Republic of China ("PRC").

The acquisition of April Full was completed on 27 August 2004, details of which are set out in a circular to the shareholders of the Company dated 21 September 2004.

Acquisition of Geswin Limited ("Geswin")

In January 2005, the Group entered into a conditional sale and purchase agreement with Suitbest Investments Limited, a wholly owned subsidiary of Wang On, to acquire the entire interests in, and shareholders' loan to, Geswin for a consideration of approximately HK\$63.6 million. The consideration was satisfied by cash in the amount of approximately HK\$33.6 million and the issue of convertible notes for a principal amount of HK\$30.0 million. The convertible notes are convertible into ordinary shares of HK\$0.01 each in the Company at a conversion price of HK\$0.08 each, subject to adjustments, at any time, in whole or in part, on or before 15 March 2008. Geswin is engaged in property holding, with its principal assets being certain leasehold land and building situated in Hong Kong.



Directors' Report

The acquisition of Geswin was approved by the shareholders of the Company at a special general meeting held on 14 March 2005 and completed on the same date, details of which are set out in a circular to the shareholders of the Company dated 23 February 2005.

Details of the Company's principal subsidiaries and associates at 31 March 2005 are set out in notes 42 and 43 to the financial statements, respectively.

SHARE CAPITAL AND CONVERTIBLE NOTES

Capital Reorganisation

During the year, the Company underwent a capital reorganisation ("Capital Reorganisation") whereby (i) the paid up capital and nominal value of the issued shares of the Company were reduced from HK\$0.10 each to HK\$0.01 each ("Capital Reduction"); (ii) all of the authorised but unissued share capital of the Company was cancelled; (iii) the authorised share capital of the Company was increased to the original authorized amount of HK\$600,000,000 by the creation of an additional of 59,447,226,155 ordinary shares of HK\$0.01 each; and (iv) the credit balance arising from the Capital Reduction of approximately HK\$49.8 million were transferred to general reserve as to HK\$41.9 million and accumulated losses as to HK\$7.9 million, respectively.

Rights and Bonus Issues

The Company issued and allotted 2,211,095,380 ordinary shares of HK\$0.01 each by way of rights issue, in the proportion of three shares for every one existing share held ("Rights Share"), at a subscription price of HK\$0.16 per Rights Share to the existing shareholders, together with one bonus share issued for every three fully paid Rights Share held by the shareholders ("Rights and Bonus Issue").

The Capital Reorganisation and Rights and Bonus Issue were approved by the shareholders of the Company at a special general meeting held on 4 June 2004, details of which are set out in a circular to the shareholders of the Company dated 12 May 2004.



Directors' Report

Convertible Notes

As disclosed above, during the year, the Company issued convertible notes for the acquisition of Geswin.

Details of these and other movements in the convertible notes and share capital of the Company are set out in note 26 and 29 to the financial statements, respectively.

INVESTMENT PROPERTIES

During the year, investment properties with an aggregate net book value of approximately HK\$37.0 million were acquired.

The Group's investment properties at 31 March 2005 were revalued by an independent firm of professional valuer on an open market value basis. The gain arising on the revaluation, which has been credited to the income statement, amounted to HK\$4.2 million.

Details of these and other movements in the investment properties of the Group during the year are set out in note 13 to the financial statements.

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PROPERTY, PLANT AND EQUIPMENT

During the year, certain items of property, plant and equipment with an aggregate net book value of HK\$206.1 million were acquired as a result of the acquisition of subsidiaries.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



Directors' Report

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors:

Tang Ching Ho
Chan Chun Hong, Thomas

Non executive director:

Leung Wai Ho

Independent non-executive directors:

Siu Man Ho, Simon
Yuen Chi Choi
Cho Wing Mou

In accordance with clause 87 of the Company's Bye-laws, Mr. Yuen Chi Choi shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

No director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws and, subject to eligibility, may then be re-elected.



Directors' Report

DIRECTORS' INTERESTS IN SECURITIES

None of the directors, chief executives, nor their associates, had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 March 2005, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Director of Listed Companies ("Model Code").

SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 30 to the financial statements.

The following table discloses movements in the Company's share options during the year:

Option type	Date of grant	Exercise price	Exercise price	Exercisable period	Number of options		
		per share prior to Rights and Bonus Issue	per share adjusted for the effect of Rights and Bonus Issue		Outstanding at 1.4.2004	Cancelled during the year	Outstanding at 31.3.2005
		HK\$	HK\$				
1997 Scheme							
Employees	9.12.1999	28.50	5.7	9.12.1999 to 8.12.2009	37,600	(37,600)	-
	3.3.2000	82.00	16.4	3.3.2000 to 2.3.2010	20,000	(20,000)	-
					57,600	(57,600)	-

Note: The exercise price per share brought forward from last year has been adjusted to reflect the effect of the Rights and Bonus Issue during the year.

As at the date of this report, the total number of shares available for issue under the Company's share option scheme is 27,638,642, representing 7.9% of the share capital of the Company in issue at the date of this report.



Directors' Report

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

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, as at 31 March 2005, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Ordinary shares at HK\$0.01 each

Name of shareholder	Number of shares (Note 1)	Percentage (Note 3)
Wang On (Note 2)	1,197,323,315(L)	32.44%
Wang On Enterprises (BVI) Limited ("WOE") (Note 2)	1,197,323,315(L)	32.44%
Rich Time Strategy Limited ("Rich Time") (Note 2)	1,197,323,315(L)	32.44%

Note:

1. The letter "L" denotes a long position in the shares of the Company.
2. Rich Time is wholly owned by WOE, which is wholly owned by Wang On. WOE and Wang On are deemed to be interested in 1,197,323,315 shares held by Rich Time. Out of 1,197,323,315 shares, 200,000,000 shares are the shares issuable upon conversion of the convertible notes held by Rich Time.
3. The percentage represented the number of shares over the total of the share capital of the Company as at 31 March 2005 of 3,490,869,225 shares and 200,000,000 shares issuable upon conversion of the convertible notes held by Rich Time.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital as at 31 March 2005.



Directors' Report

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 8 April 2004 and 28 January 2005, the Group entered into conditional sale and purchase agreements with Wang On to acquire the entire equity interests in, and shareholder's loan to, WOD and Geswin, respectively. Wang On is a substantial shareholder of the Company. The transactions with Wang On constituted connected transactions under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

On 1 July 2004, WOD Investments Limited entered into a lease agreement with Denox Management Limited, a wholly owned subsidiary of Wang On, for certain office situated in Hong Kong, which constituted a connected transactions under Chapter 14A of the Listing Rules.

On 23 July 2004, Wai Yuen Tong (Retail) Limited, a subsidiary of the Company, entered into a lease agreement with Geswin, a then indirect wholly-owned subsidiary of Wang On, for certain retail shops situated in Hong Kong, which constituted a continuing connected transactions under Chapter 14A of the Listing Rules. On the completion of the acquisition of entire interests in, and shareholders' loan to, Geswin by the Group on 14 March 2005, the lease transaction ceased to constitute a continuing connected transactions under the Listing Rules.

In addition, on 29 July 2004, Winning Forever Limited, an indirectly held associate of the Company, entered into a lease agreement with Century Fortune Hong Kong Limited, an indirectly owned subsidiary of Wang On, for certain leasehold land and buildings situated in Hong Kong, which also constituted a continuing connected transactions pursuant to Chapter 14 of the Listing Rules.

Further details of these and other discloseable connected transactions during the year are set out in note 40 to the financial statements.

The independent non-executive directors confirm that the transactions were entered into by the Group in the ordinary course of its business, on terms no less favourable than terms available to independent third parties and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.



Directors' Report

Save as disclosed above:

- (i) there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year; and
- (ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

EMOLUMENT POLICY

The Group's emolument policy for its employees is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 30 to the financial statements.

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MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the Group's turnover.

During the year, the largest supplier accounted for 20% of the Group's purchases and the five largest suppliers of the Group accounted for 48% of the Group's purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest suppliers.



Directors' Report

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$3.7 million (2004: HK\$30,000).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

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The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive directors are independent.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 under Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee also reviewed the audited consolidated financial statements for the year ended 31 March 2005 of the Group. The audit committee comprises three independent non-executive directors of the Company.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2005.



