Wai Yuen Tong Medicine Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 897

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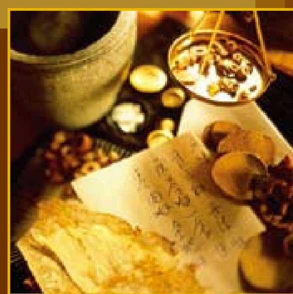

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2006 Annual Report

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Corporate Information

Board of Directors

Executive Directors
TANG Ching Ho *Chairman*
CHAN Chun Hong, Thomas *Managing Director*

Independent Non-executive Directors
LEUNG Wai Ho
YUEN Chi Choi
SIU Man Ho, Simon
CHO Wing Mou

Audit Committee

YUEN Chi Choi *Chairman*
LEUNG Wai Ho
SIU Man Ho, Simon
CHO Wing Mou

Remuneration Committee

SIU Man Ho, Simon *Chairman*
LEUNG Wai Ho
YUEN Chi Choi
CHO Wing Mou
TANG Ching Ho
CHAN Chun Hong, Thomas

Company Secretary

CHAN Chun Hong, Thomas

Qualified Accountant

LAO Wai Keung

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
Dah Sing Bank, Limited
United Commercial Bank

Auditors

Deloitte Touche Tohmatsu

Legal Advisors

Preston Gates Ellis

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

Registrar in Hong Kong

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

Registrar in Bermuda

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
P.O. Box HM 1540
Hamilton HM FX
Bermuda

Internet Address

http://www.wyth.net

Stock Code

897

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to you the Group's annual report for the financial year ended 31 March 2006.

The retail environment for the year ended 31 March 2006 was mixed. The economy in Hong Kong was recovering, unemployment rate was declining, and there were expectations of increased economic activities following the opening of a major theme park in Hong Kong. As a result of the positive economic environment, rent and wages increased. However, the retail sentiment was subsequently undermined by the swift and continued increases in interest rates which are believed to have negatively affected consumer spending power, and reduced the level of Mainland travelers to Hong Kong.

Nevertheless, generating growth is the theme of our annual report. As a company that has existed for over 109 years, we have seen our fair share of highs and lows, and with our years of experience, we believe that we have the ability to continue our company's growth in the years ahead. As a company, we understand that continual growth is one of the best ways of rewarding our shareholders for their loyalty and confidence in us, particularly during the past few years, and we will continue striving towards even greater future performance.

In January 2006, our medicine manufacturing plant in Hong Kong ("GMP Plant") was awarded two Good Manufacturing Practice ("GMP") certifications by the Chinese Medicine Council of Hong Kong and Therapeutic Goods Administration of Australia (TGA), respectively, for meeting internationally recognised GMP standards. The Group has invested HK$100 million to build the largest GMP Plant and production facilities in Hong Kong. The award of the GMP certifications is a milestone for the Group, reflecting that "Wai Yuen Tong" products made in Hong Kong comply with high standards of safely and efficacy. Furthermore, it not only enhances the brand's market competitiveness, but also reinforces consumer confidence. The Group believes that the GMP plant is also a significant achievement in its business strategy on diversification and globalization.

During the year, the Group continued to focus on the following key development strategies: (i) reinforcing brand awareness and brand loyalty; (ii) strengthening product design, research and development; (iii) expanding our sales channels and network; and (iv) improving supply chain management.

The Group has established an extensive distribution and retail network with sales throughout Hong Kong and the PRC. During the past year, the Group adopted a diversified retail model and continued to expand its sales channels by opening 6 retail shops in Hong Kong and 5 concession counters in the PRC, bringing the total number of retail shops to 49 and concession counters to 12.

During the year, capital raising exercises by way of capital reorganisation and rights issues were undertaken, and raised approximately HK$153.2 million in aggregate.

To continue our journey along the road to success, the Group will continue concentrate its efforts and resources to streamline and improve the efficiency of its business with the ultimate aim of bringing long-term positive returns to our shareholders.

I would take this opportunity to express my sincere thanks to all shareholders for continuing support, and all the directors and staff of the Group for their loyalty, commitment and diligence in the past year.

Tang Ching Ho
Chairman

14 July 2006

Management Discussion and Analysis

Results

The Group's turnover and loss attributable to shareholders for the year ended amounted to HK$324.8 million (2005: HK$326.9 million) and HK$98.4 million (2005: HK$68.0 million, restated), respectively.

Dividend

No interim dividend was paid during the year under review (2005: Nil). The Directors do not recommend the payment of final dividend (2005: Nil).

Business Review

The Group's performance reflects that although the local economy was in a reasonably stable footing, the retail environment remained highly competitive and challenging under pressure of rising rental and labour costs and keen competition amongst others in the industry. The "Disney effect" on the retail market failed to materialize. This together with market uncertainty due to the possibility of an avian flu outbreak had dampened retail sales in Hong Kong.

(I) Wai Yuen Tong Medicine Company Limited ("Wai Yuen Tong")

Turnover for the year slightly increased from HK$228.7 million to HK$237.3 million.

In view of the rising consensus and awareness of health to the public, Wai Yuen Tong continued to fine-tune its product range, expanding its health care products from its existing proprietary Chinese medicine and retail sales of consumable products. Our top 5 products last year remained the same as in the previous year, they are young yum pills, cordyceps, bottled birds' nest, ganoderma lucidum spores and pak fung pills. For the year under review, Wai Yuen Tong's Chinese pharmaceutical and health products business attained steady growth in Hong Kong and overseas, and for the upcoming year, Wai Yuen Tong will continue identifying other business opportunities that may create synergies with its core business and further reinforce its market position in health care related businesses.

During the year, Wai Yuen Tong continued to expand its sales channels by opening 6 retail shops in Hong Kong and 5 concession counters in the PRC, bringing the total to 49 retail shops and 12 concession counters. In addition, 39 out of a total of 49 retail shops in Hong Kong provide consultation services by registered Chinese medical practitioners.

Wai Yuen Tong believes that its GMP certifications will further open the door for new business opportunities in overseas markets.

(II) Luxembourg Medicine Company Limited ("Luxembourg")

The turnover of Luxembourg's core business of Western pharmaceutical and health products decreased from HK$67.2 million to HK$44.3 million. The decrease is the result of our marketing strategy to streamline and build up more direct connections with various dealers and chain stores which, in the long run, will bring better returns to Luxembourg.

With a view to broaden its product line and enhancing the Madame Pearl's brand, Luxembourg will concentrate its efforts on the sale of cough syrup and other products related to upper respiratory tract infections.

(III) CNT Health Food Pte Limited ("CNT")

CNT maintained its growth momentum and achieved a turnover of HK$41.3 million (2005: HK$29.2 million) for the year under review, representing an increase of over 41% compared to last year. The Group believes that this reflects our strong endorsements for our efforts to strengthen CNT.

CNT is one of the largest bottled bird's nest products manufacturers in Singapore. It is principally engaged in the manufacture and sale of bird's nest products. It also provides a diverse range of high quality health products such as hashima, herbal essence and herbal jelly, etc.

CNT has obtained Hazard Analysis Critical Control Points ("HACCP"), an internationally-recognised codex standard on food safety and quality. Apart from further expanding its market share in Singapore, CNT will also target expanding its market to Hong Kong and the PRC.

Financial Review

(I) Capital Reorganisation

A capital reorganisation was effected on 8 June 2005, whereby (i) every ten issued and unissued shares of HK$0.01 were consolidated into one share of HK$0.10; (ii) the nominal value of each issued share after consolidation was reduced from HK$0.10 to HK$0.01; and (iii) a credit of approximately HK$31.4 million arising from the capital reduction was utilized for setting off the accumulated losses of the Company.

(II) Liquidity, Capital Structure and Gearing

As of 31 March 2006, the Group's total borrowings amounted to HK$133.1 million (2005: HK$157.5 million) which included bank borrowings and overdrafts of HK$132.7 million (2005: HK$143.2 million) convertible notes of nil (2005: HK$13.7 million) and obligations under a finance lease of HK$0.4 million (2005: HK$0.6 million).

The gearing ratio, defined as the ratio of total borrowings to equity attributable to equity holders was approximately 20.6% (2005: 26.5%).

(III) Foreign Exchange

The Group does not have any material foreign exchange exposure to the Group. All bank borrowings are denominated in Hong Kong and Singapore dollars. The revenue of the Group, being mostly denominated in Hong Kong and Singapore dollars, matched the currency requirement of the Group's operating expenses.

(IV) Contingent Liabilities and Capital Commitments

The Group's contingent liabilities and capital commitments as at 31 March 2006 amounted to HK$3.8 million (2005: HK$4.5 million) and HK$49.5 million (2005: HK$0.8 million) respectively.

(V) Rights Issues

A resolution was passed by the shareholders of the Company at a special general meeting on 16 November 2005 to approve the allotment of 1,047,260,766 shares at a price of HK$0.15 per share on the basis of three shares for every existing Company share.

The rights issue was completed on 6 December 2005 and net proceeds of approximately HK$153.2 million was received.

(VI) Employees

At the balance sheet date, the Group employed approximately 560 employees, of which approximately 71% of whom were located in Hong Kong. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK$58.2 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Biographical Details of Directors and Senior Management

Executive Directors

Mr. Tang Ching Ho, age 44, 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 of Wang On Group Limited, a listed company in Hong Kong and has extensive experience in corporate management.

Mr. Chan Chun Hong, Thomas, age 42, is the Managing Director and Secretary of the Company. He is responsible for managing 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 and an independent non-executive director of Shanghai Prime Machinery Company Limited, both being listed companies in Hong Kong.

Independent Non-executive Directors

Mr. Leung Wai Ho, age 56, was previously the non-executive director of the Company and was re-designated to an independent non-executive director of the Company in April 2006. He has more than 40 years' and 11 year's experiences in the watch industry and the financial industry respectively. He is a Standing Committee Member of the Chinese General Chamber of Commerce, a Committee Member of Chinese Manufacturers' Association of Hong Kong, a Standing Committee Member of Hebei Province of the Chinese People's Political Consultative Conference and the President of Dongguan City of Association of Enterprises with Foreign Investment.

Mr. Siu Man Ho, Simon, age 32, 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.

Mr. Yuen Chi Choi, age 45, joined the Company as an independent non-executive director in August 2001. He is a certified public accountant in Hong Kong and an associate member of The Hong Kong Institute of Certified Public Accountants. He has more than 15 years of audit experience.

Mr. Cho Wing Mou, age 65, joined the Company as an independent non-executive director in September 2001. He has over 40 years' experience in the 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.

Biographical Details of Directors and Senior Management

Senior Management

Mr. Chiu Kwok Ho, Benedict is the Business Development Director of Luxembourg Medicine Company Limited and joined the Group in April 2005. He is responsible for the business development of the Group's western pharmaceutical and health products business in both Hong Kong and China. Mr. Chiu graduated from Bradford University with a bachelor in pharmacy and was a registered pharmacist in Hong Kong and the United Kingdom. He has 20 years' experience in the pharmaceutical industry.

