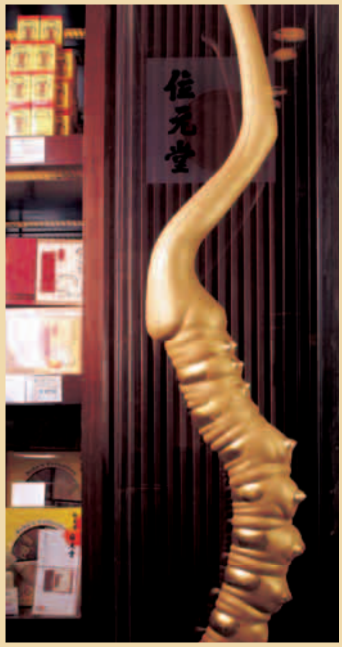
# Wai Yuen Tong Medicine Holdings Limited

(Incorporated in Bermuda with limited liability)



# 2010 Annual Report

STOCK CODE: 897

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Tang Ching Ho, *Chairman*
Mr. Chan Chun Hong, Thomas, *Managing Director*
Ms. Tang Mui Fun

### Independent Non-executive Directors

Mr. Leung Wai Ho
Mr. Yuen Chi Choi
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

## AUDIT COMMITTEE

Mr. Yuen Chi Choi, *Chairman*
Mr. Leung Wai Ho
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

## REMUNERATION COMMITTEE

Mr. Siu Man Ho, Simon, *Chairman*
Mr. Leung Wai Ho
Mr. Yuen Chi Choi
Mr. Cho Wing Mou
Mr. Tang Ching Ho
Mr. Chan Chun Hong, Thomas

## NOMINATION COMMITTEE

Mr. Cho Wing Mou, *Chairman*
Mr. Siu Man Ho, Simon
Mr. Yuen Chi Choi
Mr. Leung Wai Ho
Mr. Tang Ching Ho
Mr. Chan Chun Hong, Thomas

## COMPANY SECRETARY

Ms. Mak Yuen Ming, Anita

## PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

## AUDITORS

Deloitte Touche Tohmatsu

## LEGAL ADVISERS

DLA Piper Hong Kong
Freshfields Bruckhaus Deringer
Gallant Y.T. Ho & Co.
Morrison & Foerster

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Wai Yuen Tong Medicine Building
9 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## HOMEPAGE

www.wyth.net

## STOCK CODE

897

# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board" or the "Directors") of Wai Yuen Tong Medicine Holdings Limited (the "Company"), I am pleased to present the audited consolidated financial results of the Company, its subsidiaries and associates (the "Group") for the year ended 31 March 2010.

During the year under review, the Group reported turnover and gross profit of approximately HK$529.3 million and approximately HK$252.4 million, representing increases of approximately 6.7% and approximately 10.4% respectively when compared with those of the previous financial year. For the year ended 31 March 2010, the Group reported a profit attributable to equity owners of approximately HK$45.8 million, as against a loss attributable to equity owners of approximately HK$345.9 million for the year ended 31 March 2009.

During the year under review, the Group further enhanced the awareness and recognition of the Group's brands "Wai Yuen Tong", "Madame Pearl's" and "Pearl's" by intensifying marketing and brand building activities.

Turnover of Chinese pharmaceutical products for the year ended 31 March 2010 was approximately HK$372.4 million, representing an increase of approximately 11.6% year on year. The Group will continue to focus on brand building and product renovation, in order to further consolidate its leading position among Chinese medicine retail chains, Chinese medical practitioners' networks and providers of quality Chinese pharmaceutical products.

Sales of Western pharmaceutical products also improved during the year under review. Turnover of Western pharmaceutical products grew by approximately 6.8% year on year to approximately HK$135.3 million, mainly attributable to the successful positioning of "Madame Pearl's" as a "Respiratory Specialist" and effective promotion of this division's secondary brand "Pearl's". During the year under review, personal care products such as the MosquitOut series under the "Pearl's" brand were launched and were well received by the market.

In December 2009, the Group entered into a sale and purchase agreement with its strategic partner to dispose of 64.2% equity interest in Hunan Xiangya Pharmaceutical Company Limited ("Hunan Xiangya") for a cash consideration of approximately HK$37.4 million. The resolution regarding this disposal was passed at the Company's special general meeting held in January 2010. The disposal enabled the Group to realise its investment in Hunan Xiangya and to focus its resources on the development of products related to upper respiratory tract infections.

The Group continued to carry on its bottled birds' nest drinks business through its operating arm in Singapore, CNT Health Food Pte Limited ("CNT"), during the year under review. Revenue of CNT for the year under review amounted to approximately HK$21.6 million, representing a drop of approximately 39.7% as compared to the previous year.

As at the beginning of the period under review, the Group had a 29.97% shareholding interest in LeRoi Holdings Limited ("LeRoi"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which was principally engaged in property development in the People's Republic of China (the "PRC"), and the sale of fresh pork meat and related produce in Hong Kong. During the year under review, LeRoi diversified its business into forestry and logging operation in Papua New Guinea and reported a turnover of approximately HK$59.0 million and a net profit after tax attributable to equity owners of approximately HK$37.3 million, as compared to the loss of approximately HK$206.0 million of the previous financial year.

In November 2009, the Company completed its further acquisition of 1,463,835,000 shares in the capital of LeRoi from independent third parties under a partial share exchange offer (the "Partial Share Exchange Offer") on the basis of five new shares of the Company for every two LeRoi shares. Upon completion of the Partial Share Exchange Offer, the Company increased its shareholding in LeRoi from 29.97% to 49.00%, which the Group maintained as at 31 March 2010. The improved performance of LeRoi and the Group's increased shareholding in LeRoi provided good return on investment to the Group during the year under review.

## CHAIRMAN'S STATEMENT (CONTINUED)

Looking ahead, the Group will continue to strengthen the brand position of "Wai Yuen Tong" as the leader of Chinese pharmaceutical and health products and "Madame Pearl's" as the "Respiratory Specialist" and to focus on the sales of cough syrup as well as the development of related products. In addition, the Group will also seek new business opportunities to optimise the utilisation of its existing distribution network which is well established in Hong Kong and the PRC in order to sustain continuous growth in the Group's business and profitability.

Lastly, I would like to extend my heartfelt thanks to all the staff for their dedication and contribution over the years. I would also like to express my sincere gratitude to all the institutional investors and other shareholders, customers and suppliers for their unfailing support to the Group.

**Tang Ching Ho**
*Chairman*

Hong Kong, 5 July 2010

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS

For the financial year ended 31 March 2010, the Group recorded a turnover and a profit attributable to equity owners of the Company of approximately HK$529.3 million (2009: approximately HK$496.2 million) and approximately HK$45.8 million (2009: loss attributable to equity owners of approximately HK$345.9 million), respectively. The profit was mainly attributable to the share of profit of an associate, namely LeRoi of approximately HK$31.8 million. Basic earnings per share was approximately HK1.24 cents (2009: basic loss per share of approximately HK17.59 cents).

## DIVIDENDS

The Board does not recommend the payment of a final dividend for the financial year ended 31 March 2010 (2009: Nil). No interim dividend was paid during the year (2009: Nil).

## BUSINESS REVIEW

The Group's operating results for the previous year were negatively affected by the 2008 financial tsunami. With the economic revival in the second half of 2009, the Group's operating results reported some growth during the year under review.

(1) **Chinese Pharmaceutical Products**

Turnover for the year increased by approximately 11.6% from approximately HK$333.6 million to approximately HK$372.4 million. This achievement was the result of our customers' confidence and trust in the quality of our products, the expansion of our product range as well as the management's and staff's commitment and conscientious efforts to control costs at all levels. The number of Mainland Chinese tourists visiting Hong Kong had also a positive effect on the Group's retail business. In addition, the Group continued to place efforts in different marketing and brand reinforcement activities, such as joint marketing promotion with the famous brand "Rejoice", which were aimed at driving sales and raising public awareness of our "Wai Yuen Tong" brand.

(2) **Western Pharmaceutical Products**

Turnover grew approximately 6.8% from approximately HK$126.7 million to approximately HK$135.3 million. The brand position of "Madame Pearl's" as the "Respiratory Specialist" was strengthened after the Group successfully launched the Madame Pearl's BreathEasy Patch and Mucolytic series last year. According to the research carried out by The Nielsen Company, Madame Pearl's "Ranked first in sales value of the cough syrup category in Hong Kong in 2009". Personal care products, such as the MosquitOut series, under the secondary brand "Pearl's" of this division were launched during the year which were well received by the market. With the co-brands "Madame Pearl's" and "Pearl's", the Group has diversified its product portfolio which has synergetic effects on its business as a whole.

In December 2009, the Group agreed to dispose of 64.2% equity interest in Hunan Xiangya for a cash consideration of approximately HK$37.4 million. Hunan Xiangya is engaged in the production and sale of Western pharmaceutical products in the PRC. The disposal enabled the Group to realise its investment in Hunan Xiangya and focus its resources on the development of other products.

(3) **Bottled Birds' Nest Drinks Products**

The Group's business of the manufacture of bottled birds' nest products is operated through the Group's production arm, namely CNT, in Singapore. During the year, like most companies in the manufacturing industry, the Group was hard bit by the financial tsunami. Turnover decreased by approximately 39.7% from approximately HK$35.8 million to approximately HK$21.6 million. Besides the existing bottled birds' nest drinks and herbal essence products, the Group is exploring the possibility of diversifying its product range and expanding its business into Mainland China and overseas Chinese communities.

(4) **Investment in LeRoi**

In October 2007, the Group subscribed for an unlisted note issued by LeRoi with a principal amount of HK$190.0 million which may be convertible into 1,583,333,333 shares of LeRoi at an initial conversion price of HK$0.12 per share (subject to adjustment) (the "LeRoi Note"). On 13 November 2009, the Group granted a loan of HK$190.0 million to LeRoi for a term of four years which was applied towards early redemption of the LeRoi Note in full. The loan is unsecured and carries interest at a rate of 8% per annum.

On 18 November 2009, the Company completed the acquisition of 1,463,835,000 shares in the capital of LeRoi from independent third parties and in return issued 3,659,587,500 consideration shares of HK$0.01 each in the Company pursuant to the Partial Share Exchange Offer made by a wholly-owned subsidiary of the Company, details of which were set out in the composite document and the announcement jointly issued by the Company and LeRoi on 9 October 2009 and 13 November 2009, respectively. Upon completion of the aforesaid transaction in November 2009, the Company increased its shareholding interest in LeRoi from 29.97% to 49.00%. LeRoi is a company listed on the Stock Exchange and is principally engaged in forestry and logging operation, property development in the PRC and retailing of the fresh pork meat and related produce in Hong Kong. The Group shared the profit of LeRoi of approximately HK$31.8 million for the year as compared to the share of loss of approximately HK$62.1 million for the previous year.