Directors' Report

POST BALANCE SHEET EVENTS

Details of significant events taking place after the balance sheet date are set out in note 41 to the financial statements.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chan Chun Hong, Thomas

Director

6 July 2005



Auditors' Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF WAI YUEN TONG MEDICINE HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 31 to 88 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 the 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 to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 the Group as at 31 March 2005 and of the loss 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.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

6 July 2005

Consolidated Income Statement

For the year ended 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Turnover	5	326,909	349,225
Cost of sales		(162,134)	(194,107)
Gross profit		164,775	155,118
Other operating income		5,273	2,362
Distribution costs		(104,996)	(88,021)
Administrative expenses		(84,084)	(97,328)
Impairment loss recognised in respect of goodwill		(26,337)	–
Revaluation gain on investment properties		4,226	–
Loss from operations	6	(41,143)	(27,869)
Finance costs	7	(2,125)	(8,206)
Share of results of associates		(3,110)	195
Impairment loss recognized in respect of goodwill of associates		(15,202)	–
Gain on disposal of discontinued operations	8	–	7,632
Loss before taxation		(61,580)	(28,248)
Taxation	11	(5,647)	(1,738)
Loss before minority interests		(67,227)	(29,986)
Minority interests		252	(20)
Loss for the year		(66,975)	(30,006)
Loss per share	12	HK\$(0.28)	HK\$(0.98)
– Basic			

Consolidated Balance Sheet

At 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Investment properties	13	41,200	–
Property, plant and equipment	14	253,126	18,194
Goodwill	15	296,516	293,779
Interests in associates	17	12,991	30,575
Trademarks	18	737	791
		604,570	343,339
CURRENT ASSETS			
Inventories	19	68,897	33,158
Trade and other receivables	20	90,733	48,303
Amounts due from associates	17	20,069	11,976
Bank balances and cash		43,545	32,580
		223,244	126,017
CURRENT LIABILITY			
Trade and other payables	21	64,367	29,536
Taxation payable		830	1,914
Obligations under finance leases	22	316	–
Bank borrowings	23	30,430	12,964
Deferred franchise income	24	283	364
Convertible loan stock	25	6	6
		96,232	44,784
NET CURRENT ASSETS		127,012	81,233
TOTAL ASSETS LESS CURRENT LIABILITIES		731,582	424,572

Consolidated Balance Sheet

At 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	22	278	–
Bank borrowings	23	112,756	6,457
Deferred franchise income	24	108	355
Convertible notes	26	16,000	56,500
Loans from a shareholder	27	–	7,000
Deferred taxation	28	3,352	355
		132,494	70,667
MINORITY INTERESTS			
		7,877	212
		591,211	353,693
CAPITAL AND RESERVES			
Share capital	29	34,909	55,277
Reserves		556,302	298,416
		591,211	353,693

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The financial statements on pages 31 to 88 were approved and authorised for issue by the Board of Directors on 6 July 2005 and are signed on its behalf by:

TANG CHING HO
DIRECTOR

CHAN CHUN HONG, THOMAS
DIRECTOR

Balance Sheet

At 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	496,132	421,926
CURRENT ASSETS			
Other receivables		429	204
Amounts due from subsidiaries	16	106,388	–
Bank balances		18,804	14,305
		125,621	14,509
CURRENT LIABILITIES			
Other payables		2,447	980
Amounts due to subsidiaries	16	18,443	9,997
Convertible loan stock	25	6	6
		20,896	10,983
NET CURRENT ASSETS			
		104,725	3,526
TOTAL ASSETS LESS CURRENT LIABILITIES			
		600,857	425,452
NON-CURRENT LIABILITIES			
Convertible notes	26	16,000	56,500
Loans from a shareholder	27	–	7,000
		16,000	63,500
		584,857	361,952
CAPITAL AND RESERVES			
Share capital	29	34,909	55,277
Reserves	31	549,948	306,675
		584,857	361,952

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES			
Loss from operations		(41,143)	(27,869)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment		10,208	7,660
Impairment loss recognised in respect of goodwill		26,337	–
Amortisation of goodwill		–	13,504
Amortisation of trademarks		92	81
Interest income		(202)	(24)
Loss (gain) on disposal of property, plant and equipment		84	(42)
Revaluation gain on revaluation of investment properties		(4,226)	–
Allowance for bad and doubtful debts		5,574	–
Decrease in deferred franchise income		(328)	(56)
Operating cash flows before movements in working capital		(3,604)	(6,746)
Increase in inventories		(27,972)	(9,457)
Increase in trade and other receivables		(37,744)	(24,784)
Increase in amounts due from associates		(8,077)	(9,128)
Increase in trade and other payables		24,752	19,230
Cash used in operation		(52,645)	(30,885)
Hong Kong Profits Tax paid		(3,782)	(1,818)
Overseas taxation paid		(59)	–
Interest received		202	24
NET CASH USED IN OPERATING ACTIVITIES		(56,284)	(32,679)

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries	32	(142,917)	1,103
Purchase of property, plant and equipment		(39,752)	(10,068)
Purchase of investment properties		(36,974)	–
Investment in an associate		(1,125)	(2,417)
Purchase of trademark		(38)	(370)
Proceeds from disposal of property, plant and equipment		1,286	410
Dividend income from associates		305	12
Disposal of subsidiaries	33	–	(2,510)
Repayment of loan receivables		–	937
NET CASH USED IN INVESTING ACTIVITIES		(219,215)	(12,903)
FINANCING ACTIVITIES			
Proceeds from issue of new shares, net of expenses		290,013	154,049
Bank borrowings raised (repaid)		66,392	(30,841)
Redemption of convertible notes		(56,500)	(13,000)
Repayment of loans from a shareholder		(7,000)	(98,168)
Interest paid		(2,125)	(7,786)
Repayments of obligations under finance leases		(170)	(484)
Dividend paid to minority shareholders		(21)	(12)
Trust receipt loans raised		–	31,896
Loans from a shareholder		–	16,000
NET CASH FROM FINANCING ACTIVITIES		290,589	51,654
INCREASE IN CASH AND CASH EQUIVALENTS		15,090	6,072
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		27,580	21,508
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		432	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		43,102	27,580
Represented by:			
Bank balances and cash		43,545	32,580
Bank overdrafts		(443)	(5,000)
		43,102	27,580

Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

	Share capital	Share premium	Special reserve	General reserve	Translation reserve	Capital reserve	Accumulated profits (losses)	Total
	HK\$'000	HK\$'000	HK\$'000 (note a)	HK\$'000 (note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
At 1 April 2003	157,899	15,393	(27,150)	54,589	–	609	(115,306)	86,034
Issue of new shares	169,290	133,775	–	–	–	–	–	303,065
Reduction in share capital	(271,912)	–	–	127,569	–	–	144,343	–
Reduction in share premium	–	(15,393)	–	–	–	–	15,393	–
Share issue expenses	–	(4,791)	–	–	–	–	–	(4,791)
Realized on disposal of subsidiaries	–	–	–	–	–	(609)	–	(609)
Loss for the year	–	–	–	–	–	–	(30,006)	(30,006)
At 31 March 2004	55,277	128,984	(27,150)	182,158	–	–	14,424	353,693
Exchange adjustment arising from translation of foreign subsidiaries outside Hong Kong and not recognised in the income statement	–	–	–	–	480	–	–	480
Reduction in share capital	(49,750)	–	–	41,878	–	–	7,872	–
Issue of new shares	29,382	291,358	–	(5,528)	–	–	–	315,212
Share issue expenses	–	(11,199)	–	–	–	–	–	(11,199)
Loss for the year	–	–	–	–	–	–	(66,975)	(66,975)
At 31 March 2005	34,909	409,143	(27,150)	218,508	480	–	(44,679)	591,211
Attributable to:								
– the Company and its subsidiaries	34,909	409,143	(27,150)	218,508	480	–	(41,699)	594,191
– associates	–	–	–	–	–	–	(2,980)	(2,980)
	34,909	409,143	(27,150)	218,508	480	–	(44,679)	591,211

Notes:

- (a) The special reserve of the Group represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to a group reorganisation in 1995.
- (b) The general reserve represents the credits arising from the capital reduction effected by the Company less the amount utilised for the purpose of bonus issue of shares by the Company.

Notes to the Financial Statements

For the year ended 31 March 2005

1. GENERAL

The Company was incorporated in Bermuda on 12 August 1994 under the Companies Act 1981 of Bermuda as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the year ended 31 March 2005, the Group has adopted the following new and revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 40 "Investment Property"

In the current year, the Group has early adopted HKAS 40 "Investment Property" in advance of its effective date. HKAS 40 introduces both cost model and fair value model for the measurement of investment property. For fair value model, HKAS 40 requires fair value changes be recognised to the income statement in the year in which they arise. The Group has elected to apply the fair value model in measuring its investment property and recognises the fair value changes to the income statement in the year in which they arise. The early adoption of HKAS 40 does not have impact to the results of the Group in previous years as the Group did not have any investment properties as at 31 March 2004.

A revaluation gain of HK\$4.2 million has been recognised in the current year. Had the Statement of Standard Accounting Practice ("SSAP") 13 "Accounting for Investment Properties", the predecessor of HKAS 40, been applied in the current year, this amount would have been credited to the investment property revaluation reserve. Therefore, the early adoption of HKAS 40 has resulted in an increase in profit of HK\$4.2 million for the year.

Notes to the Financial Statements

For the year ended 31 March 2005

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 3 “Business Combination”

Prior to 1 April 2004, the Group amortised the goodwill capitalised on a straight line basis over its useful economic life.

HKFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Therefore goodwill is not amortised and instead must be tested for impairment annually or more frequently if events or changes in circumstances which indicate that it might be impaired. HKFRS 3 also requires negative goodwill to be recognised in the profit or loss immediately on acquisition.