Ms. Fung Lai Ngan, Ann is the Financial Controller of the Group and joined in October 2005. She is a fellow member of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. She has more than 10 years' experience in accounting and financial positions in Hong Kong.

Mr. Lao Wai Keung is the qualified accountant of the Company. He is a certified public accountant and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in 2002, he had more than 10 years of experience in financial positions 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 and logistic issues. Prior to joining the Group in March 2002, he had over 5 years' experience 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. Law Yin Man is the Operation Director of Luxembourg Medicine Company Limited. Ms. Law joined the Group in 2001 and is responsible for sales and marketing and opening new markets in the PRC. She has more than 5 years of experience in sales and marketing in the PRC.

Ms. Tang Mui Fun, Karen is a director of Wai Yuen Tong Medicine Company Limited and CNT Health Food Pte Limited. She is responsible for the marketing strategy and 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.

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 sales and marketing in Hong Kong and overseas.

Corporate Governance Report

The board of directors of the Company (the "Board") is committed to maintain and ensure high standards of corporate governance and continuously reviews and improves the corporate governance practices and standards of the Group to ensure that business activities and decision making processes are regulated in a proper manner.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2006 including the deviations as disclosed in the interim report of the Company for the six months ended 30 September 2005.

The Company will continue to seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for shareholders.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year.

Board of Directors

The Board is comprises two Executive Directors and four Independent Non-executive Directors. The Directors of the Company during the year and up to the date of this Annual Report were:

Executive Directors
Mr. Tang Ching Ho *(Chairman)*
Mr. Chan Chun Hong, Thomas *(Managing Director)*

Non-executive Directors
Mr. Leung Wai Ho *(re-designated to Independent Non-executive Director on 4 April 2006)*

Independent Non-executive Director
Mr. Yuen Chi Choi
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

The biographical details of the Directors are set out on page 7 of this Annual Report. The Board possesses a balance of skills and experience which are appropriate for the requirements of the business of the Company. The opinions raised by the Independent Non-executive Directors of the Company in Board meetings facilitate the maintenance of good corporate governance practices. At least one of the Independent Non-executive directors has the appropriate professional qualification and/or accounting and audit experience expertise as required by Rule 3.10 (1) and (2) of the Listing Rules. A balanced composition of Executive and Non-executive Directors also generates a strong independent element on the Board, which allows for an independent and objective decision making process for the best interests of the Company. The Company will review the composition of the Board regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

All Independent Non-executive Directors are free from any business or other relationship with the Company. The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company continues to consider the three Independent Non-executive Directors to be independent.

The Board's primary functions are to set corporate policy and overall strategy for the Group and to provide effective oversight of the management of the Group's business and affairs. Apart from its statutory responsibilities, the Board also approves strategic plans, key operational issues, investments and loans, reviews the financial performance of the Group and evaluates the performance and compensation of senior management. These functions are either carried out directly by the Board or indirectly through committees established by the Board.

Regular Board meetings are held at least four times a year to approve annual and interim results, and to review the business operation and the interim control system of the Group. The meeting schedule is fixed at the beginning of each year. Apart from these regular meetings, Board meetings are also held as and when necessary to consider major issues. At least 14 days notice for each regular meeting is given to all Directors. Agendas and accompanying Board papers are sent not less than 3 days before the date of a Board meeting to ensure that Directors are given sufficient time to review the same. Draft minutes of Board meetings and Board committee meetings are circulated to Directors for their review and comment while final version of the said minutes, when duly signed, are sent to all members of the Board for their records. All such minutes are kept by the company secretary of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

During the year, four Board meetings were held and the attendance of each Director are as follows:

Directors	Attendance
Mr. Tang Ching Ho	4/4
Mr. Chan Chun Hong, Thomas	4/4
Mr. Leung Wai Ho	4/4
Mr. Yuen Chi Choi	4/4
Mr. Siu Man Ho, Simon	4/4
Mr. Cho Wing Mou	4/4

Roles of Chairman and Managing Director

The Chairman is Mr. Tang Ching Ho and the Managing Director is Mr. Chan Chun Hong, Thomas. There is a clear division of responsibilities between the Chairman and Managing Director, in that the Chairman bears primary responsibility for the functioning of the Board by ensuring its effective operation, while the Managing Director bears executive responsibility for the Company's business and the management of the day-to-day operations of the Company.

Board Committee

The Board has established various committees, including the Remuneration Committee, Nomination Committee and Executive Committee, each of which has the specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members. Each committee is required to report to the Board on its decision and recommendations where appropriate.

Nomination Committee

The Nomination Committee has been established in September 2005 and currently consists of five members, including Messrs. Cho Wing Mou (Chairman), Yuen Chi Choi, Siu Man Ho, Simon, Tang Ching Ho and Chan Chun Hong, Thomas, a majority of whom are Independent Non-executive Directors.

The Nomination Committee has adopted a written nomination procedure specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee will based on the criteria in the procedure (such as appropriate experience, personal skills and time commitment etc) identify and recommend proposed candidates to the Board.

During the year, one Nomination Committee meeting was held and attendance of each member is set out as follows:

Members of the Nomination Committee	Attendance
Mr. Cho Wing Mou *(Chairman)*	1/1
Mr. Yuen Chi Choi	1/1
Mr. Siu Man Ho, Simon	1/1
Mr. Tang Ching Ho	1/1
Mr. Chan Chun Hong, Thomas	1/1

Remuneration Committee

The Board set up the Remuneration Committee in September 2005 with specific written terms of reference which deal with its authority and duties. It currently consists of five members, including Messrs. Yuen Chi Choi (Chairman), Siu Man Ho, Simon, Cho Wing Mou, Tang Ching Ho and Chan Chun Hong, Thomas, a majority of whom are Independent Non-executive Directors.

The Remuneration Committee's role is to make recommendation to the Board on the remuneration policy and structure for Directors and senior management and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance while due having regard to the interests of shareholders. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all Executive Directors and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. No Director or any of his associates may be involved in any decisions as to his own remuneration.

The Remuneration Committee shall meet at least once a year. During the year, one Remuneration Committee meeting was held to review the remuneration packages of all Directors and senior management and the attendance of each member is set out as follows:

Members of the Remuneration Committee	Attendance
Mr. Siu Man Ho, Simon *(Chairman)*	1/1
Mr. Tang Ching Ho	1/1
Mr. Chan Chun Hong	1/1
Mr. Yuen Chi Choi	1/1
Mr. Cho Wing Mou	1/1

The remuneration payable to Directors will depend on their respective contractual terms under their employment contracts or service contracts and the same was reviewed by the Remuneration Committee. Details of the Directors' remuneration are set out in note 12 to the consolidated financial statements.

Audit Committee

The role of Audit Committee is to review the Group's financial reporting, internal controls and to make relevant recommendations to the Board. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

During the year, the Audit Committee comprises the three Independent Non-executive Directors, namely, Mr. Yuen Chi Choi (Chairman), Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou.

The Audit Committee shall meet at least twice a year. Two Committee meetings were held during the year and the attendance of each member is set out as follows:

Member of the Audit Committee	**Attendance**
Mr. Yuen Chi Choi *(Chairman)*	2/2
Mr. Siu Man Ho, Simon	2/2
Mr. Cho Wing Mou	2/2

During the year under review, the Audit Committee had reviewed the consolidated financial statements for the year ended 31 March 2006.

External Auditors' Remuneration

During the year and up to the date of this report, the remuneration paid/payable to the Company's external auditors, Deloitte Touche Tohmatsu ("Deloitte"), are set out as follows:

Services rendered for the Group	**Fees paid to Deloitte** *HK$'000*
Audit services	1,760
Non-audit services:	
— Taxation and professional services	153
— Other professional services	349
Total:	2,262

Communication with Shareholders

The Board recognises the importance of good communication with Shareholders. Information in relation to the Group is disseminated to Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company also acknowledges that general meeting are valuable forums for the Board to communicate directly with the Shareholders and Members of the Board and Committees are encouraged to attend and answer questions at the general meetings.

Responsibility for Preparation and Reporting of Accounts

The Directors of the Company acknowledge their responsibility for preparing the accounts which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the auditors about their reporting responsibilities are set out on page 22 of this Annual Report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2006.

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 products, health foods products and property holding.

Results

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 23 of the annual report.

The directors do not recommend the payment of a dividend.

Subsidiaries and Associates

Details of the Company's principal subsidiaries and associates at 31 March 2006 are set out in notes 48 and 49 to the consolidated financial statements, respectively.

Share Capital and Convertible Notes

Capital Reorganisation

During the year, the Company underwent a capital reorganisation ("Capital Reorganisation") whereby (i) every ten issued shares of HK$0.01 each were consolidated into one share of HK$0.10 each ("Share Consolidation"), the nominal value of the issued shares after the consolidation were then increased from HK$0.01 each to HK$0.10 each ("Consolidated Shares"); (ii) the reduction of the nominal value of each the Consolidated Shares then in issue from HK$0.10 to HK$0.01 by cancelling paid up capital to the extent of HK$0.09 on each Consolidated Share ("Capital Reduction"); and (iii) the crediting of the amount of approximately HK$31.4 million arising from the Capital Reduction was being utilised for the setting off the accumulated losses of the Company.

Rights Issues

The Company issued and allotted 1,047,260,766 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$0.15 per Rights Share to the existing shareholders.

The Capital Reorganisation and Rights Issue were approved by the shareholders of the Company at a special general meeting held on 8 June 2005 and 16 November 2005 respectively, details of which are set out in circulars to the shareholders of the Company dated 13 May 2005 and 31 October 2005 respectively.

Convertible Notes

During the year, the Company has redeemed all the convertible notes through the Rights Issues.

Details of these and other movements in the convertible notes and share capital of the Company are set out in notes 35 and 37 to the consolidated financial statements, respectively.

Investment Properties

During the year, investment properties with an aggregate net book value of approximately HK$36.1 million were disposed.

The Group's investment properties at 31 March 2006 were revalued by an independent firm of professional valuers on an open market value basis. There was no gain or loss arising on the revaluation.

Details of these and other movements in the investment properties of the Group during the year are set out in note 15 to the consolidated financial statements.

Property, Plant and Equipment

During the year, certain items of property, plant and equipment with an aggregate amount of approximately HK$0.5 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 16 to the consolidated 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.

Distributable Reserves

At 31 March 2006, the reserve available for distribution to Shareholders was approximately HK$80,886,000 (2005: HK$140,781,000, restated) which represented the net balance of contributed surplus of approximately HK$18,494,000 (2005: HK$18,494,000), general reserves of approximately HK$218,508,000 (2005: HK$218,508,000) and accumulated losses of approximately HK$156,116,000 (2005: HK$96,221,000, restated).

Directors

The directors of the Company 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 (re-designated to Independent Non-executive director on 4 April 2006)

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, Messrs. Mr. Tang Ching Ho, Mr. Chan Chun Hong, Thomas and Mr. Leung Wai Ho 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' 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 2006, 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 38 to the consolidated financial statements.