# FINANCIAL REVIEW

## Fund Raising, Capital Structure, Liquidity and Gearing

(1) **Top-up Placing and Placing of New shares**

On 11 May 2009, the Company entered into (i) a top-up placing and subscription agreement with a placing agent and the substantial shareholder of the Company to place, on a best effort basis, 165 million shares to independent investors at a price of HK$0.088 per share; and (ii) a new placing agreement with the placing agent to place, on a best effort basis, 237 million shares to independent investors also at a price of HK$0.088 per share. Aggregate net proceeds of approximately HK$33.8 million were raised for repayment of interest-bearing debts and general working capital requirements of the Group. The aforesaid transactions were completed on 21 May 2009 and 26 May 2009, respectively.

(2) **Partial Share Exchange Offer**

On 18 November 2009, the Company completed the acquisition of an additional 1,463,835,000 shares in the capital of LeRoi from independent third parties and in return issued 3,659,587,500 consideration shares of HK$0.01 each in the Company pursuant to a Partial Share Exchange Offer made by a wholly-owned subsidiary of the Company, details of which were set out in the composite document and the announcement jointly issued by the Company and LeRoi on 9 October 2009 and 13 November 2009, respectively.

(3) **Placing of New Shares**

Subsequent to the end of the year under review, on 12 April 2010, the Company entered into a placing agreement with a placing agent to place, on a best effort basis, up to 1,200 million shares to independent investors at a price of HK$0.053 per share. The placing of new shares was completed on 22 April 2010 and 1,200 million shares were placed. Aggregate net proceeds of approximately HK$61.5 million were raised which were intended to be applied towards the repayment of interest-bearing debts, expansion of the Group's Chinese and Western health food and pharmaceutical business (including, if and when attractive opportunities arise, the acquisition of appropriate retail premises for use by the retail network) and general working capital requirements of the Group.

(4) **Liquidity and Gearing**

As at 31 March 2010, the Group's total borrowings (including those classified as part of a disposal group held for sale) amounted to approximately HK$51.9 million (2009: approximately HK$91.8 million) which included bank borrowings of approximately HK$48.6 million (2009: approximately HK$63.4 million), loan from a shareholder of HK$ nil (2009: approximately HK$25.0 million) and advances from minority shareholders of a subsidiary of approximately HK$3.3 million (2009: approximately HK$3.4 million). The gearing ratio, being the ratio of total borrowings to equity attributable to owners of the Company, was approximately 4.7% (2009: approximately 15.5%).

## FOREIGN EXCHANGE

The Board is of the opinion that the Group has no material foreign exchange exposure. All bank borrowings are denominated in Renminbi, Hong Kong and Singapore dollars. The revenue of the Group, being mostly denominated in Renminbi, Hong Kong and Singapore dollars, matches the currency requirements of the Group's operating expenses. The Group therefore does not engage in any hedging activities.

## CAPITAL COMMITMENT

As at 31 March 2010, the Group had capital commitment of approximately HK$0.6 million (2009: approximately HK$1.4 million) in respect of acquisition of plant and equipment, which were contracted for but not provided in the consolidated financial statements.

## CONTINGENT LIABILITIES

As at 31 March 2010 and 2009, the Group had no material contingent liabilities.

## EMPLOYEES

As at 31 March 2010, the Group had 682 employees, of whom approximately 56% were located in Hong Kong. The Group remunerates its employees based on their performance, experience and the prevailing market rates. The Group also has a share option scheme for the employees' benefit.

## PROSPECTS

As the global economy is gradually recovering and the business environment is improving, the Group is cautiously optimistic about its prospects.

The Group will continue to focus on the reinforcement of its brand positioning, continuing product development, expanding distribution network and upholding quality management in order to achieve sustainable growth and profitability. The Group will also evaluate mergers and acquisitions as a means to speed up growth as well as restructuring and consolidating its business operations, with the aim of strengthening its competitive position and expanding its scope of business.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Tang Ching Ho**, aged 48, was appointed as the Chairman of the Company in August 2001. He is also a member of remuneration committee and nomination committee of the Company. He is responsible for the strategic planning, policy making and business development of the Group. He has extensive experience in corporate management. He is also the chairman of Wang On Group Limited ("Wang On"), a company listed on the Stock Exchange. Mr. Tang is also appointed as a standing committee member of the tenth CPPCC Guangxi Zhuang Autonomous Region Committee and a standing committee member of the third CPPCC Guangxi Yulin City Committee. He is a brother of Ms. Tang Mui Fun, the execuive Director.

**Mr. Chan Chun Hong, Thomas,** aged 46, was appointed as the Managing Director of the Company in August 2001. He is also a member of remuneration committee and nomination committee of the Company. He is responsible for managing the corporate matters and overall management and supervision of the Group. He graduated from the Hong Kong Polytechnic University with a bachelor's 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 the managing director of Wang On, the chairman and managing director of LeRoi, the chairman of China Agri-Products Exchange Limited and an independent non-executive director of Shanghai Prime Machinery Company Limited, all companies are listed on the main board of the Stock Exchange.

**Ms. Tang Mui Fun**, aged 39, joined the Group in 2000 and was appointed as the Executive Director in September 2007. She is responsible for the overall strategic planning and development and policy making for the core business of the Group. She graduated from the University of Hull (England) with a bachelor degree in accountancy. Prior to joining the Group, she had four years of experience in the accounting and auditing fields and five years of experience in general management. She is a sister of Mr. Tang Ching Ho, the Chairman of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Leung Wai Ho**, aged 60, was re-designated as an Independent Non-executive Director in April 2006 from non-executive Director and has joined the Group since 1994. Mr. Leung is a member of audit committee, remuneration committee and nomination committee of the Company. He has more than 45 years' and 16 years' of experiences in watch industry and financial industry respectively. He is a National Committee Member of the Chinese People's Political Consultative Conference, a Standing Committee Member of Hebei Province of the Chinese People's Political Consultative Conference, a Standing Committee Member of The Chinese General Chamber of Commerce, a Committee Member of The Chinese Manufacturers' Association of Hong Kong, a Honorary President of Hong Kong Chamber of Commerce in China – Guangdong. Mr. Leung was re-designated as the Chartered President of Dongguan City Association of Enterprises with Foreign Investment.

**Mr. Yuen Chi Choi**, aged 49, joined the Company as an Independent Non-executive Director in August 2001. He is the chairman of audit committee of the Company and a member of remuneration committee and nomination committee of the Company. Mr. Yuen 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 19 years of audit experience.

**Mr. Siu Man Ho, Simon**, aged 36, joined the Company as an Independent Non-executive Director in August 2001. He is a member of audit committee and nomination committee of the Company and the chairman of remuneration committee of the Company. Mr. Siu is a practising 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, namely Sit, Fung, Kwong & Shum. His areas of practice include corporate finance, capital markets, securities, mergers and acquisitions, joint ventures and general commercial matters.

**Mr. Cho Wing Mou**, aged 69, joined the Company as an Independent Non-executive Director in September 2001. He is a member of audit committee and remuneration committee of the Company and the chairman of nomination committee of the Company. Mr. Cho has over 42 years of experience in banking industry and was formerly as a director and deputy general manager of Hua Chiao Commercial Bank Limited and The China State Bank Limited. He is a committee member of the 8th Political Consultative Conference Guangxi, a committee member of the 1st and 2nd Political Consultative Conference of Yulin City, Guangxi Province and a committee member of Political Consultative Conference of Maoming City, Guangdong Province and also the Chairman of Supervisor Gee Tuck General Association Hong Kong Limited and the vice president of Gee Tuck World Association Limited.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

## SENIOR MANAGEMENT

**Mr. Chiu Kwok Ho, Benedict** joined the Group in April 2005 and currently the Director of Luxembourg Medicine Group ("Luxembourg Group"). He is responsible for the Luxembourg Group's overall Western pharmaceutical business in both Hong Kong and the PRC. Mr. Chiu graduated from Bradford University with a bachelor's degree in pharmacy and is a registered pharmacist in Hong Kong and the United Kingdom. He has 24 years of experience in the pharmaceutical industry.

**Ms. Wong Shuk Fong, Jaime** is currently the General Manager of Wai Yuen Tong Medicine Company Limited ("WYTM"), a principal subsidiary of the Group, and is responsible for the overall operation of WYTM, including retail business. Ms. Wong graduated from The Hong Kong Ploytechnic University with a master's degree in business administration. Ms. Wong has extensive experience in strategic management, sales and marketing management, and had been engaged in the strategic direction in FMCG and Chinese medicinal industries for over 22 years. With her innovative marketing initiatives, such companies have successfully established their brand with a strong position among their counterparts. Ms. Wong has also been stationed in the PRC, the U.S. and Australia prior to joining WYTM. The Group is hence expecting further growth with her international horizon and extensive marketing practice.

**Mr. Lao Wai Keung** is the Financial Controller of the Company. Mr. Lao graduated from the University of London with a bachelor's degree in Economics and later qualified as a chartered accountant in England. He is an associate member of the Institute of Chartered Accountants in England and Wales, 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 11 years of experience in financial positions in Hong Kong and the PRC.

**Ms. Law Yin Man** is the Director of WYTM - the PRC. Ms. Law joined the Group in 2001 and is responsible for sales and marketing and expanding new markets in Mainland China. She has more than 9 years of experience in sales and marketing in Mainland China.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high standard of corporate governance practices 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 adopted a code on corporate governance practices 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 (the "Listing Rules") and has complied with the code provisions set out in the CG Code throughout the year ended 31 March 2010.

The Company will continue to review regularly its corporate governance practices, 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 the shareholders of the Company.

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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

To comply with code provision A.5.4 of the CG Code, the Company also adopted a code of conduct regarding securities transactions on no less exacting terms than the Model Code by the relevant employees of the Company or any of its subsidiaries who are considered likely to be in possession of unpublished price sensitive information in relation to the Company or its securities.

## THE BOARD

The Board currently comprises three executive Directors and four independent non-executive Directors (the "INEDs"). The Directors 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)*
Ms. Tang Mui Fun

### Independent non-executive Directors

Mr. Leung Wai Ho
Mr. Yuen Chi Choi
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

The biographical details of the Directors are set out on page 8 of this annual report.

## THE BOARD *(continued)*

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 INEDs in Board meetings facilitate the maintenance of good corporate governance practices. At least one of the INEDs has the appropriate professional qualification and/or accounting and audit experience expertise as required by Rules 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 and its shareholders. The Company will review the composition of the Board regularly to ensure that the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business and to enhance the shareholders' value.