HKFRS 3 prohibits the amortisation of goodwill. Previously, under SSAP 30 “Business Combination”, issued by HKICPA, the Group carried goodwill on its balance sheet at cost less accumulated amortisation and accumulated impairment losses. Amortisation was charged over the estimated life of the goodwill, subject to the maximum useful life of 20 years.

The Group has applied the revised accounting policy for goodwill prospectively from the beginning of 1 April 2004. From 1 April 2004, the Group discontinued amortising such goodwill and has tested the goodwill for impairment. At 1 April 2004, the carrying amount of amortisation accumulated before that date was eliminated with a corresponding decrease in goodwill.

Because the revised accounting policy has been applied prospectively, the change has had no impact on the loss for the year ended 31 March 2004 or prior periods.

No amortisation has been charged in 2005. The amortisation charge for the year ended 31 March 2004 was HK\$13.5 million.

An impairment loss of HK\$26.3 million has been recognised in the current year. Had the Group's previous accounting policy been applied in the current year, this amount would have been split between an amortisation charge of HK\$6.7 million and an impairment loss of HK\$19.6 million, because the calculation of the recoverable amount of goodwill has not been affected by the amendments from SSAP 31 “Impairment of assets” to HKAS 36 “Impairment of assets”. Therefore, the change in accounting policy has had no impact on the loss for the year, although it has resulted in a re-analysis between amortisation charge and impairment loss recognised.

Notes to the Financial Statements

For the year ended 31 March 2005

3. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised HKAS and HKFRSs (herein collectively referred to as new "HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005, other than for those stated in note 2.

The Group has already commenced an assessment of the impact of the other new HKFRSs and identified that the following HKFRSs may have a material effect on how the results of operation and financial position are prepared and presented as described below:

HKAS 32, Financial Instruments: Disclosure and Presentation

HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Currently, the convertible notes are classified as liabilities on the balance sheet (see notes 25 and 26). HKAS 32 generally requires retrospective application. However, the Group is not yet in a position to determine its impact on its results of operations and financial position.

In relation to other new HKFRSs, the Group does not expect that their adoption will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

Notes to the Financial Statements

For the year ended 31 March 2005

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Business Combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after the reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately as profit.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Notes to the Financial Statements

For the year ended 31 March 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated on each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" below.

Interests in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill in so far as it has not already been written off less any identified impairment loss.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Notes to the Financial Statements

For the year ended 31 March 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service fee income is recognised when services are provided.

Rental income, including rental invoiced in advance, from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Franchise fee income is recognised on a straight line basis over the franchise period.

Investment properties

Investment property which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the year in which they arise.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation, and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Land held on medium-term leases/land use rights	2% or the terms of the leases or land use rights, if shorter
Buildings	2% or the terms of the leases or land use rights, if shorter
Leasehold improvements	20 – 33 $\frac{1}{3}$ %
Plant and machinery	20%
Furniture and equipment	20 – 33 $\frac{1}{3}$ %
Motor vehicles	20%
Computer system	20 – 33 $\frac{1}{3}$ %

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group.

Notes to the Financial Statements

For the year ended 31 March 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Trademarks

Trademarks are stated at cost less amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of trademarks over a period of ten years, their estimated useful lives, using the straight line method.

Impairment of tangible and intangible assets, excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of an asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as an income immediately.

Notes to the Financial Statements

For the year ended 31 March 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Assets held under finance leases

Leases are classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Convertible loan stock/Convertible notes

Convertible loan stock/convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The costs incurred in connection with the issue of convertible loan stock/convertible notes are deferred and amortised on a straight line basis over the lives of the convertible loan stock/convertible notes from the date of issue of the loan stock to their final redemption date. If any of the loan stock are purchased, cancelled or redeemed prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Deferred franchise income

Deferred franchise income represents initial franchise fee received which is recognised as income over the franchise period.

Research and development

Expenditure on research and development activities is recognised as an expense in the year in which it is incurred.

Notes to the Financial Statements

For the year ended 31 March 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 31 March 2005

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit scheme

Payments to defined contribution retirement benefit scheme are charged to the income statement as they fall due.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into the following major divisions: (i) production and sale of Chinese pharmaceutical and health food products; (ii) production and sale of bottled bird's nest drinks and herbal essence; (iii) production and sale of Western pharmaceutical and health food products; and (iv) property investments and property holding. These divisions are the basis on which the Group reports its primary segment information.

Pursuant to the disposal of the Group's interest in Great Prime International Holdings Limited and its subsidiaries ("Great Prime Group") as detailed in a circular dated 5 February 2004 ("Disposal") issued by the Company, the assembly of watches and manufacture of cases and retail of complete watches and bags engaged by the Group in prior years was discontinued on 28 February 2004 (see note 8).

Notes to the Financial Statements

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

An analysis of the Group's turnover, contribution to operating results and segment assets and liabilities by business segments is presented as follows:

By principal activity	Continuing operations								Discontinued operations							
	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled bird's nest drinks and herbal essence		Production and sale of Western pharmaceutical and health food products		Property investments and property holding		Assembly of watches and manufacture of case		Retail of complete watches and bags		Elimination		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
TURNOVER																
External sales	228,748	151,940	29,192	-	67,205	37,389	1,764	126	-	88,941	-	70,829	-	-	326,909	349,225
Inter segment sale*	-	-	4,429	-	302	-	3,230	198	-	31,593	-	242	(7,961)	(32,033)	-	-
	228,748	151,940	33,621	-	67,507	37,389	4,994	324	-	120,534	-	71,071	(7,961)	(32,033)	326,909	349,225
RESULTS																
Segment results	1,593	5,001	(386)	-	5,995	7,257	4,075	(219)	-	(3,711)	-	(6,378)	-	-	11,277	1,950
Impairment losses recognised in respect of goodwill	(26,337)	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,337)	-
Amortisation of goodwill	-	(9,336)	-	-	-	(4,168)	-	-	-	-	-	-	-	-	-	(13,504)
Unallocated corporate expenses															(26,083)	(16,315)
Loss from operations															(41,143)	(27,869)
Finance costs															(2,125)	(8,206)
Share of results of associates															(3,110)	195
Impairment loss recognized in respect of goodwill of associates	(15,202)	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,202)	-
Gain on disposal of discounted operations															-	7,632
Loss before taxation															(61,580)	(28,248)
Taxation															(5,647)	(1,738)
Loss before minority interests															(67,227)	(29,986)
Minority interests															252	(20)
Loss for the year															(66,975)	(30,006)

* Inter segment sales are charged on terms determined and agreed between group companies.

Notes to the Financial Statements

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled bird's nest drinks and herbal essence		Production sale of Western pharmaceutical and health food products		Property investments and property holding		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES										
ASSETS										
Segmental assets	200,185	98,013	25,842	–	34,141	19,750	233,414	–	493,582	117,763
Goodwill	170,294	172,962	5,405	–	120,817	120,817	–	–	296,516	293,779
Interests in associates									12,991	30,575
Unallocated corporate assets									24,725	27,239
									827,814	469,356
LIABILITIES										
Segmental liabilities	43,189	67,423	7,365	–	11,346	12,953	1,340	–	63,240	80,376
Unallocated corporate liabilities									165,486	35,075
									228,726	115,451

Notes to the Financial Statements

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	Continuing operations						Discontinued operations						Total	
	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled bird's nest drinks and herbal essence		Production sale of Western pharmaceutical and health food products		Property investments and property holding		Assembly of watches and manufacture of case		Retail of complete watches and bags			
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
OTHER INFORMATION FOR THE YEAR ENDED														
Amortisation of trademarks	92	68	-	-	-	-	-	-	-	13	-	-	92	81
Capital expenditure	33,215	6,360	1,265	-	129	1,015	42,715	-	-	929	-	1,764	77,324	10,068
Depreciation and amortisation of property, plant and equipment	7,429	2,695	363	-	407	227	2,009	184	-	2,768	-	1,786	10,208	7,660
Goodwill arising on acquisition of subsidiaries	23,669	2,668	5,405	-	-	124,985	-	-	-	-	-	-	29,074	127,653
Amortisation of goodwill	-	9,336	-	-	-	4,168	-	-	-	-	-	-	-	13,504

Notes to the Financial Statements

For the year ended 31 March 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

An analysis of the Group's turnover by geographical market, irrespective of the origin of the goods and services, is presented below:

	2005	2004
	HK\$'000	HK\$'000
Hong Kong	244,435	171,543
The People's Republic of China (the "PRC"), other than Hong Kong	39,845	92,778
Singapore	20,489	–
United States of America	7,884	43,068
Others	14,256	41,836
	326,909	349,225

The following is an analysis of the carrying amount of assets and capital additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of assets		Capital additions	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	772,690	455,510	76,018	7,581
The PRC, other than Hong Kong	20,233	13,846	41	2,487
Singapore	31,247	–	1,265	–
Others	3,644	–	–	–
	827,814	469,356	77,324	10,068