As at the date of this report, the total number of shares available for issue under the Company's share option scheme is 36,908,696, representing 2.6% of the share capital of the Company in issue at the date of this 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

As at 31 March 2006, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that 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	Percentage
	(Note 1)	*(Note 3)*
Wang On Group Limited ("Wang On") *(Note 2)*	684,209,324 (L)	49%
Wang On Enterprises (BVI) Limited ("WOE") *(Note 2)*	684,209,324 (L)	49%
Rich Time Strategy Limited ("Rich Time") *(Note 2)*	684,209,324 (L)	49%

Notes:

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 684,209,324 shares 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 2006 of 1,396,347,688 shares.

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 2006.

Connected Transactions and Directors' Interests in Contracts

On 28 June 2005, Conful 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.

Further details of these and other discloseable connected transactions during the year are set out in note 46 to the consolidated financial statements. Pursuant to Rule 14.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors.

The independent non-executive directors confirm that the transactions has been 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.

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, which existed 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 38 to the consolidated financial statements.

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 21% of the Group's purchases and the five largest suppliers of the Group accounted for 42% 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.

Donations

During the year, the Group made charitable and other donations totalling HK$1.8 million (2005: HK$3.7 million).

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 2006 with the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing Securities on the Stock Exchange (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.

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.

(I) General

The Company is committed to maintaining high standards of corporate governance. During the year, save as disclosed in the Company's latest interim report for the six months ended 30 September 2005, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Detailed information on the Company's corporate governance practices is set out in Corporate Governance Report included in the Company's 2006 Annual Report to be despatched to the shareholders in due course.

(II) Model Code on Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year.

(III) Audit Committee

The Audit Committee has reviewed with management and accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the full year consolidated financial statements and reports for the year ended 31 March 2006. The Audit Committee comprises Mr. Yuen Chi Choi (the Chairman of the Audit Committee), Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou who are the 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 2006.

Auditors

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

On behalf of the Board

Chan Chun Hong, Thomas
Director

14 July 2006

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 consolidated financial statements of Wai Yuen Tong Medicine Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 23 to 92 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated 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 consolidated financial statements and to report our opinion solely 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 Hong Kong Standards on Auditing 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2006 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, 14 July 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Revenue	7	**324,756**	326,909
Cost of sales		**(190,904)**	(162,134)
Gross profit		**133,852**	164,775
Other income	9	**7,493**	5,273
Distribution costs		**(105,168)**	(104,996)
Administrative expenses		**(76,785)**	(84,084)
Finance costs	10	**(7,751)**	(3,108)
Impairment loss recognised in respect of goodwill		**(40,095)**	(26,337)
Gain on disposal of investment properties		**1,920**	—
Impairment loss recognised in respect of property, plant and equipment		**(11,762)**	—
Write off of prepaid lease payments		**(2,303)**	—
Allowance for amounts due from associates		**(5,000)**	—
Increase in fair value of investment properties		**—**	4,226
Share of results of associates		**(1,793)**	(3,186)
Impairment loss recognised in respect of goodwill of associates		**—**	(15,202)
Loss before taxation	11	**(107,392)**	(62,639)
Income tax expense	13	**1,240**	(5,571)
Loss for the year		**(106,152)**	(68,210)
Attributable to:			
Equity holders of the Company		**(98,370)**	(67,958)
Minority interests		**(7,782)**	(252)
		(106,152)	(68,210)
Loss per share	14		
— Basic and diluted		**HK$(0.12)**	HK$(0.18)

Consolidated Balance Sheet

At 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
NON-CURRENT ASSETS			
Investment properties	15	9,100	41,200
Property, plant and equipment	16	84,934	103,030
Prepaid lease payments	17	140,721	146,536
Goodwill	18	255,461	296,516
Investments in associates	19	3,827	5,741
Amount due from an associate	20	7,300	7,250
Trademarks	21	1,216	737
Long-term bank deposit	22	7,762	—
Deposits paid for investments	24	14,704	—
Deferred tax assets	36	341	341
		525,366	601,351
CURRENT ASSETS			
Inventories	23	66,958	68,897
Trade and other receivables	25	59,135	90,733
Prepaid lease payments	17	3,512	3,560
Amounts due from associates	20	13,631	20,069
Taxation recoverable		1,294	—
Investments held-for-trading	26	14,491	—
Derivative financial instruments	27	100	—
Pledged deposits	28	42,703	—
Bank balances and cash	29	108,793	43,545
		310,617	226,804
CURRENT LIABILITIES			
Trade and other payables	30	53,502	64,367
Taxation payable		340	830
Obligations under finance leases	31	270	316
Bank borrowings	32	38,323	30,430
Deferred franchise income	33	234	283
Convertible loan stock	34	6	6
		92,675	96,232

Consolidated Balance Sheet

At 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
NET CURRENT ASSETS		**217,942**	130,572
TOTAL ASSETS LESS CURRENT LIABILITIES		**743,308**	731,923
NON-CURRENT LIABILITIES			
Obligations under finance leases	*31*	**104**	278
Bank borrowings	*32*	**94,363**	112,756
Deferred franchise income	*33*	**18**	108
Convertible notes	*35*	**—**	13,754
Deferred tax liabilities	*36*	**2,032**	3,693
		96,517	130,589
NET ASSETS		**646,791**	601,334
CAPITAL AND RESERVES			
Share capital	*37*	**13,964**	34,909
Reserves		**632,748**	558,548
Equity attributable to equity holders of the Company		**646,712**	593,457
Minority interests		**79**	7,877
TOTAL EQUITY		**646,791**	601,334

The consolidated financial statements on pages 23 to 92 were approved and authorised for issue by the Board of Directors on 14 July 2006 and are signed on its behalf by:

TANG CHING HO
DIRECTOR

CHAN CHUN HONG, THOMAS
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Attributable to the equity holders of the Company									
	Share capital	Share premium	Special reserve	General reserve	Translation reserve	Convertible notes reserve	Accumulated profits (losses)	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(note a)	*(note b)*		*(note c)*				
At 1 April 2004 as originally stated	55,277	128,984	(27,150)	182,158	—	—	14,424	353,693	212	353,905
Effects of changes in accounting policies *(note 3)*	—	—	—	—	—	11,000	(2,404)	8,596	—	8,596
At 1 April 2004 as restated	55,277	128,984	(27,150)	182,158	—	11,000	12,020	362,289	212	362,501
Exchange differences arising on translation of foreign operations	—	—	—	—	480	—	—	480	—	480
Net income recognised directly in equity	—	—	—	—	480	—	—	480	—	480
Loss for the year	—	—	—	—	—	—	(67,958)	(67,958)	(252)	(68,210)
Total recognised income (expense) for the year	—	—	—	—	480	—	(67,958)	(67,478)	(252)	(67,730)
Issue of new shares	5,521	30,360	—	—	—	—	—	35,881	—	35,881
Issue of right issue and bonus issue	22,111	248,748	—	(5,528)	—	—	—	265,331	—	265,331
Issue of shares upon conversion of convertible notes	1,750	12,250	—	—	—	(1,990)	—	12,010	—	12,010
Share issue expenses	—	(11,199)	—	—	—	—	—	(11,199)	—	(11,199)
Reduction in share capital	(49,750)	—	—	41,878	—	—	7,872	—	—	—
Redemption of the convertible notes	—	—	—	—	—	(11,000)	3,363	(7,637)	—	(7,637)
Recognition of equity component of convertible notes	—	—	—	—	—	4,260	—	4,260	—	4,260
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	(21)	(21)
Acquisition of subsidiaries with minority interests	—	—	—	—	—	—	—	—	7,938	7,938
At 31 March 2005 as restated	34,909	409,143	(27,150)	218,508	480	2,270	(44,703)	593,457	7,877	601,334

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Attributable to the equity holders of the Company									
						Convertible	Accumulated			
	Share	Share	Special	General	Translation	notes	profits		Minority	
	capital	premium	reserve	reserve	reserve	reserve	(losses)	Sub-total	interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(note a)	*(note b)*		*(note c)*				
Exchange differences arising on translation of foreign operations	—	—	—	—	569	—	—	569	—	569
Share of translation reserve of associates	—	—	—	—	115	—	—	115	—	115
Net income recognised directly in equity	—	—	—	—	684	—	—	684	—	684
Loss for the year	—	—	—	—	—	—	(98,370)	(98,370)	(7,782)	(106,152)
Total recognised income (expense) for the year	—	—	—	—	684	—	(98,370)	(97,686)	(7,782)	(105,468)
Redemption of the convertible notes	—	—	—	—	—	(2,270)	—	(2,270)	—	(2,270)
Issue of new shares	10,473	146,616	—	—	—	—	—	157,089	—	157,089
Share issue expenses	—	(3,878)	—	—	—	—	—	(3,878)	—	(3,878)
Reduction in share capital	(31,418)	—	—	—	—	—	31,418	—	—	—
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	(16)	(16)
At 31 March 2006	**13,964**	**551,881**	**(27,150)**	**218,508**	**1,164**	**—**	**(111,655)**	**646,712**	**79**	**646,791**

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.

(c) During the year, the Company has redeemed all the convertible notes through the Rights Issues.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Notes	2006 *HK$'000*	2005 *HK$'000* (restated)
OPERATING ACTIVITIES			
Loss before taxation		**(107,392)**	(62,639)
Adjustments for:			
Depreciation of property, plant and equipment		**15,437**	9,334
Finance costs		**7,751**	3,108
Gain on disposal of investment properties		**(1,920)**	—
Impairment loss recognised in respect of property, plant and equipment		**11,762**	—
Allowance for inventories		**1,054**	—
Write off of prepaid lease payments		**2,303**	—
Impairment loss recognised in respect of goodwill		**40,095**	26,337
Allowance for amounts due from associates		**5,000**	—
Amortisation of prepaid lease payments		**3,630**	874
Amortisation of trademarks		**84**	92
Interest income		**(1,910)**	(202)
Other loan interest income		**(550)**	(387)
Loss on disposal of property, plant and equipment		**41**	84
Gain on disposal of investments held-for-trading		**(548)**	—
Fair value gain on investments held-for-trading		**(265)**	—
Increase in fair value of investment properties		**—**	(4,226)
Gain on recognition of derivative financial instruments		**(100)**	—
Bad debts written off		**2,625**	—
Allowance for trade receivables		**1,419**	5,574
Decrease in deferred franchise income		**(139)**	(328)
Share of results of associates		**1,793**	3,186
Impairment loss recognised in respect of goodwill of associates		**—**	15,202
Operating cash flows before movements in working capital		**(19,830)**	(3,991)
Decrease (increase) in inventories		**2,880**	(27,972)
Decrease (increase) in trade and other receivables		**29,327**	(37,744)
Decrease (increase) in amounts due from associates		**6,438**	(827)
(Decrease) increase in trade and other payables		**(13,997)**	24,752
Cash generated from (used in) operation		**4,818**	(45,782)
Hong Kong Profits Tax paid		**(1,698)**	(3,782)
Overseas taxation paid		**(507)**	(59)
Interest received		**2,460**	589
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**5,073**	(49,034)