All INEDs are appointed with specific term and subject to retirement by rotation and, being eligible, offer themselves for re-election at the annual general meetings pursuant to the bye-laws of the Company.

All INEDs are free from any business or other relationship with the Company, except that Mr. Siu Man Ho, Simon is the son of Mr. Siu Yim Kwan, Sidney, an independent non-executive director of Wang On, formerly the substantial shareholder of the Company. Such relationship will not affect his independence in relation to his position as an INED. The Company has received from each INED an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company continues to consider the four INEDs to be independent.

The Board's primary functions are, among others, 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 the 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 operations and the internal control systems of the Group. 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. 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 set as follows:

| **Members of the Board** | **Attendance** |
|---|---|
| **Executive Directors** | |
| Mr. Tang Ching Ho | 3/4 |
| Mr. Chan Chun Hong, Thomas | 4/4 |
| Ms. Tang Mui Fun | 4/4 |
| **Independent non-executive Directors** | |
| 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 of the Company 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 the Managing Director, in that the Chairman bears primary responsibility for the leadership of the Board by ensuring its effective operation, while the Managing Director bears executive responsibility for the Group's business, to implement the Group's policies and the management of the day-to-day operations of the Group.

## BOARD COMMITTEE

The Board has established various committees, including audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee"), nomination committee (the "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 are kept by the company secretary of the Company and open for inspection at any reasonable time on reasonable notice by any Director. Each committee is required to report to the Board on its decisions and recommendations, where appropriate.

### Audit Committee

The Audit Committee was established in compliance with Rule 3.21 of the Listing Rules and currently comprises the four INEDs, namely, Mr. Yuen Chi Choi, Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou. Mr. Yuen Chi Choi was elected as the chairman of the Audit Committee.

The functions of the Audit Committee is to assist the Board to review the financial reporting, including interim and final results, to supervise over the Group's internal controls, risk management and to monitor the internal and external audit functions and to make relevant recommendations to the Board to ensure effective and efficient operation and reliable reporting. The functions of the Audit Committee will be reviewed regularly by the Board and amended from time to time, as and when appropriate, in order to be in compliance with the code provision of the CG Code. Its terms of reference were updated in March 2009 to ensure, among other things, that management has discharged its duty to have an effective internal control system, including the adequacy of resources, qualifications and experience of staff to implement the Group's accounting and financial reporting function.

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.

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

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

During the year under review, the Audit Committee's review covered the financial highlights and audit issue raised by external auditors, accounting principles and practices, amendments to the Listing Rules and accounting standards, internal controls, adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting matters, including the consolidated financial statements for the six months period ended 30 September 2009 and for the year ended 31 March 2010.

## Remuneration Committee

The Board established the Remuneration Committee in September 2005 with specific written terms of reference. It currently consists of six members, including Messrs. Siu Man Ho, Simon, Yuen Chi Choi, Cho Wing Mou, Leung Wai Ho, Tang Ching Ho and Chan Chun Hong, Thomas, a majority of whom are INEDs. Mr. Siu Man Ho, Simon was elected as the chairman of the Remuneration Committee.

The role of Remuneration Committee is to make recommendations 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 having regarded 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. The Company also maintained a share option scheme to give incentives to Directors and eligible participants who contribute to the success of the Group. No Director or any of his associates may be involved in making any decisions as to his own remuneration.

The Remuneration Committee meets 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. Yuen Chi Choi | 1/1 |
| Mr. Cho Wing Mou | 1/1 |
| Mr. Leung Wai Ho | 1/1 |
| Mr. Tang Ching Ho | 1/1 |
| Mr. Chan Chun Hong, Thomas | 1/1 |

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

## Nomination Committee

The Nomination Committee has been established since September 2005 and currently consists of six members, including Messrs. Cho Wing Mou, Yuen Chi Choi, Siu Man Ho, Simon, Leung Wai Ho, Tang Ching Ho and Chan Chun Hong, Thomas, a majority of whom are INEDs. Mr. Cho Wing Mou was elected as the chairman of the Nomination Committee.

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 base on the criteria in the procedure (such as appropriate experience, personal skills, independence guidelines and time commitment, etc) to identify and recommend proposed candidates to the Board. During the year, the Nomination Committee did not hold any meeting.

## 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"), has been reviewed and approved by the Audit Committee and the Board, details of which are set out as follows:

| **Services rendered for the Group** | **Fees paid/payable to Deloitte** |
|---|---|
| | *HK$'000* |
| Audit services: | |
| - For annual financial statements | 1,474 |
| Non-audit services: | |
| - Taxation and professional services | 423 |
| **Total** | **1,897** |

## COMMUNICATION WITH SHAREHOLDERS

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

The Company also acknowledges that general meetings 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.

Sufficient notices with not less than 10 clear business days for every general meeting and 20 clear business days for every annual general meetng were given to the shareholders of the Company to let them make an informed decision. At the commencement of every general meeting, the chairman has explained the detailed procedures for conducting a poll vote during the proceedings of meetings and answered all questions raised by shareholders. All votes at the general meetings held in this year were taken by way of a poll and poll results were published on the websites of the Stock Exchange and the Company after the general meetings.

To promote effective communication, the Company maintains website at (www.wyth.net), where extensive information and updates on the Company's business development and operations, financial information and other information are posted as soon as practicable.

## RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The Directors 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 is set out on pages 23 to 24 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.

## INTERNAL CONTROLS

The Board has overall responsibility for maintaining sound and effective control systems to safeguard the Company's assets and shareholders' interests, as well as for reviewing the effectiveness of these systems. The Board is responsible for approving and reviewing internal control policy while the responsibility of day-to-day management of operational risks lies with the management.

The internal control system is designed to provide reasonable, but not absolute, assurance against material loss; and to manage rather than completely eliminate the risk of system failure. In addition, it should provide a basis for the maintenance of proper accounting records and assist in the compliance with relevant rules and regulations. During the financial year, the Board reviewed either with Audit Committee or auditors the effectiveness of the Group's internal control system, adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and satisfied that they were in compliance with the Group's policies.

# REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and of the Group for the year ended 31 March 2010.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Principal activities of the principal subsidiaries comprise the production and sale of traditional Chinese and Western pharmaceutical products, health foods products and property holding. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS

The results of the Group for the year ended 31 March 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 109.

The Board does not recommend the payment of any interim and final dividend in respect of the year.

## SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates as at 31 March 2010 are set out on pages 108 and 109 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in share capital and share option scheme of the Company during the year, together with the reasons therefore, are set out in notes 35 and 36 to the financial statements, respectively.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company's audited financial statements, is set out on page 110 of this annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2010.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity.

# DISTRIBUTABLE RESERVES

At 31 March 2010, the Company's reserves available for distribution to equity owners, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$69,494,000 (2009: approximately HK$61,719,000) which represented the net balance of contributed surplus of approximately HK$18,494,000 (2009: approximately HK$18,494,000), general reserves of approximately HK$218,508,000 (2009: approximately HK$218,508,000) and accumulated losses of approximately HK$167,508,000 (2009: approximately HK$175,283,000).

# 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
Mr. Chan Chun Hong, Thomas
Ms. Tang Mui Fun

## Independent non-executive Directors:

Mr. Leung Wai Ho
Mr. Siu Man Ho, Simon
Mr. Yuen Chi Choi
Mr. Cho Wing Mou

In accordance with bye-law 87 of the Company's bye-laws, Ms. Tang Mui Fun, Mr. Leung Wai Ho and Mr. Siu Man Ho, Simon will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from all INEDs, namely Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon, Mr. Yuen Chi Choi and Mr. Cho Wing Mou, and as at the date of this annual report still considers them to be independent.

# DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 8 to 9 of this annual report.

# DIRECTORS' SERVICE CONTRACTS

No Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

# DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 12 and 45 to the financial statements, no Directors had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

As at 31 March 2010, the interests and short positions of the Directors and chief executive of the Company and/or any of their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code under the Listing Rules, were as follows:

Long positions in underlying shares of share options of the Company:

| **Name of Director** | **Date of grant** | **Exercise price per share** HK$ | **Number of share options outstanding** | **Exercisable period** *(Note 1)* | **Number of underlying shares** | **Number of total underlying shares** | **Approximate percentage of the Company's total issued share capital** *(Note 2)* % |
|---|---|---|---|---|---|---|---|
| Tang Mui Fun | 3.1.2007 | 0.415 | 650,000 | 2.1.2008 - 1.1.2012 | 650,000 | | |
| | 2.1.2008 | 0.226 | 650,000 | 2.1.2009 - 1.1.2013 | 650,000 | | |
| | 8.1.2009 | 0.145 | 650,000 | 8.1.2010 - 7.1.2019 | 650,000 | 1,950,000 | 0.03 |

*Notes:*

(1) The exercisable period of the above share options beneficially held by Ms. Tang Mui Fun was vested as follows:

| | |
|---|---|
| On 1st anniversary of the date of grant | 30% vest |
| On 2nd anniversary of the date of grant | Further 30% vest |
| On 3rd anniversary of the date of grant | Remaining 40% vest |

(2) The percentage represented the number of shares over the total issued share capital of the Company as at 31 March 2010 of 6,071,939,188 shares.

Save as disclosed above, as at 31 March 2010, none of the Directors and chief executive of the Company and/or any of their respective associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

## SHARE OPTION SCHEME

On 18 September 2003, the Company adopted a share option scheme (the "Scheme") for the primary purpose of providing incentives to eligible participants who contribute to the success of the Group. During the year under review, no share options were granted and exercised and 2,840,000 share options lapsed during the year.

Details of the movements of the share options under the Scheme during the year were as follows:

| | Number of share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name or category of participant | Outstanding as at 1 April 2009 | Granted during the year | Exercised during the year | Lapsed and cancelled during the year | Outstanding as at 31 March 2010 | Date of grant | Exercise price per share HK$ | Exercisable period* |
| **Executive Director** | | | | | | | | |
| Tang Mui Fun | 650,000 | – | – | – | 650,000 | 3.1.2007 | 0.415 | 2.1.2008 - 1.1.2012 |
| | 650,000 | – | – | – | 650,000 | 2.1.2008 | 0.226 | 2.1.2009 - 1.1.2013 |
| | 650,000 | – | – | – | 650,000 | 8.1.2009 | 0.145 | 8.1.2010 - 7.1.2019 |
| | 1,950,000 | – | – | – | 1,950,000 | | | |
| **Other employees** | | | | | | | | |
| In aggregate | 3,070,000 | – | – | (320,000) | 2,750,000 | 3.1.2007 | 0.415 | 2.1.2008 - 1.1.2012 |
| | 5,450,000 | – | – | (1,160,000) | 4,290,000 | 2.1.2008 | 0.226 | 2.1.2009 - 1.1.2013 |
| | 7,110,000 | – | – | (1,360,000) | 5,750,000 | 8.1.2009 | 0.145 | 8.1.2010 - 7.1.2019 |
| | 15,630,000 | – | – | (2,840,000) | 12,790,000 | | | |
| | **17,580,000** | **–** | **–** | **(2,840,000)** | **14,740,000** | | | |

* The options granted under the Scheme were vested as follows:

| | |
|---|---|
| On 1st anniversary of the date of grant | 30% vest |
| On 2nd anniversary of the date of grant | Further 30% vest |
| On 3rd anniversary of the date of grant | Remaining 40% vest |

As at the date of this annual report, the total outstanding share options under the Scheme is 22,370,000, representing 0.31% of the Company's issued share capital and the total number of shares available for issue under the Scheme is 111,804,768, representing 1.54% of the Company's total issued share capital.