Notes to the Financial Statements

For the year ended 31 March 2005

6. LOSS FROM OPERATIONS

	2005	2004
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– Directors' remuneration (note 9)	1,879	1,683
– Other staff costs	54,418	53,070
– Retirement benefit scheme contributions other than directors	2,662	1,423
Total staff costs	58,959	56,176
Allowance for bad and doubtful debts	5,574	–
Amortisation of goodwill, included in administrative expenses	–	13,504
Amortisation of trademarks, included in administrative expenses	92	81
Auditors' remuneration	1,100	655
Depreciation and amortisation	10,208	7,660
Loss on disposal of property, plant and equipment	84	–
Management fee paid to a shareholder	918	960
Research and development expenses	103	1,125
and after crediting:		
Gain on disposal of property, plant and equipment	–	42
Interest income	202	24
Recognition of deferred franchise income	734	437
Rental income, net of outgoing of HK\$367,000 (2004: HK\$27,000)	1,397	99

Notes to the Financial Statements

For the year ended 31 March 2005

7. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	1,314	805
Bank borrowings not wholly repayable within five years	234	–
Convertible notes	522	2,240
Convertible loan stock	1	1
Loan from a shareholder	34	4,535
Loan from a director	–	557
Finance leases	20	68
	2,125	8,206

8. DISCONTINUED OPERATION

Pursuant to the Disposal in February 2004, the Group discontinued its operation in assembly of watches and manufacture of cases and retail of complete watches and bags. The results for the period from 1 April 2003 up to the date of disposal and the carrying amounts of assets and liabilities at the date of disposal are set out in notes 5 and 33, respectively.

In addition, for the period from 1 April 2003 to date of disposal, Great Prime Group contributed HK\$1,853,000 of the Group's net operating cash flows, paid HK\$2,567,000 in respect of investing activities and contributed HK\$1,922,000 in respect of financing activities.

Notes to the Financial Statements

For the year ended 31 March 2005

9. DIRECTORS' REMUNERATION

	2005	2004
	HK\$'000	HK\$'000
Fees		
Independent non-executive	360	420
Non-executive	120	2
	480	422
Other emoluments:		
Executive directors:		
Salaries and other benefits	1,375	1,231
Retirement benefit scheme contributions	24	30
	1,399	1,261
Total directors' emoluments	1,879	1,683

For the year ended 31 March 2004, rent free accommodation with an estimated rateable value of HK\$185,680 was provided to a director and was not included in the above disclosure. There is no such arrangement for the year ended 31 March 2005.

The aggregate emoluments of each of the directors during the year ended 31 March 2005 were within the band of Nil to HK\$1,000,000 (2004: Nil to HK\$1,000,000).

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2004: nil) was a director of the Company whose emoluments are set out in note 9 above. The aggregate emoluments of the remaining four (2004: five) individuals are as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and allowances	5,172	6,676
Retirement benefit scheme contributions	52	131
	5,224	6,807

Notes to the Financial Statements

For the year ended 31 March 2005

10. EMPLOYEES' EMOLUMENTS (continued)

The emoluments of the individuals were within the following bands:

	2005	2004
	Number of employees	Number of employees
Nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	1	4
HK\$1,500,001 to HK\$2,000,000	2	1

11. TAXATION

	2005	2004
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax	2,308	1,657
PRC Income Tax	–	101
Other jurisdictions	331	–
	2,639	1,758
Under (over) provision in prior years		
Hong Kong Profits Tax	2	(158)
Deferred tax (note 28)		
Current year	2,930	118
Attributable to change in tax rate	–	20
	2,930	138
Taxation attributable to the Company and its subsidiaries	5,571	1,738
Share of taxation attributable to associates	76	–
	5,647	1,738

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

Notes to the Financial Statements

For the year ended 31 March 2005

11. TAXATION (continued)

PRC Income Tax is calculated at 27% of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

For the year ended 31 March 2004, of the charge to income tax, approximately HK\$101,000 was related to the discontinued operations as detailed in note 8 to the financial statements. There was neither charge nor credit arising on the gain from the discontinuance of Great Prime Group.

The taxation for the year can be reconciled to the loss before taxation per the income statements as follows:

	2005	2004
	HK\$'000	HK\$'000
Loss before taxation	(61,580)	(28,248)
Tax at the domestic income tax rate of 17.5%	(10,777)	(4,943)
Tax effect of share of results of associates	620	(34)
Tax effect of expenses not deductible for tax purpose	11,280	4,586
Tax effect of income not taxable for tax purpose	(1,292)	(1,336)
Tax effect of tax losses not recognised	5,864	4,778
Under(over)provision in prior years	2	(158)
Utilisation of tax losses not recognised	(30)	(460)
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	-	20
Income tax on concessionary rate	-	363
Effect of different tax rates of subsidiaries operating in other jurisdictions	(20)	(1,078)
Taxation for the year	5,647	1,738

Details of deferred taxation are set out in note 28.

Notes to the Financial Statements

For the year ended 31 March 2005

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$66,975,000 (2004: HK\$30,006,000) and on the weighted average number of 235,071,491 (2004: 30,500,685) ordinary shares in issue during the year.

The computation of diluted loss per share for each of the two years ended 31 March 2004 and 2005 does not assume (i) the conversion of the outstanding convertible notes of the Company since their exercise would result in a decrease in net loss per share and, (ii) the exercise of the outstanding options of the Company as the exercise price of those options is higher than the average market price of the shares of the Company on the Stock Exchange.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 March 2004 and 2005 has been retrospectively adjusted for the effect of the rights and bonus issues as detailed in note 29 and the capital reorganisation approved by the shareholders of the Company on 8 June 2005 as detailed in note 41(b).

13. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
At 1 April 2004	–
Additions	36,974
Gains on revaluation	4,226
At 31 March 2005	<u>41,200</u>

The Group's investment properties were revalued at 31 March 2005 by Chesterton Petty Limited, an independent firm of professional valuer, on an open market value basis. The revaluation gain of approximately HK\$4,226,000 has been credited to the income statement.

The investment properties are situated in Hong Kong under medium term leases.

The Group has pledged all of its investment properties to secure banking facilities granted to the Group.

Notes to the Financial Statements

For the year ended 31 March 2005

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles	Computer system	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At 1 April 2004	7,706	6,726	6,735	13,962	–	4,233	39,362
Exchange adjustment	–	25	107	35	47	8	222
Acquired on acquisition of subsidiaries	198,687	659	11,204	1,435	993	174	213,152
Additions	–	7,874	20,688	9,453	–	2,297	40,312
Disposals	–	(973)	–	(616)	–	(173)	(1,762)
At 31 March 2005	206,393	14,311	38,734	24,269	1,040	6,539	291,286
DEPRECIATION AND AMORTISATION AND IMPAIRMENT LOSSES							
At 1 April 2004	1,272	1,999	3,869	11,982	–	2,046	21,168
Exchange adjustment	–	18	92	23	31	6	170
Acquired on acquisition of subsidiaries	1,049	385	4,181	606	656	129	7,006
Provided for the year	1,853	2,984	2,390	1,879	111	991	10,208
Eliminated on disposals	–	(51)	–	(312)	–	(29)	(392)
At 31 March 2005	4,174	5,335	10,532	14,178	798	3,143	38,160
NET BOOK VALUE							
At 31 March 2005	202,219	8,976	28,202	10,091	242	3,396	253,126
At 31 March 2004	6,434	4,727	2,866	1,980	–	2,187	18,194

Notes to the Financial Statements

For the year ended 31 March 2005

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of leasehold land and buildings shown above comprises:

	2005	2004
	HK\$'000	HK\$'000
Properties held under medium term leases in Hong Kong	194,677	6,434
Properties held under medium term land use rights in the PRC	7,542	–
	202,219	6,434

At 31 March 2005, the net book value of furniture and equipment included an amount of approximately HK\$732,000 (2004: nil) in respect of assets held under finance leases.

15. GOODWILL

	THE GROUP
	HK\$'000
COST	
At 1 April 2004	314,285
Elimination of amortisation accumulated prior to the adoption of HKFRS 3 (see note 2)	(20,506)
Arising on acquisition of subsidiaries	29,074
At 31 March 2005	322,853
AMORTISATION	
At 1 April 2004	(20,506)
Elimination of amortisation accumulated prior to the adoption of HKFRS 3 (see note 2)	20,506
At 31 March 2005	–
IMPAIRMENT	
Impairment loss recognised for the year ended 31 March 2005 and at 31 March 2005	(26,337)
NET BOOK VALUE	
At 31 March 2005	296,516
At 31 March 2004	293,779

Notes to the Financial Statements

For the year ended 31 March 2005

15. GOODWILL (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from the business combination. Before recognition of impairment loss, the carrying amount of goodwill has been allocated as follows:

	2005	2004
	HK\$'000	HK\$'000
Production and sale of:		
– Chinese pharmaceutical and health food products	196,631	172,962
– Western pharmaceutical and health food products	120,817	120,817
– bottled bird's nest drinks and herbal essence	5,405	–
	322,853	293,779

The Group tests goodwill annually for impairment, or more frequently if events or changes in circumstances which indicate that it might be impaired.