	Notes	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of investment properties		**38,020**	—
Proceeds from disposal of investments held-for-trading		**3,830**	—
Dividend income from associates		**162**	305
Proceeds from disposal of property, plant and equipment		**40**	1,286
Increase in pledged deposits		**(42,703)**	—
Purchase of investments held-for-trading		**(17,508)**	—
Increase in deposits paid for investments		**(14,704)**	—
Purchase of property, plant and equipment		**(8,085)**	(39,752)
Increase in long-term bank deposit		**(7,762)**	—
Advance to an associate		**(5,050)**	(7,250)
Purchase of investment properties		**(4,000)**	(36,974)
Purchase of trademarks		**(563)**	(38)
Acquisition of subsidiaries, net of cash and cash equivalent acquired	39	**(77)**	(142,917)
Investment in an associate		**—**	(1,125)
NET CASH USED IN INVESTING ACTIVITIES		**(58,400)**	(226,465)
FINANCING ACTIVITIES			
Proceeds from issue of new shares, net of expenses		**153,211**	290,013
New bank loans raised		**27,800**	73,900
Repayments of bank borrowings		**(38,642)**	(7,508)
Redemption of convertible notes		**(16,000)**	(56,500)
Interest paid		**(7,775)**	(2,125)
Repayments of obligations under finance leases		**(485)**	(170)
Dividends paid to minority shareholders		**(16)**	(21)
Repayment of loans from a shareholder		**—**	(7,000)
NET CASH FROM FINANCING ACTIVITIES		**118,093**	290,589
NET INCREASE IN CASH AND CASH EQUIVALENTS		**64,766**	15,090
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**43,102**	27,580
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**140**	432
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**108,008**	43,102
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**108,793**	43,545
Bank overdrafts		**(785)**	(443)
		108,008	43,102

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 (the "Hong Kong Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 48.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. Application of Hong Kong Financial Reporting Standards/ Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005 except for HKAS 40 *"Investment Property",* HKAS 36 "*Impairment of Assets*" and HKAS 38 "*Intangible Assets*" and HKFRS 3 *"Business Combinations"* which were early adopted in the 2005 year. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of taxation of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Financial Instruments

In the current year, the Group has applied HKAS 32 *"Financial Instruments: Disclosure and Presentation"* and HKAS 39 *"Financial Instruments: Recognition and Measurement"*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

2. Application of Hong Kong Financial Reporting Standards/ Changes in Accounting Policies *(Continued)*

Financial Instruments *(Continued)*

Convertible loan notes

The principal impact of HKAS 32 on the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. 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 the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2005 have been restated. Comparative loss for 2005 has been restated in order to reflect the increase in effective interest on the liability component (see note 3 for the financial impact).

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “other financial liabilities”. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The adoption of HKAS 39 has had no material effect on the Group’s consolidated financial statements.

2. Application of Hong Kong Financial Reporting Standards/ Changes in Accounting Policies *(Continued)*

Financial Instruments *(Continued)*

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held-for-trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1 April 2005 onwards. As a result, the Group's bill receivables discounted with full recourse which were derecognised prior to 1 April 2005 have not been restated. This change in accounting policy has had no material effect on results for the current year.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *"Leases"*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively *(see note 3 for the financial impact)*.

2. Application of Hong Kong Financial Reporting Standards/ Changes in Accounting Policies *(Continued)*

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 *"Income Taxes — Recovery of Revalued Non-Depreciable Assets"* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. There is no material deferred tax impact on adoption of HK(SIC) Interpretation 21, and the comparative figures have not been restated.

3. Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies described in note 2 above are as follows:

(a) Effects on the results for the current and prior years:

	2006 ***HK$'000***	2005 *HK$'000*
(Decrease) increase in interest on liability component of convertible notes	**(24)**	983
Analysis by items presented according to their function:		
(Decrease) increase in finance costs	**(24)**	983
Decrease in share of results of associates	**—**	(76)
Decrease in income tax expense	**—**	76
	(24)	983

3. Summary of the Effects of the Changes in Accounting Policies

(Continued)

(b) The financial effects of the application of the new HKFRSs to the Group as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 *HK$'000* (originally stated)	Effect of HKAS 1 *HK$'000*	Effect of HKAS 17 *HK$'000*	Effect of HKAS 32 *HK$'000*	As at 31 March 2005 and 1 April 2005 *HK$'000* (restated)
Balance sheet items					
Property, plant and equipment	253,126	—	(150,096)	—	103,030
Prepaid lease payments	—	—	150,096	—	150,096
Convertible notes	(16,000)	—	—	2,246	(13,754)
Other assets and liabilities	361,962	—	—	—	361,962
Assets and liabilities	599,088	—	—	2,246	601,334
Share capital and other reserves	635,890	—	—	—	635,890
Convertible notes reserve	—	—	—	2,270	2,270
Accumulated losses	(44,679)	—	—	(24)	(44,703)
Minority interests	—	7,877	—	—	7,877
	591,211	7,877	—	2,246	601,334
Minority interests	7,877	(7,877)	—	—	—
Equity	599,088	—	—	2,246	601,334

3. Summary of the Effects of the Changes in Accounting Policies

(Continued)

(b) *(Continued)*

The financial effects of the application of the new HKFRSs to the Group's equity as at 1 April 2004 are summarised below:

	As originally stated	Effect of HKAS 1	Effect of HKAS 32	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share capital and other reserves	339,269	—	—	339,269
Convertible notes reserve	—	—	11,000	11,000
Accumulated profits	14,424	—	(2,404)	12,020
Minority interests	—	212	—	212
Total effects on equity	353,693	212	8,596	362,501
Minority interests	212	(212)	—	—
	353,905	—	8,596	362,501

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group except for HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts" which require all financial guarantee contracts to be initially measured at fair value. The directors consider the impact resulting from this amendment cannot be reasonably estimated as at the balance sheet date.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]

3. Summary of the Effects of the Changes in Accounting Policies

(Continued)

HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS-INT 4	Determining whether an arrangement contains a lease[2]
HKFRS-INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC)- INT 6	Liabilities arising from participating in a specific market waste electrical and electronic equipment[3]
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC)-INT 8	Scope of HKFRS 2[5]
HK(IFRIC)-INT 9	Reassessment of embedded derivatives[6]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.
5 Effective for annual periods beginning on or after 1 May 2006.
6 Effective for annual periods beginning on or after 1 June 2006.

4. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis, except for certain investment properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

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.

4. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses have been eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Company's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortisation from 1 April 2004 onwards, and such goodwill is tested for impairment at least annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired *(see the accounting policy below)*.

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any identified impairment loss.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

4. Significant Accounting Policies *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1 January 2005

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

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 results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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 assessment. Any excess of the Group' share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after resassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. Significant Accounting Policies *(Continued)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets of the Group or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Trademarks

On initial recognition, trademarks are recognised at cost. After initial recognition, trademarks with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for trademarks with finite useful lives is provided on a straight-line basis over their estimated useful lives. (see the accounting policy in respect of impairment below).

Gains or losses arising from derecognition of trademarks are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired *(see the accounting policies in respect of impairment losses for tangible and intangible assets below).*

4. Significant Accounting Policies *(Continued)*

Impairment (other than 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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 in prior years. A reversal of an impairment loss is recognised as an income immediately.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Revenue recognition

Revenue is measured at the fair value of amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances and property rental income during the year.

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

4. Significant Accounting Policies *(Continued)*

Revenue recognition *(Continued)*

Sales of investments in securities are recognised when the sale contracts become unconditional.

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 term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Advertising and management fee income is recognised when services are provided.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

4. Significant Accounting Policies *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and amounts due from associates) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

4. Significant Accounting Policies *(Continued)*

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

4. Significant Accounting Policies *(Continued)*

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards.

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 activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

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 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. The Group's liability for current tax is calculated using tax rates that have been enacted for substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. Significant Accounting Policies *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits 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 to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. Significant Accounting Policies *(Continued)*

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when they are incurred.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

5. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 4, management has made various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2006, the carrying amount of goodwill is approximately HK$255,461,000. Details of the recoverable amount calculation are disclosed in note 18.

Investment properties

The investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 4. The fair value of the investment properties are determined with reference to the property valuation performed by Savills Valuation and Professional Services Limited, a firm of independently qualified professional valuers. The fair value of investment properties at the balance sheet date is set out in note 15. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

6. Financial Risk Management Objectives and Policies

The Group's major financial instruments include investments held-for-trading, derivative financial instruments, trade and other receivables, bank balances, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below:

(a) Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Certain receivables of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group's principal financial assets are bank balances and cash and trade debtors.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables of HK$43,936,000 and amounts due from associates of HK$20,931,000. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

(c) Liquidity risk

The management monitors the working capital requirements of the Group. In the opinion of the Directors, most of the borrowings that mature within one year are able to be renewed and the Group expects to have adequate source of funding by arranging banking facilities to finance the Group's existing operations. Therefore, the risk is considered minimal.

6. Financial Risk Management Objectives and Policies *(Continued)*

(d) Interest rate risk

The Group's finance lease obligations are carried at fixed rates and the bank borrowings are variable-rate borrowings based on the market rates and is therefore exposed to cash flow interest rate risk. The Group currently does not use interest rate swap to swap its borrowings from floating rates to fixed rates as the management believes that changes in the interest rate will not have a significant impact on the Group's financial position. However, the management monitors closely the interest rate exposure and will consider using interest rate swap should the need arise.

(e) Price risk

The Group's investments held-for-trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. Revenue

Revenue represents the fair value of amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, management, advertising and promotion fees and property rental income during the year.

	2006	2005
	HK$'000	*HK$'000*
Sales of goods	**318,229**	320,159
Management, advertising and promotion fees	**4,724**	4,986
Rental income generated from investment properties	**1,803**	1,764
	324,756	326,909

8. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into the following major division: (i) production and sale of Chinese pharmaceutical and health food products; (ii) production and sale of bottled birds' nest drink 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.