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

Other particulars of the Company's share option schemes are set out in note 36 to the financial statements.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' interests and short positions in shares, underlying shares or debentures of the Company and its associated corporations" and "Share option scheme" above and in the share option scheme disclosures in note 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2010, to the best knowledge of the Directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following shareholders (other than Directors) had notified the Company of relevant interests and short positions in the shares and underlying shares of the Company:

Long positions in the shares of the Company:

| **Name of shareholder** | **Number of shares** | **Approximate percentage of the Company's total issued share capital** *(Note 1)* *(%)* |
|---|---|---|
| Wang On *(Note 2)* | 527,009,324 | 8.68 |
| Wang On Enterprises (BVI) Limited ("WOE") *(Note 2)* | 527,009,324 | 8.68 |
| Rich Time Strategy Limited ("Rich Time") *(Note 2)* | 527,009,324 | 8.68 |

*Notes:*

1. The percentage represented the number of shares over the total issued share capital of the Company as at 31 March 2010 of 6,071,939,188 shares.

2. Rich Time is wholly owned by WOE, which is a wholly-owned subsidiary of Wang On. WOE and Wang On are deemed to be interested in 527,009,324 shares held by Rich Time.

Save as disclosed above, as at 31 March 2010, no person (other than the Directors) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## CONNECTED TRANSACTIONS

The Company continued to lease back the premises located at 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong (the "Premises") from Conful Limited following the disposal of Conful Limited, which held the Premises, in March 2007. In March 2007, the Company entered into a licence agreement (the "Licence Agreement") with Denox Management Limited (now known as Wang On Management Limited ("WOM")), a wholly-owned subsidiary of Wang On, agreeing to lease certain portion of the Premises, details of which were set out in the Company's announcement dated 28 March 2007. The Licence Agreement expired on 30 June 2009.

On 30 June 2009, the Company entered into a new licence agreement (the "New Licence Agreement") with WOM agreeing to continue to lease certain portion of the Premises to WOM for a further term of three years, details of which were set out in the Company's announcement dated 2 July 2009. These transactions constituted connected transactions for the Company under Chapter 14A of the Listing Rules. Further details of these transactions are set out in note 45 to the financial statements.

Upon completion of the Partial Share Exchange Offer in November 2009, Wang On's shareholding interest in the Company was diluted from the then 21.68% to 8.68%. Since then, Wang On or any of its subsidiaries ceased to be the substantial shareholder (as defined in the Listing Rules) of the Company.

The independent non-executive Directors confirm that the transactions had been entered into by the Group in the ordinary course of business, on terms no less favourable than terms available to independent third parties and in accordance with the terms of the New Licence Agreement 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, 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 and approved by the Remuneration Committee and the Board on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee and the Board, as authorised by the shareholders at the annual general meeting, having regarded to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted the Scheme at the special general meeting held on 18 September 2003, as an incentive to the Directors and eligible employees, details of the Scheme are set out in note 36 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 12.2% of the Group's turnover.

During the year, the largest supplier accounted for 9.5% of the Group's purchases and the five largest suppliers of the Group accounted for 26.8% of the Group's purchases.

At no time during the year did a Director or any of their associates or a shareholder of the Company, which to the best knowledge of the Directors, owns more than 5% of the Company's issued share, had any beneficial interest in any of the Group's five largest customers or the largest suppliers.

## DONATIONS

During the year, the Group made charitable and other donations totaling approximately HK$0.3 million (2009: approximately HK$0.1 million).

## PRE-EMPTIVE RIGHTS

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

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices in the interests of the shareholders and the Company as a whole.

In the opinion of the Directors, the Company has complied with the code provisions of the CG Code contained in Appendix 14 to the Listing Rules throughout the financial year under review. Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 10 to 15 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient amount of public float as required under the Listing Rules throughout the financial year under review and up to the date of this annual report.

## AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's consolidated financial reporting process and internal controls. The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 March 2010 of the Group with the management and the auditors. The Audit Committee comprises the four INEDs, namely Mr. Yuen Chi Choi, Mr. Siu Man Ho, Simon, Mr. Leung Wai Ho and Mr. Cho Wing Mou, and is chaired by Mr. Yuen Chi Choi.

## EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Group are set out in note 44 to the financial statements.

## AUDITORS

The consolidated financial statements for the year ended 31 March 2010 have been audited by Messrs. Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Tang Ching Ho**
*Chairman*

Hong Kong, 5 July 2010

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**
**德勤**

**TO THE MEMBERS 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 (collectively referred to as the "Group") set out on pages 25 to 109, which comprise the consolidated statement of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**TO THE MEMBERS OF WAI YUEN TONG MEDICINE HOLDINGS LIMITED (CONTINUED)**
(Incorporated in Bermuda with limited liability)

## 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 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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
5 July 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

| | NOTES | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | **529,305** | 496,151 |
| Cost of sales | | **(276,932)** | (267,478) |
| Gross profit | | **252,373** | 228,673 |
| Other income | 9 | **19,943** | 16,602 |
| Selling and distribution expenses | | **(162,526)** | (153,494) |
| Administrative expenses | | **(79,460)** | (97,788) |
| Finance costs | 10 | **(2,354)** | (6,036) |
| Gain on early redemption of an unlisted note | 20 | **10,342** | — |
| Change in fair value of options embedded in an unlisted note | 20 | **(31,293)** | (252,827) |
| Change in fair value of investments held-for-trading | | **9,181** | (11,618) |
| Discount on acquisition of a subsidiary | 37 | **—** | 691 |
| Gain on disposal of a subsidiary | 38 | **—** | 2,636 |
| Impairment losses recognised in respect of goodwill | 17 | **(237)** | (10,382) |
| Share of results of associates | | **31,938** | (62,221) |
| Profit (loss) before taxation | 11 | **47,907** | (345,764) |
| Income tax expense | 13 | **(2,876)** | (178) |
| Profit (loss) for the year | | **45,031** | (345,942) |
| **Other comprehensive income (expense)** | | | |
| Exchange differences on translation of foreign operations arising during the year | | **869** | (855) |
| Reclassification adjustment on disposal of a subsidiary | | **—** | (457) |
| Share of other comprehensive income of an associate | | **11,700** | 1,715 |
| Other comprehensive income for the year | | **12,569** | 403 |
| Total comprehensive income (expense) for the year | | **57,600** | (345,539) |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **45,797** | (345,906) |
| Minority interests | | **(766)** | (36) |
| | | **45,031** | (345,942) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 March 2010

| | NOTES | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | **58,326** | (345,622) |
| Minority interests | | **(726)** | 83 |
| | | **57,600** | (345,539) |
| Earnings (loss) per share | 14 | | |
| – Basic and diluted | | **1.24cents** | (17.59cents) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **27,167** | 58,406 |
| Prepaid lease payments | 16 | **90,004** | 93,562 |
| Goodwill | 17 | **15,335** | 15,335 |
| Interests in associates | 18 | **608,966** | 148,058 |
| Derivative financial instruments | 20 | **—** | 35,648 |
| Other intangible assets | 19 | **839** | 3,749 |
| Investment in an unlisted note | 20 | **—** | 172,682 |
| Loans to an associate | 21 | **204,307** | — |
| Deferred tax assets | 34 | **3,291** | 378 |
| | | **949,909** | 527,818 |
| CURRENT ASSETS | | | |
| Inventories | 22 | **71,105** | 80,751 |
| Trade and other receivables | 23 | **68,963** | 75,393 |
| Prepaid lease payments | 16 | **2,500** | 2,774 |
| Amounts due from associates | 24 | **1,668** | 3,385 |
| Investments held-for-trading | 25 | **25,449** | 3,889 |
| Tax recoverable | | **232** | 2,014 |
| Bank balances and cash | 26 | **78,259** | 57,096 |
| | | **248,176** | 225,302 |
| Assets classified as held for sale | 27 | **38,816** | — |
| | | **286,992** | 225,302 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 28 | **62,661** | 60,214 |
| Obligations under finance leases | 29 | **—** | 9 |
| Bank borrowings | 30 | **11,953** | 16,202 |
| Deferred franchise income | 31 | **18** | 98 |
| Deposit received for disposal of a subsidiary | 27 | **5,000** | — |
| Loans from a shareholder | 32 | **—** | 25,000 |
| Advances from minority shareholders of a subsidiary | 33 | **—** | 3,396 |
| Tax payable | | **4,439** | 1,360 |
| | | **84,071** | 106,279 |
| Liabilities associated with assets classified as held for sale | 27 | **11,013** | — |
| | | **95,084** | 106,279 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 March 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| NET CURRENT ASSETS | | **191,908** | 119,023 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,141,817** | 646,841 |
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | 30 | **36,500** | 47,182 |
| Deferred tax liabilities | 34 | **248** | 110 |
| | | **36,748** | 47,292 |
| NET ASSETS | | **1,105,069** | 599,549 |
| CAPITAL AND RESERVES | | | |
| Share capital | 35 | **60,719** | 20,104 |
| Reserves | | **1,038,269** | 572,632 |
| Equity attributable to owners of the Company | | **1,098,988** | 592,736 |
| Minority interests | | **6,081** | 6,813 |
| TOTAL EQUITY | | **1,105,069** | 599,549 |

The consolidated financial statements on pages 25 to 109 were approved and authorised for issue by the Board of Directors on 5 July 2010 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 2010