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The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates the discount rates by using pre-tax rates that reflects the current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectation of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolate cash flows for the following five years based on the estimated growth rate of 8%, 8% and 7% for the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled bird's nest drinks and herbal essence, respectively. This rate does not exceed the estimated average long term growth rate for the relevant markets.

The rate used to discount the forecast cash flows for the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled bird's nest drinks and herbal essence is 7 per cent.

Notes to the Financial Statements

For the year ended 31 March 2005

15. GOODWILL (continued)

At 31 March 2005, before impairment testing, goodwill of HK\$196,631,000, HK\$120,817,000 and HK\$5,405,000 were allocated to the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled bird's nest drinks and herbal essence, respectively. Due to the increase in competition in the market, the Group has reviewed its cash flow forecast for these CGUs. The carrying amount of goodwill for the production and sale of Chinese pharmaceutical and health food products has therefore been reduced to their recoverable amounts through recognition of impairment losses of HK\$26,337,000.

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	496,131	421,925
	496,132	421,926
Amounts due from subsidiaries	106,388	–
Amounts due to subsidiaries	18,443	9,997

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand, except for the amounts of HK\$496,131,000 (2004: HK\$421,925,000). Of the HK\$496,131,000 (2004: HK\$421,925,000), the amounts have no fixed terms of repayment. In the opinion of the directors, the amounts were unlikely to be repaid within twelve months from the balance sheet date and therefore shown as non-current.

The amounts due to subsidiaries are unsecured, interest-free and are repayable on demand.

Details of the Company's principal subsidiaries at 31 March 2005 are set out in note 42.

Notes to the Financial Statements

For the year ended 31 March 2005

17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	5,741	9,204
Goodwill of associates (note)	–	14,371
	5,741	23,575
Amount due from an associate	7,250	7,000
	12,991	30,575
Amounts due from associates	20,069	11,976

Note: Movements during the year in goodwill on acquisition of associates are as follows:

	HK\$'000
COST	
At 1 April 2004	14,371
Arising on acquisition	831
At 31 March 2005	15,202
IMPAIRMENT	
Impairment loss recognised for the year and at 31 March 2005	(15,202)
CARRYING AMOUNT	
At 31 March 2005	–
At 31 March 2004	14,371

The carrying amount of goodwill, before recognition of impairment loss, were related to production and sale of Chinese pharmaceutical products. The Group considered the cash flow forecasts derived from the most recent financial budgets approved for the next five years and the rates used to discount the forecast cash flows was 7%. Due to the increase in competition in the market, impairment loss of approximately HK\$15,202,000 has been recognised.

Notes to the Financial Statements

For the year ended 31 March 2005

17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES *(continued)*

At 31 March 2005, the amounts due from associates were unsecured, interest-free and are repayable on demand, except for an amount of HK\$7,250,000 (2004: HK\$7,000,000). Of the HK\$7,250,000 (2004: HK\$7,000,000), the amount is interest bearing at 4% to 4.5% (2004: 4%) per annum and is repayable from 31 March 2006 to 31 January 2010.

Details of the Group's principal associates at 31 March 2005 are set out in note 43.

18. TRADEMARKS

	THE GROUP
	HK\$'000
<hr/>	
COST	
At 1 April 2004	898
Addition	38
At 31 March 2005	936
<hr/>	
AMORTISATION	
At 1 April 2004	107
Provided for the year	92
At 31 March 2005	199
<hr/>	
NET BOOK VALUE	
At 31 March 2005	737
<hr/>	
At 31 March 2004	791
<hr/>	

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The trademark is amortised on a straight line basis over its useful life of 10 years.

Notes to the Financial Statements

For the year ended 31 March 2005

19. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials and consumables	27,151	22,510
Work-in-progress	98	20
Finished goods	41,648	10,628
	68,897	33,158

At the balance sheet date, all the inventories, excluding those fully provided for, were carried at cost.

20. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to 120 days to its trade customers. Included in trade and other receivables are trade receivables of HK\$77,194,000 (2004: HK\$36,834,000) and their aged analysis is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	24,285	20,996
31 – 60 days	14,749	7,406
61 – 120 days	25,366	7,703
Over 120 days	12,794	729
	77,194	36,834
Other receivables	13,539	11,469
	90,733	48,303

Notes to the Financial Statements

For the year ended 31 March 2005

21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$31,495,000 (2004: HK\$12,430,000) and their aged analysis is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	13,302	6,665
31 – 60 days	10,615	3,340
61 – 120 days	5,668	2,425
Over 120 days	1,910	–
	31,495	12,430
Other payables	32,872	17,106
	64,367	29,536

22. OBLIGATIONS UNDER FINANCE LEASES

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	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	365	–	316	–
In the second to fifth year inclusive	316	–	278	–
	681	–	594	–
Less: Future finance charges	(87)	–	–	–
Present value of lease obligations	594	–	594	–
Less: Amount due within one year shown under current liabilities			(316)	–
Amount due after one year			278	–

Notes to the Financial Statements

For the year ended 31 March 2005

22. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

It is the Group's policy to lease certain of its fixtures and equipment using finance leases. The average lease term is three years. For the year ended 31 March 2005, the effective borrowing rate ranged from 5.4% to 10.9% per annum (2004: nil). Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

23. BANK BORROWINGS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Bank borrowings	142,743	14,421
Bank overdrafts	443	5,000
	143,186	19,421
The maturity profile of the above bank borrowings is as follows:		
On demand or within one year	30,430	12,964
More than one year, but not exceeding two years	16,784	6,044
More than two years, but not exceeding five years	37,725	413
Over five years	58,247	–
	143,186	19,421
Less: Amount due within one year shown under current liabilities	(30,430)	(12,964)
Amount due after one year	112,756	6,457
Secured	85,097	–
Unsecured	58,089	19,421
	143,186	19,421

Notes to the Financial Statements

For the year ended 31 March 2005

24. DEFERRED FRANCHISE INCOME

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
At beginning of the year	719	775
Additions	406	381
Recognised in the current year	(734)	(437)
At end of the year	391	719
Less: Amount due within one year shown under current liabilities	(283)	(364)
	108	355

25. CONVERTIBLE LOAN STOCK

	THE GROUP AND THE COMPANY	
	2005	2004
	HK\$'000	HK\$'000
£590 (2004: £590) 9.5% unsecured convertible loan stock 2008 ("CL Stock")	6	6

On 12 January 1999, the Company issued CL Stock with a nominal value of £3,807,552 divided into 3,807,552 stock units. The CL Stock bear interest at the rate of 9.5% per annum, payable every half year on 31 March and 30 September of each year, and are redeemable at par on 30 September 2008 or, if later, the date falling 30 days after the final conversion date in respect of the year 2008. The Company repaid £3,806,962 CL Stock in previous financial years.

Holders of the CL Stock are entitled to convert their units biannually at any time within 30 calendar days after the despatch of the interim report or final report of the Company up to and including 29 September 2008.

During the year ended 31 March 2005, the Company made no repayment in respect of the CL Stock (2004: nil) and the balance of CL Stock outstanding at 31 March 2005 which amounted to £590 (2004: £590) has been classified as a current liability.

Notes to the Financial Statements

For the year ended 31 March 2005

26. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY
	HK\$'000
At 1 April 2004	56,500
Issued during the year (Note a)	30,000
Converted during the year (Note b)	(14,000)
Redeemed during the year	(56,500)
At 31 March 2005	16,000

Notes:

- (a) On 14 March 2005, the Company issued convertible notes of HK\$30 million with a conversion price of HK\$0.08 per share as partial consideration for the acquisition of the entire equity interests in, and shareholders' loan to, Geswin Limited ("Geswin"). The convertible notes carried interest at 3% per annum and are redeemable on 15 March 2008 unless it was previously converted or redeemed. The holders of the convertible notes have the option to convert the convertible notes into shares of HK\$0.01 per share of the Company at any time during the period from 16 March 2005 to 15 March 2008.
- (b) Convertible notes of HK\$14 million were converted into 175,000,000 ordinary shares of HK\$0.01 each in the Company during the year ended 31 March 2005.

At 31 March 2005, convertible notes of HK\$16 million with a conversion price of HK\$0.08 per share, which carried interest at 3% per annum, were held by Rich Time Strategy Limited ("Rich Time").

27. LOANS FROM A SHAREHOLDER

The amounts were unsecured, interest bearing at 2% (2004: 2%) per annum and were fully repaid during the year ended 31 March 2005.

Notes to the Financial Statements

For the year ended 31 March 2005

28. DEFERRED TAXATION

The following are the deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

THE GROUP

	Accelerated tax depreciation	Revaluation of investment properties	Allowance for bad and doubtful debt	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	217	–	–	–	217
Charge to the income statement for the year	468	–	(350)	–	118
Effect of a change in tax rate	20	–	–	–	20
At 31 March 2004	705	–	(350)	–	355
Exchange adjustment	4	–	–	–	4
Acquisition of a subsidiary	63	–	–	–	63
Charge to the income statement for the year	2,497	740	–	(307)	2,930
At 31 March 2005	3,269	740	(350)	(307)	3,352

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset.