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

Consolidated Income Statement

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence		Production and sale of Western pharmaceutical and health food products		Property investments and property holding		Elimination		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (restated)
REVENUE												
External sales	**237,322**	228,748	**41,312**	29,192	**44,319**	67,205	**1,803**	1,764	**—**	—	**324,756**	326,909
Inter segment sales*	**246**	—	**10,136**	4,429	**257**	302	**3,875**	3,230	**(14,514)**	(7,961)	**—**	—
	237,568	228,748	**51,448**	33,621	**44,576**	67,507	**5,678**	4,994	**(14,514)**	(7,961)	**324,756**	326,909
RESULTS												
Segment results, excluding impairment loss recognised in respect of goodwill	**(28,551)**	(1,226)	**(4,404)**	(2,190)	**4,857**	6,020	**(5,943)**	4,007			**(34,041)**	6,611
Impairment loss recognised in respect of goodwill	**(40,095)**	(26,337)	**—**	—	**—**	—	**—**	—			**(40,095)**	(26,337)
Segment results	**(68,646)**	(27,563)	**(4,404)**	(2,190)	**4,857**	6,020	**(5,943)**	4,007			**(74,136)**	(19,726)
Other income											**7,493**	5,273
Unallocated corporate expenses											**(26,205)**	(26,690)
Finance costs											**(7,751)**	(3,108)
Allowance for amounts due from associates											**(5,000)**	—
Share of results of associates											**(1,793)**	(3,186)
Impairment loss recognised in respect of goodwill of associates											**—**	(15,202)
Loss before taxation											**(107,392)**	(62,639)
Income tax expense											**1,240**	(5,571)
Loss for the year											**(106,152)**	(68,210)

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

8. Business and Geographical Segments *(Continued)*

Consolidated Balance Sheet

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Production sale of Western pharmaceutical and health food products		Property investments and property holding		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
						(restated)				(restated)
ASSETS AND LIABILITIES										
ASSETS										
Segmental assets before goodwill	**153,426**	200,185	**24,495**	25,842	**28,701**	34,482	**195,988**	233,414	**402,610**	493,923
Goodwill	**130,294**	170,294	**4,350**	5,405	**120,817**	120,817	**—**	—	**255,461**	296,516
Segment assets	**283,720**	370,479	28,845	31,247	**149,518**	155,299	**195,988**	233,414	**658,071**	790,439
Interests in associates									**11,127**	12,991
Unallocated corporate assets									**166,785**	24,725
Consolidated total assets									**835,983**	828,155
LIABILITIES										
Segmental liabilities	**31,789**	43,189	**10,275**	7,365	**11,074**	11,687	**2,368**	1,340	**55,506**	63,581
Unallocated corporate liabilities									**133,686**	163,240
Consolidated total liabilities									**189,192**	226,821

8. Business and Geographical Segments *(Continued)*

Consolidated Balance Sheet

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Production sale of Western pharmaceutical and health food products		Property investments and property holding		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
OTHER INFORMATION										
Capital expenditure	**8,033**	45,808	**713**	2,379	**58**	129	**4,580**	85,315	**13,384**	133,631
Depreciation of property, plant and equipment	**12,012**	7,371	**674**	363	**417**	407	**2,334**	1,193	**15,437**	9,334
Goodwill arising on acquisition of subsidiaries	**95**	23,669	**—**	5,405	**—**	—	**—**	—	**95**	29,074
Amortisation of trademarks	**84**	92	**—**	—	**—**	—	**—**	—	**84**	92
Impairment loss recognised in respect of property, plant and equipment	**11,762**	—	**—**	—	**—**	—	**—**	—	**11,762**	—

Geographical segments

The Group's operation are located in Hong Kong, the People's Republic of China (the "PRC") and Singapore.

The following is an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods and services:

	2006	2005
	HK$'000	*HK$'000* (restated)
Hong Kong	**249,400**	244,435
PRC, other than Hong Kong	**26,918**	39,845
Singapore	**31,601**	20,489
Others	**16,837**	22,140
	324,756	326,909

8. Business and Geographical Segments *(Continued)*

Geographical segments *(Continued)*

The following is an analysis of the carrying amount of segment assets and capital expenditure analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital expenditure	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)
Hong Kong	**781,985**	772,554	**11,787**	118,760
The PRC, other than Hong Kong	**21,179**	20,123	**704**	12,492
Singapore	**29,989**	31,247	**713**	2,379
Others	**1,273**	3,153	**180**	—
	834,426	827,077	**13,384**	133,631

9. Other Income

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Other loan interest income	**550**	387
Interest income	**1,910**	202
Franchise income	**458**	734
Advertising and management fee	**141**	266
Gain on disposal of investments held-for-trading	**548**	—
Fair value gain on investments held-for-trading	**265**	—
Gain on recognition of derivative financial instruments	**100**	—
Processing fee income	**2,359**	1,764
Sundry income	**1,162**	1,920
	7,493	5,273

10. Finance Costs

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Interest on:		
Bank borrowings wholly repayable within five years	**4,920**	1,314
Bank borrowings not wholly repayable within five years	**2,467**	234
Convertible loan stock	**1**	1
Loan from a shareholder	**—**	34
Finance leases	**57**	20
Effective interest expenses on convertible notes	**306**	1,505
	7,751	3,108

11. Loss Before Taxation

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Loss before taxation has been arrived at after charging:		
Staff costs		
— Directors' remuneration	**1,720**	1,879
— Other staff costs	**55,404**	54,418
— Retirement benefit scheme contributions other than directors	**2,746**	2,662
Total staff costs	**59,870**	58,959
Allowance for trade receivables	**1,419**	5,574
Amortisation of trademarks, included in administrative expenses	**84**	92
Auditors' remuneration	**1,760**	1,100
Depreciation of property, plant and equipment	**15,437**	9,334
Amortisation of prepaid lease payments	**3,630**	874
Loss on disposal of property, plant and equipment	**41**	84
Management fee paid to a shareholder	**972**	918
Research and development expenses	**135**	103
Exchange loss (gain)	**163**	(412)
Share of tax of associates (included in share of results of associates)	**76**	77
and after crediting:		
Rental income, net of outgoing of HK$501,000 (2005: HK$367,000)	**1,302**	1,397

12. Directors' and Employees' Emoluments

(a) Directors' emoluments

The emoluments paid or payable to each of the six (2005: six) Directors are as follows:

	Mr. Tang Ching Ho	Mr. Chan Chun Hong, Thomas	Mr. Leung Wai Ho	Mr. Siu Man Ho, Simon	Mr. Yuen Chi Choi	Mr. Cho Wing Mou	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006							
Fees	**—**	**—**	**120**	**150**	**150**	**150**	**570**
Other emoluments:							
Salaries and other benefits	**563**	**563**	**—**	**—**	**—**	**—**	**1,126**
Retirement benefit scheme contributions	**12**	**12**	**—**	**—**	**—**	**—**	**24**
Total emoluments	**575**	**575**	**120**	**150**	**150**	**150**	**1,720**
2005							
Fees	—	—	120	120	120	120	480
Other emoluments:							
Salaries and other benefits	563	812	—	—	—	—	1,375
Retirement benefit scheme contributions	12	12	—	—	—	—	24
Total emoluments	575	824	120	120	120	120	1,879

12. Directors' and Employees' Emoluments *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2005: one) was a director of the Company whose emoluments are set out in note 12(a) above. The emoluments of the remaining four (2005: four) individuals are as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**3,846**	5,172
Retirement benefit scheme contributions	**57**	52
	3,903	5,224

Their emoluments were within the following bands:

	2006 **Number of employees**	2005 Number of employees
Nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**—**	2

During the year, no emolument were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors have waived any emoluments during the year.

13. Income Tax Expense

	2006 *HK$'000*	2005 *HK$'000* (restated)
The (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax	**292**	2,308
Other jurisdictions	**230**	331
	522	2,639
(Over) underprovision in prior years		
Hong Kong Profits Tax	**(101)**	2
Deferred taxation *(Note 36)*		
Current year	**(1,661)**	2,930
	(1,240)	5,571

Hong Kong Profits Tax is calculated at 17.5% (2005:17.5%) on the estimated assessable profit for the year.

Singapore Income Tax is calculated at 20% (2005: 20%) of the estimated assessable profit for the year.

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

13. Income Tax Expense *(Continued)*

The taxation (credit) charge for the year can be reconciled to the loss per the income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Loss before taxation	**(107,392)**	(62,639)
Tax at the domestic income tax rate of 17.5%	**(18,794)**	(10,962)
Tax effect of share of results of associates	**313**	620
Tax effect of expenses not deductible for tax purpose	**14,719**	11,389
Tax effect of income not taxable for tax purpose	**(734)**	(1,292)
Tax effect of tax losses not recognised	**3,418**	5,864
(Over)underprovision in prior years	**(101)**	2
Utilisation of tax losses not recognised	**(90)**	(30)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**29**	(20)
Taxation (credit) charge for the year	**(1,240)**	5,571

Details of deferred taxation are set out in note 36.

14. Loss Per Share

The calculation of the basic loss per share is based on the net loss for the year of HK$98,370,000 (2005: HK$67,958,000, restated), and on the weighted average number of 816,344,116 (2005: 372,328,000, restated) ordinary shares in issue during the year.

The computation of diluted loss per share for each of the two years ended 31 March 2005 and 2006 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 Hong Kong Stock Exchange.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 March 2005 and 2006 has been retrospectively adjusted for the effect of the rights issue and bonus issue as detailed in note 37 and the capital reorganisation approved by the shareholders of the Company on 4 June 2004 and 8 June 2005 as detailed in note 37(a) respectively.

14. Loss Per Share *(Continued)*

Pursuant to the adoption of new and revised accounting policies as described in note 2 above, the reported earnings per share for the current and prior years have been affected. The following table summarises the impact on basic and diluted earnings per share:

	Impact on basic earnings per share	
	2006	2005
	HK$	*HK$*
		(restated)
Figures before adjustments	**(0.12)**	(0.18)
Adjustments arising from application of new and revised accounting policies	**—**	—
Reported	**(0.12)**	(0.18)

15. Investment Properties

	HK$'000
VALUATION	
At 1 April 2004	—
Additions	36,974
Net increase in fair value during the year	4,226
At 31 March 2005	41,200
Addition	4,000
Disposals	(36,100)
At 31 March 2006	**9,100**

The investment properties at the balance sheet date were held under medium term leases in Hong Kong.

The fair value of the Group's investment properties at 31 March 2006 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited ("Savills"), independent qualified professional valuers not connected with the Group. Savills are members of the Institute of Valuers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

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

16. Property, Plant and Equipment

	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*
COST							
At 1 April 2004	6,400	6,726	6,735	13,962	—	4,233	38,056
Exchange realignment	—	25	107	35	47	8	222
On acquisition of subsidiaries	47,799	274	7,023	829	337	45	56,307
Additions	—	7,874	20,688	9,453	—	2,297	40,312
Disposals	—	(973)	—	(616)	—	(173)	(1,762)
At 31 March 2005, as restated	54,199	13,926	34,553	23,663	384	6,410	133,135
Exchange realignment	182	2	272	25	4	1	486
On acquisition of subsidiaries	—	443	—	28	—	—	471
Additions	—	2,715	2,801	1,509	433	892	8,350
Disposals	—	(51)	—	(6)	—	(35)	(92)
At 31 March 2006	**54,381**	**17,035**	**37,626**	**25,219**	**821**	**7,268**	**142,350**
DEPRECIATION AND IMPAIRMENT LOSSES							
At 1 April 2004	1,097	1,999	3,869	11,982	—	2,046	20,993
Exchange realignment	—	18	92	23	31	6	170
Provided for the year	979	2,984	2,390	1,879	111	991	9,334
Eliminated on disposals	—	(51)	—	(312)	—	(29)	(392)
At 31 March 2005, as restated	2,076	4,950	6,351	13,572	142	3,014	30,105
Exchange realignment	32	2	79	6	3	1	123
Provided for the year	1,469	4,662	5,021	2,803	166	1,316	15,437
Eliminated on disposals	—	(8)	—	(2)	—	(1)	(11)
Impairment loss recognised	5,010	—	6,172	580	—	—	11,762
At 31 March 2006	**8,587**	**9,606**	**17,623**	**16,959**	**311**	**4,330**	**57,416**
CARRYING AMOUNT							
At 31 March 2006	**45,794**	**7,429**	**20,003**	**8,260**	**510**	**2,938**	**84,934**
At 31 March 2005, as restated	52,123	8,976	28,202	10,091	242	3,396	103,030

Note: The directors consider that the reclassified accumulated depreciation acquired the cost of property, plant and equipment acquired of subsidiaries are appropriate.