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 (Note a) | General reserve HK$'000 (Note b) | Share option reserve HK$'000 | Translation reserve HK$'000 | Investment revaluation reserve HK$'000 | Convertible loan note reserve HK$'000 | Accumulated losses HK$'000 | Sub-total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1 April 2008 | 16,754 | 673,714 | (27,150 ) | 218,508 | 329 | 6,571 | – | 13,724 | (13,449 ) | 889,001 | 6,266 | 895,267 |
| Loss for the year | – | – | – | – | – | – | – | – | (345,906 ) | (345,906 ) | (36 ) | (345,942 ) |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | (992 ) | – | – | – | (992 ) | 137 | (855 ) |
| Reclassification adjustment on disposal of a subsidiary | – | – | – | – | – | (439 ) | – | – | – | (439 ) | (18 ) | (457 ) |
| Share of other comprehensive income of an associate | – | – | – | – | – | 1,715 | – | – | – | 1,715 | – | 1,715 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | 284 | – | – | (345,906 ) | (345,622 ) | 83 | (345,539 ) |
| Issue of shares | 3,350 | 51,926 | – | – | – | – | – | – | – | 55,276 | – | 55,276 |
| Share issue expenses | – | (1,681 ) | – | – | – | – | – | – | – | (1,681 ) | – | (1,681 ) |
| Recognition of share-based payment | – | – | – | – | 813 | – | – | – | – | 813 | – | 813 |
| Lapse of share options | – | – | – | – | (87 ) | – | – | – | 87 | – | – | – |
| Early redemption of convertible loan note | – | – | – | – | – | – | – | (13,724 ) | 8,673 | (5,051 ) | – | (5,051 ) |
| Inproportionate capital contribution from a minority shareholder of a subsidiary | – | – | – | – | – | – | – | – | – | – | 464 | 464 |
| At 31 March 2009 and 1 April 2009 | 20,104 | 723,959 | (27,150 ) | 218,508 | 1,055 | 6,855 | – | – | (350,595 ) | 592,736 | 6,813 | 599,549 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 March 2010

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 (Note a) | General reserve HK$'000 (Note b) | Share option reserve HK$'000 | Translation reserve HK$'000 | Investment revaluation reserve HK$'000 | Convertible loan note reserve HK$'000 | Accumulated losses HK$'000 | Sub-total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| Profit for the year | – | – | – | – | – | – | – | – | 45,797 | 45,797 | (766 ) | 45,031 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | 829 | – | – | – | 829 | 40 | 869 |
| Share of other comprehensive income of an associate | – | – | – | – | – | 2,006 | 9,694 | – | – | 11,700 | – | 11,700 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | 2,835 | 9,694 | – | 45,797 | 58,326 | (726 ) | 57,600 |
| Issue of shares | 4,020 | 31,356 | – | – | – | – | – | – | – | 35,376 | – | 35,376 |
| Share issue expenses | – | (1,586 ) | – | – | – | – | – | – | – | (1,586 ) | – | (1,586 ) |
| Recognition of share-based payment | – | – | – | – | 603 | – | – | – | – | 603 | – | 603 |
| Lapse of share options | – | – | – | – | (243 ) | – | – | – | 243 | – | – | – |
| Issue of shares for acquisition of additional interest in an associate | 36,595 | 376,938 | – | – | – | – | – | – | – | 413,533 | – | 413,533 |
| Dividends paid to minority shareholders of a subsidiary | – | – | – | – | – | – | – | – | – | – | (6 ) | (6 ) |
| **At 31 March 2010** | **60,719** | **1,130,667** | **(27,150 )** | **218,508** | **1,415** | **9,690** | **9,694** | **–** | **(304,555 )** | **1,098,988** | **6,081** | **1,105,069** |

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.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit (loss) before taxation | **47,907** | (345,764) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **14,059** | 16,987 |
| Change in fair value of investments held-for-trading | **(8,128)** | 9,579 |
| Change in fair value of options embedded in an unlisted note | **31,293** | 252,827 |
| Finance costs | **2,354** | 6,036 |
| Gain on disposal of a subsidiary | **—** | (2,636) |
| Discount on acquisition of a subsidiary | **—** | (691) |
| Impairment losses recognised in respect of goodwill | **237** | 10,382 |
| Gain on early redemption of an unlisted note | **(10,342)** | — |
| Allowance (reversal of allowance) for obsolete inventories | **82** | (1,228) |
| Amortisation of prepaid lease payments | **2,729** | 2,774 |
| Amortisation of other intangible assets | **809** | 930 |
| Loss on disposal of property, plant and equipment | **7** | 58 |
| Interest income | **(12,536)** | (10,712) |
| (Reversal) recognition of allowance for trade and other receivables | **(106)** | 11,915 |
| Recognition of deferred franchise income | **(170)** | (115) |
| Share-based payment expenses | **603** | 813 |
| Share of results of associates | **(31,938)** | 62,221 |
| Operating cash flows before movements in working capital | **36,860** | 13,376 |
| Decrease in inventories | **5,144** | 22,185 |
| Decrease (increase) in trade and other receivables | **2,751** | (3,336) |
| Decrease in amounts due from associates | **312** | 1,895 |
| (Increase) decrease in investments held-for-trading | **(13,432)** | 2,344 |
| Increase (decrease) in trade and other payables | **9,408** | (15,836) |
| Increase in deferred franchise income | **90** | 100 |
| Cash generated from operations | **41,133** | 20,728 |
| Interest received | **38** | 482 |
| Hong Kong Profits Tax paid | **(205)** | (2,984) |
| Overseas taxation paid | **(646)** | (712) |
| NET CASH FROM OPERATING ACTIVITIES | **40,320** | 17,514 |

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 March 2010

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Advance to an associate | | **(10,000)** | — |
| Purchase of property, plant and equipment | | **(5,650)** | (17,060) |
| Cost of acquisition of an associate | | **(4,000)** | — |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | 37 | **(302)** | (1,802) |
| Purchase of trademarks | | **(55)** | (75) |
| Interest received | | **6,975** | 5,971 |
| Deposit received for disposal of a subsidiary | | **5,000** | — |
| Dividends received from an associate | | **150** | — |
| Proceeds from disposal of unlisted notes | | **—** | 3,889 |
| Disposal of a subsidiary | 38 | **—** | 1,998 |
| Decrease in pledged deposits | | **—** | 1,599 |
| Inproportionate capital contribution from a minority shareholder of a subsidiary | | **—** | 464 |
| Proceeds from disposal of property, plant and equipment | | **—** | 125 |
| NET CASH USED IN INVESTING ACTIVITIES | | **(7,882)** | (4,891) |
| FINANCING ACTIVITIES | | | |
| Repayment of loans from a shareholder | | **(25,000)** | (10,000) |
| Repayments of bank borrowings | | **(18,125)** | (45,455) |
| Interest paid | | **(2,352)** | (2,952) |
| Share issue expenses | | **(1,586)** | (1,681) |
| Repayments of obligations under finance leases | | **(11)** | (13) |
| Dividends paid to minority shareholders of a subsidiary | | **(6)** | — |
| Proceeds from issue of shares | | **35,376** | 55,276 |
| New bank loans raised | | **3,290** | 60,401 |
| Advance from minority shareholders of a subsidiary | | **—** | 233 |
| Redemption of convertible loan note | | **—** | (145,275) |
| Loans from a shareholder | | **—** | 35,000 |
| NET CASH USED IN FINANCING ACTIVITIES | | **(8,414)** | (54,466) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | **24,024** | (41,843) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | **57,096** | 100,019 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **24** | (1,080) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | **81,144** | 57,096 |
| Represented by: | | | |
| Bank balances and cash | | **78,259** | 57,096 |
| Cash and cash equivalents included in a disposal group held for sale | | **2,885** | — |
| | | **81,144** | 57,096 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2010

## 1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares are listed on the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 47.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendments to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

### New and revised HKFRSs affecting presentation and disclosure only

#### *HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

#### *HKFRS 8 Operating Segments*

HKFRS 8 is a disclosure standard that expand the disclosures required and has not resulted in a redesignation of the Group's reportable segments (see note 8) nor changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

#### *Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)*

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

### New and revised HKFRSs affecting the reported results and/or financial position

#### *HK(IFRIC) – Int 13 Customer Loyalty Programmes*

The adoption of HK(IFRIC) – Int 13 has resulted in a change to the Group's accounting policy for its customer loyalty programme. The Group's Loyalty Points Redemption Program was launched in October 2008, operated for the benefit of its retailing customers, falls within the scope of HK(IFRIC) – Int 13. Under the Loyalty Points Redemption Program, retailing customers, on purchasing the Group's pharmaceutical and health food products, are entitled to receive loyalty points that can be used as discounts on future purchases. HK(IFRIC) – Int 13 requires such transactions to be accounted for as multiple element revenue transactions and that the consideration received in the initial sale transaction should be allocated between the sale of products and the loyalty points earned by the customer in that sale transaction. The consideration allocated to loyalty points is measured by reference to the fair value of discounts on future purchases.

This change in accounting policy has been applied retrospectively and has no impact on financial position as at 1 April 2008. Results for the year ended 31 March 2009 and financial position as at 31 March 2009 have not been restated as the impact is insignificant. Revenue for the year ended 31 March 2010 has been reduced by HK$1,232,000 and the income tax expense for the year ended 31 March 2010 has been decreased by HK$203,000. Profit for the year ended 31 March 2010 has therefore been decreased by HK$1,029,000 as a result of the new policy. At 31 March 2010, revenue deferred in relation to the Loyalty Points Redemption Program amounts to approximately HK$1,232,000.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[8] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013
8 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 April 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

In addition, as part of *Improvements to HKFRSs (2009)*, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 April 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain 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 Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group'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.

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## Business combinations

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

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

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

## Goodwill

### *Goodwill arising on acquisitions prior to 1 January 2005*

Goodwill arising on an acquisition of net assets and operations of another entity 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 acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1 January 2001, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment 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 acquisitions on or after 1 January 2005*

Goodwill arising on an acquisition of a business 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 business at the date of acquisition.

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## Goodwill *(continued)*

### *Goodwill arising on acquisitions on or after 1 January 2005 (continued)*

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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

## Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, 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 not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

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.

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## Non-current assets held for sale

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition.

Disposal groups classified as held for sale are measured at the lower of the disposal groups' previous carrying amount and fair value less costs to sell.

## Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Processing fee income is recognised when services are provided.

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

Management and promotion fee income is recognised when services are provided.

Sales of goods that result in award credits for retailing customers, under the Group's Loyalty Points Redemption Program, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods sold and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

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 on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets 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 profit or loss in the period in which the item is derecognised.

### 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 profit or loss on a straight-line basis over the term of the relevant lease.

#### *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 consolidated statement of financial position 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.