At the balance sheet date, the Group had unused tax losses of HK\$88 million (2004: HK\$55 million) available to offset against future profits. A deferred tax asset of HK\$1,754,000 (2004: Nil) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31 March 2005

29. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At 1 April 2003, ordinary shares of HK\$0.01 each	60,000,000,000	600,000
Consolidation of shares	(59,400,000,000)	–
Adjustment of nominal value	–	(540,000)
Additions	5,400,000,000	540,000
At 31 March 2004, ordinary shares of HK\$0.1 each	6,000,000,000	600,000
Adjustment of nominal value (Note a)	–	(540,000)
Cancellation (Note a)	(5,447,226,155)	(54,472)
Addition (Note a)	59,447,226,155	594,472
At 31 March 2005, ordinary shares of HK\$0.01 each	60,000,000,000	600,000
Issued and fully paid:		
At 1 April 2003, ordinary shares of HK\$0.01 each	15,789,919,864	157,899
Issue of shares in consideration for the acquisition of subsidiaries	5,972,464,700	59,725
Issue of shares upon conversion of convertible notes	8,450,000,000	84,500
Consolidation of shares	(29,910,260,719)	–
Adjustment of nominal value	–	(271,912)
Ordinary shares of HK\$0.10 each	302,123,845	30,212
Private placements of shares	224,400,000	22,440
Exercise of share options	26,250,000	2,625
At 31 March 2004, ordinary share of HK\$0.1 each	552,773,845	55,277
Adjustment to nominal value (Note a)	–	(49,750)
Right and bonus issues (Note b)	2,211,095,380	22,112
Private placement of shares (Note c)	552,000,000	5,520
Issue of share upon conversion of convertible notes (Note d)	175,000,000	1,750
At 31 March 2005, ordinary shares of HK\$0.01 each	3,490,869,225	34,909

Notes to the Financial Statements

For the year ended 31 March 2005

29. SHARE CAPITAL (continued)

Notes:

- (a) Pursuant to a resolution passed in a special general meeting on 4 June 2004, the Group carried out the following capital reorganization ("Capital Reorganisation") which involved inter-alia:
- the nominal value of the issued and unissued ordinary shares of the Company was reduced from HK\$0.10 each to HK\$0.01 each by cancellation of HK\$0.09 each of the capital paid up thereon ("Capital Reduction");
 - All of the authorised but unissued share capital of the Company was cancelled;
 - The authorised share capital of the Company was increased to the original authorised share capital of HK\$600,000,000 by the creation of an additional 59,447,226,155 ordinary shares of HK\$0.01 each; and
 - The credit of approximately HK\$49,750,000 arising from the Capital Reduction was transferred to the general reserve as to HK\$41,878,000 and accumulated losses as to HK\$7,872,000, respectively.

Details of the Capital Reorganisation are set out in a circular to the shareholders of the Company dated 12 May 2004.

- (b) Pursuant to a resolution passed in a special general meeting on 4 June 2004, 2,211,095,380 ordinary shares of HK\$0.01 each was issued and allotted by way of rights issue, in the proportion of three shares for every one existing share held ("Rights Share"), at a subscription price of HK\$0.16 per Rights Share to the existing shareholders, together with one bonus share issued for every three fully paid Rights Share held by the shareholders ("Rights and Bonus Issue"). The net proceeds of approximately HK\$255.2 million from the Rights and Bonus Issue were used for the repayment of bank and other borrowings, redemption of convertible notes issued by the Company, acquisition of subsidiaries as detailed in note 32, expansion of retail network and production facilities and general working capital.
- (c) 552,000,000 ordinary shares of HK\$0.01 each of the Company held by Rich Time, a wholly owned subsidiary of Wang On Group Limited ("Wang On"), were placed to independent professional investors at a price of HK\$0.065 each and 552,000,000 new ordinary shares of HK\$0.01 each of the Company were issued and allotted to Rich Time at HK\$0.065 per share on 3 February 2005 under a placing and a subscription agreement entered into by the Company on 20 January 2005. These shares were issued under the general mandate granted to the directors of the Company on 13 August 2004. The issued price of HK\$0.065 represented a discount of approximately 15.58% to the closing price of HK\$0.077 on 20 January 2005. The net proceeds of approximately HK\$34.8 million from the placing and subscription agreements were used for the repayment of bank and other borrowings, expansion of retail network and production facilities and general working capital.
- (d) The Company issued and allotted a total of 175,000,000 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.08 per share upon the exercise of the conversion rights by the holder of convertible notes.

All the ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

Notes to the Financial Statements

For the year ended 31 March 2005

30. SHARE OPTION SCHEMES

1997 Scheme

A share option scheme was approved and adopted by the Company on 16 October 1997 (the "1997 Scheme") for the purpose of providing incentives to directors and eligible employees.

Pursuant to an ordinary resolution of the Company passed on 18 September 2003, the 1997 Scheme was terminated and that no further options will be granted under the 1997 Scheme, but in all other respects, the provisions of 1997 Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to such termination.

2004 Scheme

On 18 September 2003, the Company adopted a new share option scheme (the "2004 Scheme") for the primary purpose of providing incentives to selected eligible persons as incentives or rewards for their contribution or potential contribution to the Company and its subsidiaries. Pursuant to the 2004 Scheme, which will expire on 17 September 2014, the board of directors of the Company may grant options to directors and eligible employees of the Company or its subsidiaries to subscribe for shares in the Company at a consideration equal to the higher of the closing price of the shares of the Company on the Stock Exchange at the date of offer of grant and the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the options.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant.

The maximum number of shares of the Company in respect of which options may be granted, when aggregated with any other share option schemes of the Company, shall not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the 2004 Scheme. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 Scheme shall not exceed 30% of the shares in issue from time to time.

The total number of shares in respect of which options may be granted to an eligible person under the 2004 Scheme is not permitted to exceed 1% of the aggregate number of shares for the time being issued and issuable under the 2004 Scheme.

The following tables disclose movement in the 1997 Scheme and the 2004 Scheme during the two years ended 31 March 2005.

Notes to the Financial Statements

For the year ended 31 March 2005

30. SHARE OPTION SCHEMES (continued)

Option type	Date of grant	Exercise price per share prior to Bonus Issue HK\$	Exercise price per share adjusted for the effect of Bonus Issue HK\$ (note)	Exercisable period	Outstanding at 1.4.2003	Granted during the year	Cancelled during the year	Number of options			
								Exercised during the year	Outstanding at 31.3.2004	Cancelled during the year	Outstanding at 31.3.2005
1997 Scheme											
<i>Category 1: Employees</i>											
Employees	9.12.1999	28.50	5.7	9.12.1999 to 8.12.2009	39,800	-	(2,200)	-	37,600	(37,600)	-
	3.3.2000	82.00	16.4	3.3.2000 to 2.3.2010	20,000	-	-	-	20,000	(20,000)	-
					59,800	-	(2,200)	-	57,600	(57,600)	-
2004 Scheme											
<i>Category 2: Other</i>											
Franchisees	20.1.2004	0.64	0.128	20.1.2004 to 19.1.2014	-	26,250,000	-	(26,250,000)	-	-	-
Total					59,800	26,250,000	(2,200)	(26,252,000)	57,600	(57,600)	-

Note: The exercise price per share brought forward from last year has been adjusted to reflect the effect of the Rights and Bonus Issues during the year ended 31 March 2005.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year ended 31 March 2004 ranged from HK\$0.66 to HK\$0.68.

Total consideration received during the year ended 31 March 2004 from employees for taking up the options granted amounted to HK\$7.

Notes to the Financial Statements

For the year ended 31 March 2005

31. RESERVES

	Share premium	Contributed surplus	General reserve	Accumulated losses	Total
	HK\$'000	HK\$'000 (note a)	HK\$'000 (note b)	HK\$'000	HK\$'000
THE COMPANY					
At 1 April 2003	15,393	18,494	54,589	(159,736)	(71,260)
Reduction in share premium	(15,393)	–	–	15,393	–
Reduction in share capital	–	–	127,569	144,343	271,912
Issue of new shares	133,775	–	–	–	133,775
Share issue expenses	(4,791)	–	–	–	(4,791)
Loss for the year	–	–	–	(22,961)	(22,961)
At 31 March 2004	128,984	18,494	182,158	(22,961)	306,675
Reduction in share capital	–	–	41,878	7,872	49,750
Issue of shares	291,358	–	(5,528)	–	285,830
Share issue expenses	(11,199)	–	–	–	(11,199)
Loss for the year	–	–	–	(81,108)	(81,108)
At 31 March 2005	409,143	18,494	218,508	(96,197)	549,948

Notes:

- (a) The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the ordinary share capital issued by the Company under a group reorganisation in 1995, less capitalisation on bonus issue of shares.
- (b) The general reserve represents the credits arising from the capital reduction effected by the Company less the amount utilised for the purpose of bonus issue of shares by the Company.