16. Property, Plant and Equipment *(Continued)*

Deprecation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using straight-line method, at the following rates per annum:

Buildings	2% or over the terms of the relevant leases, whichever is shorter
Leasehold improvements	20% — 33$^1/_3$%
Plant and machinery	10% — 20%
Furniture and equipment	20% — 33$^1/_3$%
Motor vehicles	20%
Computer system	20% — 33$^1/_3$%

The carrying value of buildings comprises:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Leasehold buildings situated in:		
Hong Kong under medium term leases	**45,794**	46,991
The PRC under medium term land use rights	**—**	5,132
	45,794	52,123

At 31 March 2006, the carrying amount of furniture and equipment includes an amount of approximately HK$646,000 (2005: HK$732,000) in respect of assets held under finance leases. The Group has pledged leasehold buildings with carrying amount of approximately HK$40,758,000 (2005: HK$41,822,000) to secure general banking facilities granted to the Group.

During the year, the single product sale in the PRC was dropped substantially and no new product was launched. Thus, the management decided to abandon the production at the balance sheet date. The directors considered that an impairment loss of approximately HK$11,762,000 should be recognised on the property, plant and equipment in the production plant. In addition, the directors made an allowance of inventories and to write off of prepaid lease payments which related to the production plant of approximately HK$1,054,000 and HK$2,303,000, respectively.

17. Prepaid Lease Payments

	HK$'000
COST	
At 1 April 2004	1,306
Acquired on acquisition of subsidiaries	149,839
At 31 March 2005	151,145
Exchange realignment	71
Impairment losses provided for the year	(2,511)
At 31 March 2006	**148,705**
AMORTISATION	
At 1 April 2004	175
Provided for the year	874
At 31 March 2005	1,049
Exchange realignment	1
Provided for the year	3,630
Impairment losses provided for the year	(208)
At 31 March 2006	**4,472**
CARRYING AMOUNT	
At 31 March 2006	**144,233**
At 31 March 2005	150,096

17. Prepaid Lease Payments *(Continued)*

The Group's prepaid lease payments comprise:

	2006 HK$'000	2005 HK$'000 (restated)
Leasehold land in Hong Kong:		
Medium-term lease	144,233	147,688
Leasehold land in the PRC:		
Medium-term lease	—	2,408
	144,233	150,096
Analysed for reporting purposes as:		
Non-current assets	140,721	146,536
Current assets	3,512	3,560
	144,233	150,096

18. Goodwill

	HK$'000
COST	
At 1 April 2004	314,285
Elimination of accumulated amortisation on adoption of HKFRS 3	(20,506)
On acquisition of subsidiaries	29,074
At 31 March 2005	322,853
Adjustments to measurement of consideration for acquisitions *(note)*	(1,055)
On acquisition of subsidiaries	95
At 31 March 2006	**321,893**
AMORTISATION	
At 1 April 2004	(20,506)
Elimination of accumulated amortisation on adoption of HKFRS 3	20,506
At 31 March 2005 and 31 March 2006	—
IMPAIRMENT	
At 1 April 2004	—
Impairment loss recognised	(26,337)
At 31 March 2005	(26,337)
Impairment loss recognised	(40,095)
At 31 March 2006	**(66,432)**
CARRYING AMOUNT	
At 31 March 2006	**255,461**
At 31 March 2005	296,516

Prior to 31 March 2004, goodwill was amortised over its estimated useful life of 3 or 20 years.

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. The carrying amount of goodwill as at the balance sheet date has been allocated as follows:

	2006 *HK$'000*	2005 *HK$'000*
Production and sale of:		
— Chinese pharmaceutical and health food products	**130,294**	170,294
— Western pharmaceutical and health food products	**120,817**	120,817
— Bottled birds' nest drinks and herbal essence	**4,350**	5,405
	255,461	296,516

18. Goodwill *(Continued)*

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

The recoverable amounts of the CGUs have been determined based on value in use calculations. These values were developed through the application of the income approach technique known as the discounted cash flow methodology. Under this method, the value depends on the present worth of future economic benefits to be derived from the projected sales income of the CGUs. Indications of those values are developed by discounting projected future net cash flows to its present worth.

The key assumptions used in the valuations are those regarding the forecasted growth rates, expected changes to selling prices and costs and discount rates. The growth rates are based on industry forecasts while the changes in selling prices and direct costs are based on historical operating records and expectation of future changes in the market. Discount rates are based on estimates of the required rate of returns that reflect the current market assessment of the time value of money, general market risks and the specific risks specific to the CGUs.

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 with zero growth rate (2005: based on the estimated 8%, 8% and 7%) for the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled birds' nest drinks and herbal essence, respectively. These rates do 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 birds' nest drinks and herbal essence is ranged from 11.51% to 15.61%, 12.25% and 14.04%, respectively (2005: 7% for each of them).

At 31 March 2006, before impairment testing, goodwill of HK$196,726,000, HK$120,817,000 and HK$4,350,000 were allocated to the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled birds' 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 approximately HK$66,432,000 (2005: HK26,337,000).

Note: During the year, an adjustment was made to the carrying amount of the identifiable assets and liabilities of CNT Health Food Pte Limited ("CNT") acquired in July 2004. According to the Sale and Purchase Agreement (the "Agreement") for entire issued share capital of CNT Health Food Pte Limited, the consideration shall be reduced by the sum of S$220,000 (approximately HK$1,055,000) in the event that the aggregate profit after tax as defined in the Agreement is not more than S$800,000 and the vendors shall forthwith repay the sum of S$220,000 (approximately HK$1,055,000) to the Group. If the adjusted consideration had been incorporated at the date of acquisition, goodwill at the date of acquisition would have been decreased by approximately HK$1,055,000.

19. Investments in Associates

	2006 *HK$'000*	2005 *HK$'000* (restated)
Cost of unlisted investments in associates, less impairment *(note)*	**10,821**	10,965
Share of post-acquisition reserves, net of dividends received	**(6,994)**	(5,224)
	3,827	5,741

Note: Included in cost of unlisted investment in associates has an amount represented the goodwill arising on acquisition of associates in prior years. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 April 2004	14,371
Arising on acquisition	831
At 31 March 2005 and 31 March 2006	15,202
IMPAIRMENT	
At 1 April 2004	—
Impairment loss recognised for the year	(15,202)
At 31 March 2005 and 31 March 2006	(15,202)
CARRYING AMOUNT	
At 31 March 2006	**—**
At 31 March 2005	—

The carrying amount of goodwill, before the recognition of impairment loss, was 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, an impairment loss of approximately HK$15,202,000 was recognised in the prior year.

Prior to 31 March 2004, goodwill was amortised over 10 years.

19. Investments in Associates *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Total assets	**51,992**	53,723
Total liabilities	**(40,668)**	(38,271)
Net assets	**11,324**	15,452
The Group's share of net assets of associates	**3,827**	5,741
Revenue	**68,639**	67,192
Loss for the year	**(3,668)**	(6,075)
The Group's share of results of associates for the year	**(1,793)**	(3,186)

Details of the Group's associates at 31 March 2006 are set out in note 49.

20. Amounts due from Associates

	2006	2005
	HK$'000	*HK$'000*
Amount due from an associate — due after one year	**12,300**	7,250
Less: Impairment loss recognised	**(5,000)**	—
	7,300	7,250
Amounts due from associates — due within one year	**13,631**	20,069

At 31 March 2006, the amounts due from associates were unsecured, interest-free and are repayable on demand, except for an amount of approximately HK$12,300,000 (2005: HK$7,250,000). HK$12,300,000 (2005: HK$7,250,000) carries interest at 4% to 6.5% (2005: 4% to 4.5%) per annum and is repayable from 31 March 2006 to 16 August 2015. The fair value of the Group's amounts due from associates at 31 March 2006 approximates to the corresponding carrying amount.

21. Trademarks

	HK$'000
COST	
At 1 April 2004	898
Addition	38
At 31 March 2005	936
Addition	563
At 31 March 2006	**1,499**
AMORTISATION	
At 1 April 2004	107
Provided for the year	92
At 31 March 2005	199
Provided for the year	84
At 31 March 2006	**283**
CARRYING AMOUNT	
At 31 March 2006	**1,216**
At 31 March 2005	737

The trademarks are amortised on a straight-line basis over their useful life of 10 years.

22. Long-Term Bank Deposit

	2006 *HK$'000*	2005 *HK$'000*
Deposit placed with a financial institution	**7,762**	—

The long-term bank deposit comprise:

Principal amount	Maturity date	Effective interest rate	Carrying amount 2006 *HK$'000*	Carrying amount 2005 HK$'000
US$1,000,000	8 March 2016	9.35%	**7,762**	—

The balance represents US dollar denominated high-yield deposit placed with a financial institution with a tenure of ten years or less. The interest yield is linked to changes in London Inter-Bank Offered Rate ("LIBOR"). The Group would receive interest income on the principal amount at an effective interest rate of 9.35% per annum in each quarter of the year where the LIBOR is within the specific range of 0% to 6%. Deposit may not yield any interest if LIBOR is not within a specified range.

The fair value of the Group's long-term bank deposit as at 31 March 2006 is approximately HK$7,762,000 which is determined based on the market value provided by a bank at the balance sheet date.

The bank has the call option to redeem the deposit in whole, but not in part, at any time from the date of signing the contract till the maturity date and return the principal amount and the accrued interest income to the Group.

23. Inventories

	2006 *HK$'000*	2005 *HK$'000*
Raw materials and consumables	**20,508**	27,151
Work-in-progress	**4,496**	98
Finished goods	**41,954**	41,648
	66,958	68,897

24. Deposits paid for Investments

(a) On 15 September 2005, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party for the acquisition of 8% equity interest of Dongguan Senox Industrial Co., Ltd., Dongguan Senox Agricultural Products Co., Ltd. and Dongguan Senox Logistics Co., Ltd. (hereinafter collectively referred to as the "Senox Group") for an aggregate consideration of HK$24,000,000. The Senox Group is principally engaged in the investment in and management and provision of logistics services to PRC. A deposit of HK$12,000,000 was paid upon entering into the conditional agreements. In accordance with the Agreement, after payment of first installment, the vendor should pay the Company the dividends or profit distribution attributable to 8% equity interest in Senox Group within 7 days upon actual receipt of dividends. At 25 January 2006, Senox Group paid dividends amounted to RMB 4,000,000 to the vendor and the Group entitled RMB 800,000 (approximately HK$769,000). The transaction is not completed as at the date of this report. Details of the investment are set out in the Company's announcement dated 16 September 2005. At 31 March 2006, the Group shall contribute the outstanding HK$12,000,000 to the vendor upon the fulfillment of certain conditions as stated in the Agreement.