Operating lease payments are recognised as an expense 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leasing *(continued)*

#### *Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

### 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 the respective 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation 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 other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed arising on an acquisition of a foreign operation on or after 1 April 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale for which the commencement date for capitalisation is on or after 1 April 2009, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Employee benefits

#### *(i) Retirement benefit costs*

Payments to defined contribution retirement benefit plans and stated-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

#### *(ii) Share options granted to employees*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

### 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 consolidated statement of comprehensive income 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 or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### Intangible assets

#### *Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

#### *Research and development expenditure*

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## Intangible assets *(continued)*

### *Research and development expenditure* *(continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

## 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 consolidated statement of financial position 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 ("FVTPL") 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

#### *Financial assets* *(continued)*

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

***Financial assets at fair value through profit or loss***

The Group's financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates, investment in an unlisted note, loans to an associate and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

### *Financial assets* *(continued)*

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and amounts due from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables and amounts due from associates are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## Financial instruments *(continued)*

### *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.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

***Other financial liabilities***

Other financial liabilities (including trade and other payables, bank borrowings, deposit received for disposal of a subsidiary, loans from a shareholder and advances from minority shareholders of a subsidiary) are subsequently measured at amortised cost, using the effective interest method.

***Equity instruments***

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

### *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised 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 receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised 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 paid and payable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, 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 consolidated financial statements are disclosed below:

### Estimated impairment of goodwill

In determining whether goodwill is impaired, the Group 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, an additional impairment loss may arise. As at 31 March 2010 and 2009, the carrying amount of goodwill is approximately HK$15,335,000. Details of the recoverable amount calculation are disclosed in note 17. A recognition of impairment losses of goodwill totalling HK$237,000 (2009: HK$10,382,000) was made during the year ended 31 March 2010.

### Fair value of derivative financial instruments

As described in note 6c, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### Fair value of derivative financial instruments *(continued)*

The carrying amounts of respective derivative financial instruments included in the consolidated statement of financial position as assets (liabilities) are summarised below:

| | NOTES | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| Conversion option embedded in an unlisted note | 20 | – | 69,484 |
| Issuer's redemption option embedded in an unlisted note | 20 | – | (33,836) |
| | | – | 35,648 |

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes bank borrowings and loans from a shareholder disclosed in notes 30 and 32, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 6. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Held for trading | 25,449 | 3,889 |
| Derivative financial instruments classified as FVTPL | – | 35,648 |
| Loans and receivables (including cash and cash equivalents) | 345,261 | 300,643 |
| **Financial liabilities** | | |
| Amortised cost | 95,308 | 129,951 |

## 6. FINANCIAL INSTRUMENTS *(continued)*

### b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from associates, investment in an unlisted note, loans to an associate, investments held-for-trading, bank balances and cash, trade and other payables, bank borrowings, deposit received for disposal of a subsidiary, loans from a shareholder and advances from minority shareholders of a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and equity security price risk), liquidity risk and credit risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

#### *Market risk*

*(i)* *Currency risk*

The Company and several subsidiaries of the Company have foreign currency sales and purchases and foreign currency bank deposits, which expose the Group to foreign currency risk. Approximately 5.1% (2009: 3.2%) of the Group's bank deposits are denominated in currency other than the functional currency of the group entities. Substantially all of the Group's sales are denominated in the relevant group entities' functional currency, whilst almost 61.9% (2009: 77.3%) of purchase costs are denominated in the relevant group entities' functional currency.

The Group currently does not implement hedging activity to hedge against foreign currency exposure.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Renminbi ("RMB") | **3,886** | 4,903 | **127** | 956 |
| Hong Kong Dollar ("HK$") | **1,815** | 67 | **3,412** | 896 |
| United States Dollar ("USD") | **605** | 69 | **301** | 245 |
| Australian dollar ("AUD") | **10** | 20 | **—** | — |
| Singapore dollar ("SGD") | **—** | — | **1,196** | 518 |

# 6. FINANCIAL INSTRUMENTS *(continued)*

## b. Financial risk management objectives and policies *(continued)*

### *Market risk (continued)*

*(i)* *Currency risk* ***(continued)***

Sensitivity analysis

The Group is mainly exposed to the foreign exchange rates fluctuation of the foreign currencies stated above against the functional currency of certain respective group entities. The following table details the Group's sensitivity to a 5% increase and decrease in the functional currency of certain respective group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The Group's sensitivity to fluctuations in USD is low as the USD denominated monetary assets were held by group entities whose functional currency is HK$ which is pegged to USD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items other than those denominated in USD and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive/negative number below indicates an increase/decrease in profit for the year where the functional currency of group entities weakens 5% against the relevant foreign currencies. For a 5% strengthening of the functional currency of group entities against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

| | SGD Impact | | HK$ Impact | | AUD Impact | | RMB Impact | |
|---|---|---|---|---|---|---|---|---|
| | **2010<br>HK$'000** | 2009<br>HK$'000 | **2010<br>HK$'000** | 2009<br>HK$'000 | **2010<br>HK$'000** | 2009<br>HK$'000 | **2010<br>HK$'000** | 2009<br>HK$'000 |
| Increase (decrease) in profit (2009: Decrease (increase) in loss) | **50** | 22 | **67** | 35 | **–** | (1) | **(157)** | (165) |

# 6. FINANCIAL INSTRUMENTS *(continued)*

## b. Financial risk management objectives and policies *(continued)*

### Market risk *(continued)*

*(ii) Interest rate risk*

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings and variable-rate loans from a shareholder (see notes 30 and 32 respectively for details of these borrowings) and bank deposits at prevailing market interest rate. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group is also exposed to fair value interest rate risk in relation to investment in an unlisted note (note 20), loans to an associate (note 21) and fixed-rate short term bank deposits (note 26), fixed-rate bank borrowing (note 30) and advances from minority shareholders of a subsidiary (note 33).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of one to three months Hong Kong Interbank Offered Rate ("HIBOR"). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings and loans from a shareholder at the end of the reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year ended 31 March 2010 would decrease/increase by approximately HK$202,000 (2009: loss increase/decrease by approximately HK$362,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate bank borrowings and loans from a shareholder.

The Group's exposures to interest rates on bank balances are considered insignificant by the directors and therefore no sensitivity analysis has been prepared.

# 6. FINANCIAL INSTRUMENTS *(continued)*

## b. Financial risk management objectives and policies *(continued)*

### *Market risk* *(continued)*

*(iii)* *Equity security price risk*

The Group is exposed to equity security price risk because the fair value of investments held-for-trading is measured by reference to the prevailing market price. Details of investments held-for-trading are set out in note 25.

The Group currently does not have a policy to hedge the equity security price risk. However, the management closely monitors such risk by maintaining a portfolio of investments with different risks.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to investments held-for-trading at the end of the reporting period. The analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 5% increase or decrease is used when reporting equity security price risk internally to key management personnel and represents management's assessment of the reasonably possible change in the prevailing market price.

If market price of investments held-for-trading had been increased/decreased by 5% and all other variables were held constant, the Group's profit for the year ended 31 March 2010 would increase/decrease by approximately HK$1,062,000 (2009: loss decrease/increase by approximately HK$173,000).

### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings.

# 6. FINANCIAL INSTRUMENTS *(continued)*

## b. Financial risk management objectives and policies *(continued)*

### *Liquidity risk* *(continued)*

*Liquidity and interest risk tables*

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

| | Weighted average effective interest rate % | Less than 3 months HK$'000 | 3-6 months HK$'000 | 6 months to 1 year HK$'000 | 1-5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 31 March 2010** | | | | | | | | |
| Trade and other payables | – | 40,735 | 811 | 309 | – | – | 41,855 | 41,855 |
| Deposit received for disposal of a subsidiary | – | 5,000 | – | – | – | – | 5,000 | 5,000 |
| Bank borrowings – variable rate | 1.64 | 4,251 | 3,281 | 5,116 | 37,692 | – | 50,340 | 48,453 |
| | | 49,986 | 4,092 | 5,425 | 37,692 | – | 97,195 | 95,308 |
| As at 31 March 2009 | | | | | | | | |
| Trade and other payables | – | 38,171 | – | – | – | – | 38,171 | 38,171 |
| Advances from minority shareholders of a subsidiary | 7.02 | 3,540 | – | – | – | – | 3,540 | 3,396 |
| Obligation under finance leases | 6.02 | – | – | 11 | – | – | 11 | 9 |
| Loans from a shareholder – variable rate | 5.00 | – | 5,250 | 21,000 | – | – | 26,250 | 25,000 |
| Bank borrowings – variable rate | 3.23 | 4,896 | 3,941 | 7,504 | 39,885 | 10,791 | 67,017 | 61,674 |
| – fixed rate | 6.37 | 432 | 423 | 818 | 133 | – | 1,806 | 1,710 |
| | | 47,039 | 9,614 | 29,333 | 40,018 | 10,791 | 136,795 | 129,960 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

# 6. FINANCIAL INSTRUMENTS *(continued)*

## b. Financial risk management objectives and policies *(continued)*

### *Credit risk*

As at 31 March 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group has concentration of credit risk in loans to LeRoi, an associate of the Group, of approximately HK$204,307,000 (2009: nil) as disclosed in note 21. 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 receivables at the end of the reporting period 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.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

## c. Fair value

The fair value of financial assets and liabilities is determined as follows:

- the fair value of investments held-for-trading in note 25 is determined based on quoted market bid prices in the active market;

- the fair values of the derivatives embedded in an unlisted note due from an associate in note 20 are determined based on the valuation model shown on respective note; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values, except for investment in an unlisted note due from an associate as disclosed in note 20.

## 6. FINANCIAL INSTRUMENTS *(continued)*

### c. Fair value *(continued)*

#### *Fair value measurements recognised in the consolidated statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Fair value measurements recognised in the consolidated statement of financial position**

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
| **Financial assets at FVTPL** | | | | |
| Investments held-for-trading | **25,449** | **–** | **–** | **25,449** |

There were no transfers between Level 1 and 2 in the current year.

## 7. REVENUE

Revenue represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts is as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Sales of goods | **528,132** | 494,852 |
| Management and promotion fees | **1,173** | 1,299 |
| | **529,305** | 496,151 |

## 8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach.

In the past, the Group's primary reporting format was business segments and segment information reported externally was analysed on the basis of the types of goods supplied by the Group's operating divisions. Information reported to the chief operating decision maker (i.e. board of directors of the Company) is the same as the primary reporting format in the past. Thus, the application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's operating segments under HKFRS 8 are as follows:

(a) production and sale of Chinese pharmaceutical and health food products - manufacturing, processing and retailing of traditional Chinese medicine which includes Chinese medicinal products sold under the brand name of "Wai Yuen Tong" and a range of products manufactured by selected medicinal materials with traditional prescription, mainly in the PRC and Hong Kong;

(b) production and sale of Western pharmaceutical and health food products - processing and sale of Western pharmaceutical and health food products under the brand name of "Madame Pearl's" and "Pearl's"; and

(c) production and sale of bottled birds' nest drinks and herbal essence products - processing and sale of bottled birds nest drinks, dried birds' nest, herbal essence, health tonics and other health products.