Notes to the Financial Statements

For the year ended 31 March 2005

31. RESERVES (continued)

Under the Companies Act 1981 of Bermuda (as amended), the Company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- a. it is, or would after the payment be, unable to pay its liabilities as they become due; or
- b. the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31 March 2005, the reserve available for distribution to shareholders was approximately HK\$140,805,000 (2004: HK\$177,691,000) which represented the net balance of contributed surplus of approximately HK\$18,494,000 (2004: HK\$18,494,000), general reserves of approximately HK\$218,508,000 (2004: HK\$182,158,000) and accumulated losses of approximately HK\$96,197,000 (2004: HK\$22,961,000).

32. ACQUISITION OF SUBSIDIARIES

In April 2004, the Group acquired the entire equity interests in WOD Investments Limited ("WOD") for a cash consideration of approximately HK\$65.4 million.

In July 2004, the Group acquired the entire equity interests in CNT Health Food Pte Ltd ("CNT") for a cash consideration of approximately HK\$14.7 million, subject to adjustments on the audited net profit after taxation of CNT for each of the two years ending 31 March 2006.

In August 2004, the Group acquired 72.86% interests in April Full Limited for a cash consideration of approximately HK\$29.0 million.

In addition, in February 2005, the Group acquired the entire equity interests in, and shareholders' loan to, Geswin for a consideration of approximately HK\$63.6 million. The consideration was satisfied by cash in the amount of approximately HK\$33.6 million and the issue of convertible notes for a principal amount of HK\$30.0 million as detailed in note 26.

Notes to the Financial Statements

For the year ended 31 March 2005

32. ACQUISITION OF SUBSIDIARIES (continued)

	2005		2004 HK\$'000
	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	
Net assets acquired:			
Property, plant and equipment	160,001	46,145	206,146
Inventories	7,767	–	7,767
Trade and other receivables	10,260	–	10,260
Bank and cash balances	2,395	–	2,395
Trade and other payables	(10,079)	–	(10,079)
Taxation payable	(116)	–	(116)
Obligations under finance lease	(204)	–	(204)
Bank borrowings	(61,930)	–	(61,930)
Deferred taxation	(63)	–	(63)
Minority interests	(7,938)	–	(7,938)
Net assets	100,093	46,145	146,238
Goodwill arising on acquisition			29,074
Total consideration			175,312
Satisfied by:			
Shares allotted			–
Convertible notes			30,000
Expenses paid in cash			2,480
Cash consideration paid			142,832
			175,312
Analysis of net (outflow) inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:			
Total cash consideration			(145,312)
Bank balances and cash acquired			2,395
Net (outflow) inflow of cash and cash equivalents in respect of acquisition of subsidiaries			(142,917)

Notes to the Financial Statements

For the year ended 31 March 2005

32. ACQUISITION OF SUBSIDIARIES *(continued)*

The goodwill arising on the acquisition of CNT and April Full Limited is attributable to the anticipated future operating synergies from the combination.

The subsidiaries acquired during the year contributed approximately HK\$33,542,000 (2004: HK\$37,389,000) to the Group's turnover and a loss of approximately HK\$352,000 (2004: profit of approximately HK\$7,000,000) to the Group's loss from operations.

If the acquisition had been completed on 1 April 2004, the total group turnover for the period would have been approximately HK\$339,531,000 and loss for the year would have been approximately HK\$66,149,000.

Notes to the Financial Statements

For the year ended 31 March 2005

33. DISPOSAL OF SUBSIDIARIES

On 26 February 2004, the Group disposed of Great Prime, details of which are set out in note 8. The net assets of Great Prime Group at the date of disposal were as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Net assets disposed of:		
Investment properties	-	3,600
Property, plant and equipment	-	15,023
Trademark	-	1
Inventories	-	28,549
Trade and other receivables	-	18,095
Tax recoverable	-	30
Bank balances and cash	-	2,173
Trade and other payables	-	(54,656)
Tax payable	-	(323)
Obligation under finance leases	-	(1,017)
Bank borrowings	-	(8,635)
Net assets	-	2,840
Reserve realised on disposal	-	(609)
Gain on disposal	-	7,632
	-	9,863
Satisfied by:		
Loan from and interest payable to a director	-	10,200
Related expenses paid on disposal	-	(337)
	-	9,863
Net outflow of cash and cash equivalent in respect of disposal of subsidiaries		
Cash consideration paid	-	(337)
Bank balances and cash disposed	-	(2,173)
	-	(2,510)

Notes to the Financial Statements

For the year ended 31 March 2005

33. DISPOSAL OF SUBSIDIARIES *(continued)*

The subsidiaries disposed of during the year ended 31 March 2004 contributed approximately HK\$159,896,000 to the Group's turnover and a loss of approximately HK\$11,250,000 to the Group's loss from operations.

34. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2005, the major non-cash transactions were as follows:

- (a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of lease contracts of HK\$560,000.
- (b) The Group acquired the entire interest in, and shareholders' loan to, Geswin at an aggregate consideration of approximately HK\$63.6 million which was partially satisfied by the issue of convertible notes of HK\$30.0 million.
- (c) The Company issued and allotted 175,000,000 ordinary shares of HK\$0.01 each upon the exercise of the conversion rights by the holders of convertible notes.
- (d) The Company issued 552,773,845 bonus shares of HK\$0.01 each, amounting to HK\$5,528,000, on the basis of one bonus share for every three Rights Share.

During the year ended 31 March 2004, the major non-cash transactions were as follows:

- (a) Partial consideration for the acquisition of subsidiaries of approximately HK\$129,725,000 was satisfied by the issue of ordinary shares and convertibles notes of HK\$59,725,000 and HK\$70,000,000, respectively.
- (b) The consideration for the acquisition of 49% equity interest in China Field and shareholders' loan of approximately HK\$7 million were satisfied by the issue of convertible notes of HK\$20 million and loans from a shareholder of HK\$7 million.
- (c) The Company issued and allotted 8,450,000,000 ordinary shares of HK\$0.01 each upon the exercise of the conversion rights by the holders of the convertible notes.
- (d) The consideration of HK\$10.2 million receivable for the disposal of subsidiaries was set off with a loan from and interest payable to a director.

Notes to the Financial Statements

For the year ended 31 March 2005

35. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme.

The employees of the Group's subsidiaries in the PRC are members of state-managed retirement benefits schemes operated by the government. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefit scheme, available to reduce the contribution payable in the future years.

36. PLEDGE OF ASSETS

At 31 March 2005, the Group had pledged its leasehold land and buildings and investment properties with an aggregate net book value of approximately HK\$188,406,000 (2004: Nil) and HK\$41,200,000 (2004: Nil), respectively, to banks to secure general banking facilities granted to the Group.

At the balance sheet dates, the Company had no significant pledge of assets.

37. CAPITAL COMMITMENTS

At 31 March 2005, the Group had capital commitments of approximately HK\$834,000 (2004: HK\$2,193,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements.

In addition, the Group had capital commitments contracted for but not provided in the financial statements in connection with the consideration for the acquisition of CNT which is subject to adjustments on the audited net profit after taxation for the two years ending 31 March 2006, with a maximum consideration payable of HK\$8.1 million.

At the balance sheet dates, the Company had no significant capital commitments.

Notes to the Financial Statements

For the year ended 31 March 2005

38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000 (Note)	2004 HK\$'000 (Note)
Bills discounted with recourse	807	–	–	–
Guarantees given to bankers in respect of banking facilities granted to				
– subsidiaries	–	–	122,397	17,500
– a third party	3,679	2,096	–	–
	3,679	2,096	122,397	17,500

Note: The Company has also given an unlimited corporate guarantee to a bank in respect of banking facilities granted to its subsidiaries.

The extent of banking facilities utilised by the subsidiaries as at 31 March 2005 amounted to approximately HK\$77.3 million (2004: HK\$14.4 million).

Notes to the Financial Statements

For the year ended 31 March 2005

39. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

The Group made minimum lease payments of approximately HK\$21,393,000 (2004: HK\$11,483,000) under operating leases during the year in respect of its office properties and retail shops.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005	2004
	HK\$'000	HK\$'000
Within one year	31,655	22,498
In the second to fifth year inclusive	29,502	22,650
	61,157	45,148

Operating lease payments represent rentals payable by the Group for certain of its office properties and retail shops. Leases are negotiated for a term ranging from 1 to 3 years. Certain lease rentals are based on turnover of the relevant retail shops.

The Group as lessor:

Property rental income earned during the year was approximately HK\$1,764,000 (2004: HK\$126,000). The properties held have committed tenants for the next year.

At 31 March 2005, the Group had contracted with tenants for future minimum lease payments due within one year of approximately HK\$588,000 (2004: Nil).

At the balance sheet dates, the Company did not have any operating lease arrangements.