(b) On 27 January 2006, the Group entered into the Share Purchase Agreement with Taco Holdings Limited (hereinafter collectively referred to as the "Taco") pursuant to which the Group had conditionally agreed to purchase the 205,000,000 ordinary shares of LeRoi Holdings Limited (hereinafter collectively referred to as the "LeRoi"), representing approximately 25.32% of the issued share capital in LeRoi for a total consideration of HK$37,500,000 from Taco. Upon completion of the share purchase, the Group will be indirectly interest in approximately 25.32% of the issued share capital of LeRoi. At 31 March 2006, HK$3,000,000 deposits was made and the Group had capital commitment of HK$34,500,000 in respect of such share purchase.

In addition, on 27 January 2006, the Group and LeRoi entered into the subscription agreement to which LeRoi had agreed to issue and the Group had agreed to subscribe for the convertible note with an initial principal amount of HK$3,000,000. These two transactions are not completed as at the date of this report. Details of the share purchase and subscription of convertible notes were set out in the circular to the shareholders of the Company dated 8 February 2006.

25. Trade and other Receivables

	2006 HK$'000	2005 HK$'000 (restated)
Trade receivables	**47,766**	83,237
Less: accumulated impairment	**(3,830)**	(6,043)
	43,936	77,194
Other receivables	**15,199**	13,539
Total trade and other receivables	**59,135**	90,733

The Group allows an average credit period of 60 days to 120 days to its trade customers. The following is an aged analysis of trade receivables (net of impairment loss) at the balance sheet date:

	2006 HK$'000	2005 HK$'000
0 — 30 days	**15,216**	24,285
31 — 60 days	**8,221**	14,749
61 — 120 days	**17,755**	25,366
Over 120 days	**2,744**	12,794
	43,936	77,194

The fair value of the Group's trade and other receivables at 31 March 2006 approximates to the corresponding carrying amount.

26. Investments Held-for-Trading (Other than Derivatives)

	2006 *HK$'000*	2005 *HK$'000*
Listed equity securities at fair value:		
in Hong Kong	**10,693**	—
in overseas	**3,798**	—
	14,491	—

The fair values of the above investments held-for-trading are determined based on the quoted market bid prices available on the relevant exchanges.

27. Derivative Financial Instruments

Derivatives

	2006 *HK$'000*	2005 *HK$'000*
Forward contracts	**100**	—

Major terms of the equity accumulators are as follows:

Number of shares	Maturity	Securities
496,000 shares	27 February 2007	Hutchison Whampoa Limited
7,470,000 shares	22 February 2007	China Construction Bank
500,000 shares	7 February 2007	Hutchison Whampoa Limited

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

28. Pledged Deposits

The amount represents deposits pledged to financial institutions to secure derivative financial instruments acquired by the Group during the year. Deposits amounting approximately to HK$42,703,000 have been pledged to secure derivative financial instruments that will be settled in the next twelve months and are therefore classified as current assets.

The deposits carry fixed interest rate of 3.51% and 4.03% per annum. The pledged deposits will be released upon the termination of the contract of derivative financial instruments. The fair value of deposits at 31 March 2006 approximates to the corresponding carrying amount.

29. Bank Balances and Cash

Bank balances and cash comprises bank balances and cash held by the Group and short-term bank deposits that are interest-bearing at market interest rate. All bank deposits have a maturity of three months or less. The bank deposits carry fixed interest rates ranging from 0.01% to 3.9% (2005: 0.01% to 1.5475%) per annum. The fair values of the amounts at the balance sheet date approximate to the corresponding carrying amounts.

30. Trade and other Payables

Included in trade and other payables are trade payables of approximately HK$26,933,000 (2005: HK$31,495,000) and their aged analysis is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 — 30 days	**12,722**	13,302
31 — 60 days	**7,606**	10,615
61 — 120 days	**4,205**	5,668
Over 120 days	**2,400**	1,910
	26,933	31,495
Other payables	**26,569**	32,872
	53,502	64,367

The fair value of the Group's trade and other payables at 31 March 2006 approximates to the carrying amount.

31. Obligations under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**305**	365	**270**	316
More than one year, but not exceeding two years	**79**	249	**71**	221
More than two years, but not exceeding three years	**29**	41	**25**	35
More than three years, but not exceeding four years	**10**	17	**8**	14
More than four years but not exceeding five years	**—**	9	**—**	8
	423	681	**374**	594
Less: Future finance charges	**(49)**	(87)	**—**	—
Present value of lease obligations	**374**	594	**374**	594
Less: Amount due within one year shown under current liabilities			**(270)**	(316)
Amount due after one year			**104**	278

It is the Group's policy to lease certain of its furniture and equipment using finance leases. The average lease term is three years. For the year ended 31 March 2006, the average effective borrowing rate ranges from 5.4% to 10.9% (2005: 5.4% to 10.9%) per annum. 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.

31. Obligations under Finance Leases *(Continued)*

Financial lease obligations that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	HK$ equivalent of Singapore dollar *$'000*
As at 31 March 2006	**286**
As at 31 March 2005	336

32. Bank Borrowings

	2006 *HK$'000*	2005 *HK$'000*
Bank borrowings	**131,901**	142,743
Bank overdrafts	**785**	443
	132,686	143,186
Analysed as:		
Secured	**77,091**	85,097
Unsecured	**55,595**	58,089
	132,686	143,186
The above bank borrowings and bank overdrafts are repayable as follows:		
On demand or within one year	**38,323**	30,430
More than one year, but not exceeding two years	**20,887**	16,784
More than two years, but not exceeding three years	**16,551**	15,443
More than three years, but not exceeding four years	**14,050**	11,919
More than four years, but not exceeding five years	**13,933**	10,363
More than five years	**28,942**	58,247
	132,686	143,186
Less: Amount due within one year shown under current liabilities	**(38,323)**	(30,430)
Amount due after one year	**94,363**	112,756

32. Bank Borrowings *(Continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2006	2005
Effective interest rate:		
Variable-rate borrowings	**1.983% — 8%**	1.983% — 5%

The Group's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	HK$ equivalent of Singapore dollar *$'000*
As at 31 March 2006	**3,903**
As at 31 March 2005	1,722

During the year, the Group obtained new loans in an amount of approximately HK$27.8 million (2005: HK$73.9 million). These loans carry interest at 3.00% to 5.00% per annum and are repayable in instalments over a period of three to five years. The proceeds were used to finance the acquisition of property, plant and equipment, investments and for general working capital purpose of the Group.

The carrying amounts of the bank borrowings approximate their fair values as the contractual variable interest rates approximate the market rates.

33. Deferred Franchise Income

	2006 *HK$'000*	2005 *HK$'000*
At beginning of the year	**391**	719
Additions	**319**	406
Recognised in the current year	**(458)**	(734)
At end of the year	**252**	391
Less: Amount due within one year shown under current liabilities	**(234)**	(283)
	18	108

34. Convertible Loan Stock

	2006 HK$'000	2005 HK$'000
£590 (2005: £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 carried 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 2006, the Company made no repayment in respect of the CL Stock (2005: nil) and the balance of CL Stock outstanding at 31 March 2006 which amounted to £590 (2005: £590) has been classified as a current liability.

The carrying amounts of the convertible loan stock approximate their fair values as the contractual interest rates approximate the market rates.

35. Convertible Notes

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 13 March 2008 unless it was previously converted or redeemed. The notes entitle the holders to convert them into ordinary shares of HK$0.01 per share of the Company at any time during the period from 14 March 2005 to 13 March 2008.

Convertible notes of HK$16 million were redeemed during the year ended 31 March 2006.

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.

35. Convertible Notes *(Continued)*

The convertible loan notes contain two components, liability and equity elements. Upon the application of HKAS 32 (see Note 3 for details), the convertible loan notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible notes reserve". The effective interest rate of the liability component is 6.914% and 8.648%.

The movement of the liability component of the convertible loan notes for the year is set out below:

	2006 *HK$'000*	2005 *HK$'000* (restated)
Liability component at the beginning of the year	**13,754**	47,904
Issued during the year	**—**	25,740
Converted during the year	**—**	(12,010)
Redeemed during the year	**(13,730)**	(45,500)
Interest charge *(Note 12)*	**306**	1,505
Interest paid	**(330)**	(3,885)
Liability at the end of the year	**—**	13,754

36. Deferred Taxation

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

	Accelerated tax depreciation *HK$'000*	**Revaluation of investment properties** *HK$'000*	**Allowance for bad and doubtful debt** *HK$'000*	**Tax losses** *HK$'000*	**Total** *HK$'000*
At 1 April 2004	705	—	(350)	—	355
Exchange adjustment	4	—	—	—	4
Acquisition of a subsidiary	63	—	—	—	63
Charge (credit) to the income statement for the year	2,497	740	—	(307)	2,930
At 31 March 2005	3,269	740	(350)	(307)	3,352
Charge (credit) to the income statement for the year	282	(592)	(175)	(1,176)	(1,661)
At 31 March 2006	**3,551**	**148**	**(525)**	**(1,483)**	**1,691**

36. Deferred Taxation *(Continued)*

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets	**(341)**	(341)
Deferred tax liabilities	**2,032**	3,693
	1,691	3,352

At the balance sheet date, the Group had unused tax losses of approximately HK$108,000,000 (2005: HK$88,000,000) available to offset against future profits. A deferred tax asset of HK$6,720,000 (2005: HK$1,754,000) 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.

37. Share Capital

	Number of shares	**Amount**
		HK$'000
Authorised:		
At 1 April 2004, ordinary shares of HK$0.1 each	6,000,000,000	600,000
Adjustment of nominal value	—	(540,000)
Cancellation	(5,447,226,155)	(54,472)
Addition	59,447,226,155	594,472
At 31 March 2005 and 31 March 2006, ordinary shares of HK$0.01 each	60,000,000,000	600,000
Issued and fully paid:		
At 1 April 2004, ordinary share of HK$0.1 each	552,773,845	55,277
Adjustment to nominal value	—	(49,750)
Right and bonus issues	2,211,095,380	22,112
Private placement of shares	552,000,000	5,520
Issue of share upon conversion of convertible notes	175,000,000	1,750
At 31 March 2005, ordinary shares of HK$0.01 each	3,490,869,225	34,909
Consolidation of shares *(note a)*	(3,141,782,303)	—
Adjustment of nominal value *(note a)*	—	(31,418)
Right issues *(note b)*	1,047,260,766	10,473
At 31 March 2006, ordinary shares of HK$0.01 each	**1,396,347,688**	**13,964**

37. Share Capital *(Continued)*

Notes:

(a) Pursuant to a resolution passed in a special general meeting on 8 June, 2005, the Group carried out the following capital reorganisation ("Capital Reorganisation") which involved inter-alia:

— every ten issued shares of HK$0.01 each were consolidated into one share ("Consolidated Shares") of HK$0.10 each ("Share Consolidation");

— the reduction of the nominal value of each of the Consolidated Shares then in issue from HK$0.10 to HK$0.01 by cancelling paid up capital to the extent of HK$0.09 on each Consolidated Shares ("Capital Reduction");

— The crediting of the amount of approximately HK$31,418,000 arising from the Capital Reduction to the contributed surplus account of the Company and utilisation of such credit to set off the accumulated losses of the Company.