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

# 8. SEGMENT INFORMATION *(continued)*

## Segment revenues and results

The following is an analysis of the Group's revenue and results by operating segment:

| | Production and sale of Chinese pharmaceutical and health food products | | Production and sale of Western pharmaceutical and health food products | | Production and sale of bottled birds' nest drinks and herbal essence products | | Elimination | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| **REVENUE** | | | | | | | | | | |
| External sales | **372,429** | 333,627 | **135,305** | 126,744 | **21,571** | 35,780 | **–** | – | **529,305** | 496,151 |
| Inter segment sales * | **2,640** | 2,640 | **820** | – | **32,904** | 20,996 | **(36,364)** | (23,636) | **–** | – |
| | **375,069** | 336,267 | **136,125** | 126,744 | **54,475** | 56,776 | **(36,364)** | (23,636) | **529,305** | 496,151 |
| **RESULTS** | | | | | | | | | | |
| Results, excluding impairment losses recognised in respect of goodwill | **18,408** | (12,694) | **15,368** | 12,372 | **(1,895)** | 2,144 | | | **31,881** | 1,822 |
| Impairment losses recognised in respect of goodwill | **(237)** | (4,717) | **–** | (5,665) | **–** | – | | | **(237)** | (10,382) |
| Segment results | **18,171** | (17,411) | **15,368** | 6,707 | **(1,895)** | 2,144 | | | **31,644** | (8,560) |
| Other income | | | | | | | | | **19,943** | 16,602 |
| Unallocated expenses | | | | | | | | | **(21,494)** | (24,431) |
| Finance costs | | | | | | | | | **(2,354)** | (6,036) |
| Gain on early redemption of an unlisted note | | | | | | | | | **10,342** | – |
| Change in fair value of options embedded in an unlisted note | | | | | | | | | **(31,293)** | (252,827) |
| Change in fair value of investments held-for-trading | | | | | | | | | **9,181** | (11,618) |
| Discount on acquisition of a subsidiary | | | | | | | | | **–** | 691 |
| Gain on disposal of a subsidiary | | | | | | | | | **–** | 2,636 |
| Share of results of associates | | | | | | | | | **31,938** | (62,221) |
| Profit (loss) before taxation | | | | | | | | | **47,907** | (345,764) |

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

## 8. SEGMENT INFORMATION *(continued)*

### Segment revenues and results *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit/loss represents the profit/loss earned by each segment without allocation of other income, central administration costs, finance costs, gain on early redemption of an unlisted note, change in fair value of options embedded in an unlisted note, change in fair value of investments held-for-trading, discount on acquisition of a subsidiary, gain on disposal of a subsidiary and share of results of associates. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

## 8. SEGMENT INFORMATION *(continued)*

### Segment assets and liabilities

| | Production and sale of Chinese pharmaceutical and health food products | | Production and sale of Western pharmaceutical and health food products | | Production and sale of bottled birds' nest drinks and herbal essence products | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | | | | |
| **ASSETS** | | | | | | | | |
| Assets excluding goodwill | **200,624** | 213,930 | **69,191** | 69,565 | **16,666** | 20,232 | **286,481** | 303,727 |
| Goodwill | **7,700** | 7,700 | **7,635** | 7,635 | **–** | – | **15,335** | 15,335 |
| Segment assets | **208,324** | 221,630 | **76,826** | 77,200 | **16,666** | 20,232 | **301,816** | 319,062 |
| Interests in associates | | | | | | | **608,966** | 148,058 |
| Investment in an unlisted note | | | | | | | **–** | 172,682 |
| Derivative financial instruments | | | | | | | **–** | 35,648 |
| Loans to an associate | | | | | | | **204,307** | – |
| Investments held-for-trading | | | | | | | **25,449** | 3,889 |
| Tax recoverable | | | | | | | **232** | 2,014 |
| Deferred tax assets | | | | | | | **3,291** | 378 |
| Bank balances and cash | | | | | | | **78,259** | 57,096 |
| Unallocated assets | | | | | | | **14,581** | 14,293 |
| Consolidated total assets | | | | | | | **1,236,901** | 753,120 |
| **LIABILITIES** | | | | | | | | |
| Segment liabilities | **39,428** | 36,164 | **19,858** | 12,085 | **7,751** | 5,418 | **67,037** | 53,667 |
| Bank borrowings | | | | | | | **48,624** | 63,384 |
| Loans from a shareholder | | | | | | | **–** | 25,000 |
| Tax payable | | | | | | | **4,439** | 1,360 |
| Deferred tax liabilities | | | | | | | **248** | 110 |
| Deposit received for disposal of a subsidiary | | | | | | | **5,000** | – |
| Advances from minority shareholders of a subsidiary | | | | | | | **3,314** | 3,396 |
| Unallocated liabilities | | | | | | | **3,170** | 6,654 |
| Consolidated total liabilities | | | | | | | **131,832** | 153,571 |

## 8. SEGMENT INFORMATION *(continued)*

### Segment assets and liabilities *(continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than interests in associates, investment in an unlisted note, derivative financial instruments, loans to an associate, investments held-for-trading, tax recoverable, deferred tax assets, bank balances and cash and unallocated assets representing property, plant and equipment and deposits, prepayments and other receivables of investment holding companies.

- all liabilities are allocated to operating segments other than bank borrowings, loans from a shareholder, current and deferred tax liabilities, advances from minority shareholders of a subsidiary, deposit received for disposal of a subsidiary and unallocated liabilities representing other payables of investment holding companies.

## 8. SEGMENT INFORMATION *(continued)*

### Other segment information

| | Production and sale of Chinese pharmaceutical and health food products | | Production and sale of Western pharmaceutical and health food products | | Production and sale of bottled birds' nest drinks and herbal essence products | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | | | |
| Additions to non-current assets (Note) | **3,246** | 5,638 | **1,843** | 3,479 | **151** | 4,612 | **702** | 5,058 | **5,942** | 18,787 |
| Depreciation of property, plant and equipment | **8,113** | 10,952 | **2,693** | 3,339 | **1,182** | 911 | **2,071** | 1,785 | **14,059** | 16,987 |
| Amortisation of other intangible assets | **176** | 170 | **633** | 760 | **–** | – | **–** | – | **809** | 930 |
| Amortisation of prepaid lease payments | **2,500** | 2,500 | **229** | 274 | **–** | – | **–** | – | **2,729** | 2,774 |
| (Reversal) recognition of allowance for trade and other receivables | **(85)** | 12,947 | **(59)** | (498) | **38** | (534) | **–** | – | **(106)** | 11,915 |
| (Reversal of) allowance for obsolete inventories | **(329)** | (399) | **–** | (245) | **411** | (584) | **–** | – | **82** | (1,228) |
| Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets. | | | | | | | | | | |
| Finance costs | **1,223** | 2,190 | **342** | 563 | **77** | 199 | **712** | 3,084 | **2,354** | 6,036 |
| Interest income | **12** | 41 | **24** | 22 | **1** | – | **12,499** | 10,649 | **12,536** | 10,712 |

Note: Non-current assets included additions to goodwill, property, plant and equipment, other intangible assets and prepaid lease payments.

## 8. SEGMENT INFORMATION *(continued)*

### Geographical information

The Group´s operations are carried out in Hong Kong (country of domicile), other regions in the PRC and Singapore.

The following is an analysis of the Group´s revenue from external customers by geographical location of the customers and information about its non-current assets by geographical location of the assets:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2010 HK$'000** | 2009 HK$'000 | **2010 HK$'000** | 2009 HK$'000 |
| Hong Kong | **368,601** | 334,570 | **736,961** | 285,076 |
| The PRC, other than Hong Kong | **127,641** | 115,296 | **855** | 28,855 |
| Singapore | **14,907** | 27,586 | **4,075** | 4,725 |
| Others | **18,156** | 18,699 | **420** | 454 |
| | **529,305** | 496,151 | **742,311** | 319,110 |

Note: Non-current assets excluded financial instruments and deferred tax assets.

### Information about major customers

During the years ended 31 March 2010 and 2009, no revenues from customers contributed over 10% of the total sales of the Group.

## 9. OTHER INCOME

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Effective interest income on investment in an unlisted note due from an associate | **6,150** | 10,019 |
| Effective interest income on loans to an associate | **6,348** | 66 |
| Interest income on bank deposits | **38** | 482 |
| Interest income on investment in unlisted notes from financial institutions | **–** | 145 |
| Total interest income | **12,536** | 10,712 |
| Dividends from investments held-for-trading | **253** | 650 |
| Exchange gain, net | **657** | 282 |
| Franchise income | **170** | 115 |
| Processing fee income | **1,101** | 908 |
| Rental income | **3,061** | 2,477 |
| Sundry income | **2,165** | 1,458 |
| | **19,943** | 16,602 |

## 10. FINANCE COSTS

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Advances from minority shareholders of a subsidiary | **224** | 196 |
| Bank borrowings wholly repayable within five years | **1,400** | 1,643 |
| Bank borrowings not wholly repayable within five years | **–** | 1,094 |
| Effective interest expense on convertible loan note | **–** | 2,628 |
| Loans from a shareholder | **712** | 456 |
| Obligations under finance leases | **2** | 2 |
| Others | **16** | 17 |
| | **2,354** | 6,036 |

## 11. PROFIT (LOSS) BEFORE TAXATION

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Profit (loss) before taxation has been arrived at after charging (crediting): | | |
| Directors' remuneration (note 12(a)) | **3,800** | 4,059 |
| Other staff costs | | |
| – Salaries and other benefits | **80,886** | 82,493 |
| – Share-based payments excluding directors | **539** | 706 |
| – Retirement benefit scheme contributions other than directors | **5,923** | 6,327 |
| Total staff costs | **91,148** | 93,585 |
| (Reversal) recognition of allowance for trade and other receivables | **(106)** | 11,915 |
| Amortisation of other intangible assets, included in selling and distribution expenses | **809** | 930 |
| Amortisation of prepaid lease payments | **2,729** | 2,774 |
| Auditor's remuneration | | |
| – Current year | **2,062** | 2,346 |
| – Overprovision in prior year | **(588)** | — |
| | **1,474** | 2,346 |
| Cost of inventories recognised as an expense (including allowance for obsolete inventories of HK$82,000 (2009: reversal of allowance for obsolete inventories of HK$1,228,000 (Note))) | **276,932** | 267,478 |
| Depreciation of property, plant and equipment | **14,059** | 16,987 |
| Loss on disposal of property, plant and equipment | **7** | 58 |
| Management fee paid to a shareholder | **996** | 996 |
| Research and development expenses | **1,234** | 1,441 |

Note: Reversal of allowance for obsolete inventories was recognised as such inventories were sold during the year.