Notes to the Financial Statements

For the year ended 31 March 2005

40. RELATED PARTY TRANSACTION AND BALANCES

During the year, the Group had the following related party transactions:

Name of related party	Transactions	2005 HK\$'000	2004 HK\$'000
(I) CONNECTED PARTIES			
Wang On and its subsidiaries (the "Wang On Group")	Interest on term loans paid by the Group (Note iii)	34	4,535
	Interest on convertible notes paid by the Group (Note iv)	523	2,240
	Management fee paid by the Group (Note v)	918	960
	Rental paid by the Group (Note vi)	3,595	4,154
	Rental received by the Group (Note vi)	1,764	–
	Rental paid by an associate of the Group (Note vi)	1,470	–
	Acquisition of subsidiaries (Note vii)	128,980	129,725
	Acquisition of an associate (Note viii)	–	27,000
Town Health International Holdings Company Limited and its subsidiaries ("Town Health Group") (Note i)	Sales of pharmaceutical products by the Group (Note x)	–	1,335
	Management, advertising and promotion fees received by the Group (Note x)	–	125
Leung Wai Ho (Note ii)	Interest on terms loans paid by the Group (Note iii)	–	557
	Disposal of subsidiaries (Note xi)	–	10,200

Notes to the Financial Statements

For the year ended 31 March 2005

40. RELATED PARTY TRANSACTION AND BALANCES *(continued)*

Name of related party	Transactions	2005 HK\$'000	2004 HK\$'000
(II) RELATED PARTIES OTHER THAN CONNECTED PARTIES			
Associates	Sales of Chinese pharmaceutical products by the Group (Note x)	26,154	25,561
	Subcontracting fee paid by the Group (Note ix)	446	–
	Management, advertising and promotion fees received by the Group (Note x)	2,493	1,723
	Facilities granted by the Group (Note xii)	10,000	10,000
	Interest income received by the Group (Note xiii)	341	–

Notes:

- (i) Town Health Group was a substantial shareholder of the Company for the year ended 31 March 2003 and it ceased to be a substantial shareholder of the Company in November 2003.
- (ii) Leung Wai Ho is a director of the Company.
- (iii) Interest is calculated at 2% per annum.
- (iv) Interest is calculated at the respective rates in accordance with the relevant convertible notes.
- (v) Management fee was mutually agreed and determined by the relevant parties.
- (vi) These transactions were entered into in accordance with the relevant lease agreements. The monthly rental of the properties was equivalent to the open market rental value at the date entering the agreements as certified by an independent firm of professional valuer in Hong Kong.
- (vii) On 8 April 2004 and 28 January 2005, the Group entered into a conditional sales and purchase agreements with Wang On Group to acquire the entire equity interest in, and shareholders' loan to, WOD and Geswin for the considerations of approximately HK\$65,354,000 and HK\$63,626,000, respectively.

Notes to the Financial Statements

For the year ended 31 March 2005

40. RELATED PARTY TRANSACTION AND BALANCES *(continued)*

Notes: *(continued)*

- (viii) On 20 February 2004, Bright Leading Limited, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with an indirect wholly owned subsidiary of Wang On for the acquisition of 49% equity interest in China Field and shareholders' loan of HK\$7 million for a total consideration of HK\$27 million.
- (ix) The transactions were carried out at market price or, where no market price was available at cost plus a percentage profit mark-up.
- (x) These transactions were entered in accordance with the relevant franchise agreements.
- (xi) On 15 January 2004, the Company disposed of its entire interest in Great Prime to Mr. Leung Wai Ho, an executive director of the Company at the time of the transaction, for a consideration of HK\$10.2 million.
- (xii) On 12 March 2004, the Company had given general facilities of HK\$10,000,000 to China Field. China Field had not utilize the facilities at 31 March 2005.
- (xiii) Interest is calculated at 4% to 4.5% per annum.

Details of the balances with related parties as at the balance sheet date are set out in the balance sheets and notes 17, 26 and 27.

41. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to the balance sheet date:

- (a) On 4 April 2005, the Group entered into conditional sale and purchase agreements for the disposal of investment properties with a carrying amount of HK\$12.5 million at 31 March 2005 for a consideration of HK\$13.0 million. The disposal was completed on 24 May 2005.
- (b) The directors proposed to carry out the following capital reorganisation, which involved inter-alia:
 - every ten issued and unissued shares of HK\$0.01 each were consolidated into one share of HK\$0.10 each;
 - the nominal value of the issued shares after the consolidation were reduced from HK\$0.10 each into HK\$0.01 each; and
 - the credit of approximately HK\$31.4 million arising from the capital reduction is to set off the accumulated loss of the Company.

The above capital reorganisation was approved by the shareholders of the Company at a special general meeting held on 8 June 2005, details of which are set out in a circular to the shareholders of the Company dated 13 May 2005.

Notes to the Financial Statements

For the year ended 31 March 2005

42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 March 2005 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company		Principal activity
			Directly	Indirectly	
Billion Good Investment Limited	Hong Kong	HK\$2	–	100%	Property holding company
Bright Leading Limited	Hong Kong	HK\$2	–	100%	Investment holding company
CNT Health Food Pte Limited	Singapore	Singapore \$1,610,000	–	100%	Production and sales of Chinese health food
Conful Limited	Hong Kong	HK\$1	–	100%	Property investment
Geswin Limited	Hong Kong	HK\$2	–	100%	Property investment
Luxembourg Medicine Company Limited	Hong Kong	HK\$434,747	–	99.79%	Production and sale of western pharmaceutical and healthcare products
Source Millennium Limited	British Virgin Islands	USD1	100%	–	Investment holding company
Wai Yuen Tong Medicine Company Limited	Hong Kong	HK\$217,374 Ordinary HK\$17,373,750 non-voting deferred *	–	99.79%	Production and trading of Chinese pharmaceutical products

* The non-voting deferred shares carry no voting rights or rights to dividends. On the winding-up of the Company, the non-voting deferred shares have a right to repayment in proportion to the amounts paid up on all ordinary and deferred shares after the first HK\$1,000,000,000 thereof has been distributed among the holders of the ordinary shares.

The above table lists the subsidiaries of the Group, which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive lengths.

Notes to the Financial Statements

For the year ended 31 March 2005

43. PRINCIPAL ASSOCIATES

Details of the Group's principal associates at 31 March 2005 are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Class of shares held	Attributable proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
China Field Enterprises Limited	Hong Kong	HK\$25,000	Ordinary	49%	Investment holding
Chinese Leading Limited	Hong Kong	HK\$600,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Creation Sino Limited	Hong Kong	HK\$2,500,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Fortune Way Trading Limited	Hong Kong	HK\$1,000,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Global Winner Holdings Limited	Hong Kong	HK\$360,000	Ordinary	40%	Retailing of Chinese pharmaceutical products
Hunan Xiangya Pharmaceutical Co., Limited	PRC	RMB29,225,000	N/A	39.2%	Production of Chinese pharmaceutical products

Notes to the Financial Statements

For the year ended 31 March 2005

43. PRINCIPAL ASSOCIATES *(continued)*

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Class of shares held	Attributable proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
Longly Richly Limited	Hong Kong	HK\$650,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Lucky Planning Limited	Hong Kong	HK\$700,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Hong Kong	HK\$2,500,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Venko Limited	Hong Kong	HK\$100	Ordinary	50%	Retailing of Chinese pharmaceutical products

Particulars of Properties

INVESTMENT PROPERTIES

Locations	Use	Tenure	Attributable interest of the Group
Flat B on 23rd Floor of Block 9, Parc Palais, No. 18 Wylie Road, King's Park, Kowloon	Residential premises for rental	Medium term lease	100%
Flat A on 25th Floor of Block 9, Parc Palais, No. 18 Wylie Road, King's Park, Kowloon	Residential premises for rental	Medium term lease	100%
Flat D on 23rd Floor of Block 9, Parc Palais, No. 18 Wylie Road, King's Park, Kowloon	Residential premises for rental	Medium term lease	100%
Flat B on 22nd Floor of Block 8, Parc Palais, No. 18 Wylie Road, King's Park, Kowloon	Residential premises for rental	Medium term lease	100%

Five Year Financial Summary

For the year ended 31 March 2005

RESULTS

	Year ended 31 March				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
Turnover	240,358	220,812	259,824	349,225	326,909
Loss before taxation	(31,260)	(33,682)	(26,615)	(28,248)	(61,580)
Taxation	(231)	(105)	(2,302)	(1,738)	(5,647)
Loss after taxation	(31,491)	(33,787)	(28,917)	(29,986)	(67,227)
Minority interests	–	235	(29)	(20)	252
Loss for the year	(31,491)	(33,552)	(28,946)	(30,006)	(66,975)

ASSETS AND LIABILITIES

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	At 31 March				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
Total assets	111,182	83,460	319,685	469,356	827,814
Total liabilities	(124,452)	(130,282)	(233,557)	(115,451)	(228,726)
Minority interests	–	–	(94)	(212)	(7,877)
Surplus (deficiency) of shareholders' funds	(13,270)	(46,822)	86,034	353,693	591,211