Details of the Capital Reorganisation are set out in a circular to the shareholders of the Company dated 13 May 2005.

(b) Pursuant to a resolution passed in a special general meeting on 16 November 2005, 1,047,260,766 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$0.15 per Rights Share to the existing shareholders. The net proceeds of approximately HK$153.2 million from the Rights Issue were used for the repayment of bank borrowings, redemption of convertible notes issued by the Company, for the possible investment in new business opportunities and general working capital.

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

38. 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.

38. Share Option Schemes *(Continued)*

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 Hong Kong Stock Exchange at the date of offer of grant and the average closing prices of the shares of the Company on the Hong Kong 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.

38. Share Option Schemes *(Continued)*

2004 Scheme *(Continued)*

The following tables discloses movement in the 1997 Scheme and the 2004 Scheme during the two years ended 31 March 2006.

Option type	Date of grant	Exercise price per share prior to Rights and Bonus Issue	Exercise price per share adjusted for the effect of Rights and Bonus Issue	Exercisable period	Number of options: Outstanding at 1.4.2004	Granted during the year	Cancelled during the year	Outstanding at 31.3.2005 and 31.3.2006
		HK$	*HK$* *(note)*					
1997 Scheme								
Category 1: Employees								
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)	—

There was no share options granted under 2004 Scheme in both years.

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

39. Acquisition of Subsidiaries

During the year, the following acquisitions took place:

(i) In April 2005, a wholly-owned subsidiary of the Company acquired an additional 60% of the issued share capital of Global Winner Holdings Limited ("Global Winner") for a consideration of HK$175,000 which becomes a wholly owned subsidiary after such acquisition. Global Winner is engaged in retailing of Chinese pharmaceutical products. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$72,000.

39. Acquisition of Subsidiaries *(Continued)*

(ii) In May 2005, a wholly-owned subsidiary of the Company acquired the entire issued share capital of City Brighter Limited ("City Brighter"), a company engaged in retailing of Chinese pharmaceutical products, for a consideration of HK$200,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$23,000.

The acquisition has been accounted for by the purchase method of accounting. The effect of the acquisition is summarised as follows:

	2006	2005
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	**471**	56,307
Prepaid lease payments	**—**	149,839
Inventories	**1,995**	7,767
Trade and other receivables	**718**	10,260
Bank and cash balances	**298**	2,395
Trade and other payables	**(3,132)**	(10,079)
Taxation payable	**—**	(116)
Obligations under finance lease	**—**	(204)
Bank borrowings	**—**	(61,930)
Deferred taxation	**—**	(63)
Minority interests	**—**	(7,938)
	350	146,238
Less: Interests acquired in previous acquisition:		
— net assets of associate	**(70)**	—
	280	146,238
Goodwill arising on acquisition	**95**	29,074
	375	175,312

39. Acquisition of Subsidiaries *(Continued)*

	2006	2005
	HK$'000	*HK$'000*
Satisfied by:		
Convertible notes	**—**	30,000
Expenses paid in cash	**—**	2,480
Cash consideration paid	**375**	142,832
	375	175,312
Net outflow arising on acquisition:		
Cash consideration paid	**(375)**	(145,312)
Cash and cash equivalents acquired	**298**	2,395
	(77)	(142,917)

The carrying amounts of the subsidiaries acquired approximate to their fair values.

The goodwill arising on the acquisition is attributable to the anticipated profitability of the sales of the Group's products in the new markets and the anticipated future operating synergies from the combination.

The subsidiaries acquired during the year contributed approximately HK$5,801,000 (2005: HK$33,542,000) to the Group's revenue and a profit of approximately HK$44,000 (2005: loss of approximately HK$352,000) to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 April 2005, the total Group turnover for the period would have been approximately HK$325,137,000 and loss for the year would have been approximately HK$106,210,000. This proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that would actually have been achieved had the acquisitions been completed on 1 April 2005, nor is it intended to be a projection of future results.

40. Major Non-Cash Transactions

During the year ended 31 March 2006, 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$264,000.

(b) The Group is entitled an amount of approximately HK$1,055,000 from the vendor of CNT in the event that the aggregate profit after tax as defined in the Agreement is not more than S$800,000. The amount is not yet received and recognised as other receivable at the balance sheet date. Details are set out in note 18 to the consolidated financial statements.

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.

41. Retirement Benefit Plans

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.

For members of the MPF Scheme, the Group contributes the lower of HK$1,000 or 5% of relevant monthly payroll costs to the MPF scheme, which contribution is matched by the employees.

41. Retirement Benefit Plans *(Continued)*

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.

The total cost of approximately HK$2,746,000 (2005: HK$2,686,000) charged to income statement represents contributions payable to these schemes by the Group in respect of the current accounting year. As at 31 March 2006, contributions of approximately HK$250,000 (2005: HK$245,000) due in respect of the reporting period had not been paid over to the schemes.

42. Pledge of Assets

(a) At 31 March 2006, the Group had pledged its prepaid lease payments, buildings and investment properties with carrying amount of approximately HK$143,156,000 (2005: HK$146,584,000); HK$40,758,000 (2005: HK$41,822,000) and HK$9,100,000 (2005: HK$41,200,000), respectively, to banks to secure general banking facilities granted to the Group.

(b) At 31 March 2006, deposits of approximately HK$42,703,000 were pledged to financial institutions to secure derivative financial instruments acquired by the Group during the year.

43. Capital Commitments

At 31 March 2006, the Group had capital commitments of approximately HK$49,490,000 (2005: HK$834,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

44. Contingent Liabilities

	2006	2005
	HK$'000	*HK$'000*
Bills discounted with recourse	**—**	807
Guarantees given to bankers in respect of banking facilities granted to third parties	**3,799**	3,679

45. Operating Leases

The Group as lessee:

The Group made minimum lease payments of approximately HK$22,440,000 (2005: HK$21,393,000) 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:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Within one year	**27,930**	24,095
In the second to fifth year inclusive	**10,638**	23,322
	38,568	47,417

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 2 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$1,803,000 (2005: HK$1,764,000). All of the properties held have committed tenants for the next year.

At 31 March 2006, the Group had contracted with tenants for future minimum lease payments due within one year of approximately HK$405,000 (2005: HK$588,000).

46. Connected and Related Party Disclosures

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. Besides, transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

Name of related party	Transactions	2006 *HK$'000*	2005 *HK$'000*
(i) Connected parties			
Wang On and its subsidiaries (the "Wang On Group")	Interest on term loans paid by the Group	—	34
	Interest on convertible notes paid by the Group	330	523
	Management fee paid by the Group	972	918
	Rental paid by the Group	267	3,595
	Rental received by the Group	1,803	1,764
	Rental paid by an associate of the Group	—	1,470
	Acquisition of subsidiaries	—	128,980

46. Connected and Related Party Disclosures *(Continued)*

Name of related party	Transactions	2006 HK$'000	2005 HK$'000
(ii) Related parties other than connected parties			
Associates	Sales of Chinese phamaceutical products by the Group	**32,903**	26,154
	Subcontracting fee paid by the Group	**115**	446
	Management, advertising and promotion fees received by the Group	**2,583**	2,493
	Facilities granted by the Group	**10,000**	10,000
	Interest income received by the Group	**472**	341

(iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 HK$'000	2005 HK$'000
Short-term benefits	**1,696**	1,855
Post-employment benefits	**24**	24
	1,720	1,879

The above remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

Details of the balances with related parties as at the balance sheet date are set out in the balance sheets and note 20.

47. Loss of the Company for the year

The loss of the Company for the year ended 31 March 2006 amounting to HK$91,993,000 (2005: HK$82,091,000) has been dealt with in the consolidated financial statements of the Group.

48. Principal Subsidiaries

Particulars of the principal subsidiaries at 31 March 2006 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*	
Asia Brighter Investment Limited	Hong Kong	HK$2	—	100%	Property investment
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
Huzhou Wai Yuen Tong Biological Medicine Company Limited	PRC	RMB8,270,601	—	51%	Production and trading of Chinese pharmaceutical products
Global Winner Holdings Limited	Hong Kong	HK$360,000	—	100%	Retailing of Chinese pharmaceutical products

48. Principal Subsidiaries *(Continued)*

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 *Directly*	*Indirectly*	Principal activity
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
Total Smart Investments 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$1,000,000,000,000 thereof has been distributed among the holders of the ordinary shares.

None of the subsidiaries had issued any debt securities at the end of the year.

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.

49. Particulars of Associates

Details of the Group's associates at 31 March 2006 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
Hunan Xiangya Pharmaceutical Co., Limited	PRC	RMB29,225,000	N/A	39.2%	Production of Chinese pharmaceutical products
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

49. Particulars of 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
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

Investment Property

Locations	Use	Tenure	Attributable interest of the Group
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%

Five Year Financial Summary

For the year ended 31 March 2006

Results

	Year ended 31 March				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(restated)	(restated)	
Revenue	220,812	259,824	349,225	326,909	**324,756**
Loss before taxation	(33,682)	(26,615)	(30,652)	(62,639)	**(107,392)**
Income tax expense	(105)	(2,302)	(1,738)	(5,571)	**1,240**
Loss for the year	(33,787)	(28,917)	(32,390)	(68,210)	**(106,152)**
Attributable to:					
Equity holders of the Company	(33,552)	(28,946)	(32,410)	(67,958)	**(98,370)**
Minority interests	(235)	29	20	(252)	**(7,782)**
	(33,787)	(28,917)	(32,390)	(68,210)	**(106,152)**

Assets and Liabilities

	At 31 March				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
			(restated)	(restated)	
Total assets	83,460	319,685	469,356	828,155	**835,983**
Total liabilities	(130,282)	(233,557)	(106,855)	(226,821)	**(189,192)**
	(46,822)	(86,128)	362,501	601,334	**646,791**
Equity attributable to equity holders of the Company	(46,822)	(86,128)	362,595	593,457	**646,712**
Minority interests	—	—	(94)	7,877	**79**
	(46,822)	(86,128)	362,501	601,334	**646,791**

Note: The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 2 to the consolidated financial statements. Financial information for 2004 and 2005 has been restated for these new and revised policies in accordance with the transitional provisions and as disclosed in note 3. Financial information for earlier years have not been adjusted to take into account the effect on the adoption of these new and revised HKFRSs as the directors considered that it is not practicable to do so.