# 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) Directors' emoluments

The emoluments paid or payable to each of the seven (2009: seven) directors are as follows:

| | Ms. Tang Mui Fun HK$'000 | Mr. Chan Chun Hong, Thomas HK$'000 | Mr. Tang Ching Ho HK$'000 | Mr. Siu Man Ho, Simon HK$'000 | Mr. Yuen Chi Choi HK$'000 | Mr. Cho Wing Mou HK$'000 | Mr. Leung Wai Ho HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | | |
| Fees | – | – | – | 140 | 140 | 140 | 140 | 560 |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | 1,868 | 624 | 624 | – | – | – | – | 3,116 |
| Retirement benefit scheme contributions | 36 | 12 | 12 | – | – | – | – | 60 |
| Share-based payment | 64 | – | – | – | – | – | – | 64 |
| Total emoluments | 1,968 | 636 | 636 | 140 | 140 | 140 | 140 | 3,800 |
| 2009 | | | | | | | | |
| Fees | – | – | – | 140 | 140 | 140 | 140 | 560 |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | 2,132 | 600 | 600 | – | – | – | – | 3,332 |
| Retirement benefit scheme contributions | 36 | 12 | 12 | – | – | – | – | 60 |
| Share-based payment | 107 | – | – | – | – | – | – | 107 |
| Total emoluments | 2,275 | 612 | 612 | 140 | 140 | 140 | 140 | 4,059 |

# 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

## (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one was director (2009: one was director) of the Company whose emoluments are set out in note 12(a) above. The emoluments of the remaining four (2009: four) individuals are as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | 3,964 | 3,535 |
| Retirement benefit scheme contributions | 48 | 47 |
| Share-based payment | 105 | 150 |
| | 4,117 | 3,732 |

Their emoluments are within the following bands:

| | 2010<br>Number of<br>employees | 2009<br>Number of<br>employees |
|---|---|---|
| Nil to HK$1,000,000 | 2 | 2 |
| HK$1,000,001 to HK$1,500,000 | 2 | 2 |

During the year, no emolument was 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 has waived any emoluments during the year.

## 13. INCOME TAX EXPENSE

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| The charge comprises: | | |
| Current tax | | |
| Hong Kong | 5,703 | 1,499 |
| Other jurisdictions | 194 | 384 |
| | 5,897 | 1,883 |
| Under(over)provision in prior years | | |
| Hong Kong | 70 | (705) |
| Other jurisdictions | (311) | — |
| | (241) | (705) |
| Deferred taxation (note 34) | | |
| Current year | (2,780) | (960) |
| Attributable to a change in tax rate | — | (40) |
| | (2,780) | (1,000) |
| | 2,876 | 178 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Singapore Income Tax is calculated at 17% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the Enterprise Income Tax ("EIT") rate of one of the Group's subsidiaries established in the PRC is 25% from 1 January 2008 onwards. In addition, the EIT rate of two of the Group's subsidiaries established in the PRC increased from 15% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 20% to 25% (2009: 18% to 25%).

A PRC subsidiary was exempted from the PRC income tax for profits incurred for the year ended 31 December 2008, followed by a 50% reduction for profits incurred between 1 January 2009 to 31 December 2011 as approved by the PRC tax bureau. PRC income tax of this PRC subsidiary is calculated at 12.5% of the estimated profit for the year.

No provision for the PRC income tax has been made for the other two PRC subsidiaries in the consolidated financial statements as the assessable profits are wholly absorbed by tax losses brought forward.

## 13. INCOME TAX EXPENSE *(continued)*

The tax charge for the year can be reconciled to the profit (loss) before taxation per the consolidated statement of comprehensive income as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Profit (loss) before taxation | **47,907** | (345,764) |
| Tax at the domestic income tax rate of 16.5% | **7,905** | (57,051) |
| Tax effect of share of results of associates | **(5,270)** | 10,266 |
| Tax effect of expenses not deductible for tax purpose | **7,090** | 47,210 |
| Tax effect of income not taxable for tax purpose | **(3,956)** | (2,612) |
| Tax effect of tax losses not recognised | **440** | 2,631 |
| Overprovision in prior years | **(241)** | (705) |
| Utilisation of tax losses previously not recognised | **(331)** | (76) |
| Utilisation of deductible temporary differences previously not recognised | **(2,389)** | — |
| Tax effect of deductible temporary differences not recognised | **466** | 1,441 |
| Effect of tax concession granted to a PRC subsidiary | **(3)** | (349) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(715)** | (709) |
| Effect of change in tax rate | **—** | (40) |
| Others | **(120)** | 172 |
| Income tax expense for the year | **2,876** | 178 |

Details of deferred taxation are set out in note 34.

## 14. EARNINGS (LOSS) PER SHARE

For the year ended 31 March 2010, the calculation of the basic and diluted earnings (loss) per share is based on the following data:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share | **45,797** | (345,906) |

| | **Number of shares 2010** | Number of shares 2009 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share | **3,697,556,414** | 1,966,296,367 |

The computations of diluted earnings (loss) per share does not assume the exercise of the outstanding share options of the Company as the exercise price of those options is higher than the average market price of the shares of the Company for both years, nor the conversion of the outstanding unlisted note due from an associate (note 20) since their assumed exercise would result in an increase in earnings per share (2009: decrease in loss per share).

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Leasehold improvements | Plant and machinery | Furniture and equipment | Motor vehicles | Computer system | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **COST** | | | | | | | | |
| At 1 April 2008 | 26,255 | 27,539 | 41,707 | 28,883 | 1,164 | 8,442 | 7,536 | 141,526 |
| Exchange realignment | 964 | 26 | 59 | (28) | (71) | (16) | 349 | 1,283 |
| Additions | 218 | 7,795 | 2,574 | 2,807 | 228 | 1,510 | 2,838 | 17,970 |
| On acquisition of subsidiaries | – | 30 | 1 | 87 | – | 178 | – | 296 |
| Disposals | – | (99) | (1,254) | (170) | – | – | – | (1,523) |
| Disposal of a subsidiary | (5,379) | – | (7,318) | (697) | – | – | – | (13,394) |
| At 31 March 2009 and 1 April 2009 | 22,058 | 35,291 | 35,769 | 30,882 | 1,321 | 10,114 | 10,723 | 146,158 |
| Exchange realignment | – | 179 | 412 | 92 | 91 | 30 | – | 804 |
| Additions | – | 1,916 | 331 | 890 | 1,047 | 176 | 1,290 | 5,650 |
| Disposals | – | – | – | (157) | (291) | (75) | – | (523) |
| Reclassified as held for sale | (14,558) | (532) | (3,286) | (631) | (547) | (126) | (12,013) | (31,693) |
| **At 31 March 2010** | **7,500** | **36,854** | **33,226** | **31,076** | **1,621** | **10,119** | **–** | **120,396** |
| **DEPRECIATION** | | | | | | | | |
| At 1 April 2008 | 8,474 | 19,757 | 26,489 | 23,166 | 801 | 6,525 | – | 85,212 |
| Exchange realignment | 387 | 2 | 35 | (35) | (77) | (25) | – | 287 |
| Provided for the year | 2,668 | 5,273 | 4,277 | 3,548 | 128 | 1,093 | – | 16,987 |
| Eliminated on disposals | – | (76) | (1,132) | (132) | – | – | – | (1,340) |
| Eliminated on disposal of a subsidiary | (5,379) | – | (7,318) | (697) | – | – | – | (13,394) |
| At 31 March 2009 and 1 April 2009 | 6,150 | 24,956 | 22,351 | 25,850 | 852 | 7,593 | – | 87,752 |
| Exchange realignment | – | 28 | 197 | 78 | 90 | 29 | – | 422 |
| Provided for the year | 2,250 | 3,085 | 3,694 | 3,745 | 175 | 1,110 | – | 14,059 |
| Eliminated on disposals | – | – | – | (150) | (291) | (75) | – | (516) |
| Reclassified as held for sale | (6,369) | (74) | (1,669) | (210) | (141) | (25) | – | (8,488) |
| **At 31 March 2010** | **2,031** | **27,995** | **24,573** | **29,313** | **685** | **8,632** | **–** | **93,229** |
| **CARRYING AMOUNT** | | | | | | | | |
| **At 31 March 2010** | **5,469** | **8,859** | **8,653** | **1,763** | **936** | **1,487** | **–** | **27,167** |
| At 31 March 2009 | 15,908 | 10,335 | 13,418 | 5,032 | 469 | 2,521 | 10,723 | 58,406 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

| | |
|---|---|
| Buildings | 2% or over the terms of the relevant leases, whichever is shorter (Note) |
| 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 shown above comprises buildings situated on:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Land in Hong Kong: | | |
| Medium-term lease | 5,469 | 5,629 |
| Land in the PRC (Note) | – | 10,279 |
| | 5,469 | 15,908 |

Note: These buildings are situated on allocated land without lease term in the PRC. Such land was obtained from local government. Depreciation on the buildings situated on such land and amortisation on the prepaid lease payment are provided over the operating period of six years as stated in the business license. The land in the PRC cannot be sold and changed its usage freely without approval from local government. As at 31 March 2010, the prepaid lease payments over the land in the PRC as disclosed in note 16 and the buildings situated on such land included in property, plant and equipment were classified as held for sale (note 27).

At 31 March 2009, the carrying amount of furniture and equipment included an amount of approximately HK$8,000 (2010: nil) in respect of assets held under finance leases. In addition, the Group has pledged buildings to secure general banking facilities granted to the Group. Details of pledge of assets are set out in note 41.

## 16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Medium-term lease land in Hong Kong | **92,504** | 95,004 |
| Land in the PRC (Note) | **1,103** | 1,332 |
| | **93,607** | 96,336 |
| Less: Reclassified as held for sale (note 27) | **(1,103)** | — |
| | **92,504** | 96,336 |

Note: This land is located in the PRC without lease term as disclosed in note 15.

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **90,004** | 93,562 |
| Current assets | **2,500** | 2,774 |
| | **92,504** | 96,336 |

The Group pledged certain prepaid lease payments for land to the bank to obtain general banking facilities. Details of pledge of assets are set out in note 41.

## 17. GOODWILL

| | HK$'000 |
|---|---|
| CARRYING AMOUNT | |
| At 1 April 2008 | 25,271 |
| Arising on acquisition of subsidiaries (note 37) | 446 |
| Impairment loss recognised | (10,382) |
| At 31 March 2009 and 1 April 2009 | 15,335 |
| Arising on acquisition of a subsidiary (note 37) | 237 |
| Impairment loss recognised | (237) |
| At 31 March 2010 | 15,335 |

For the purpose of impairment testing, goodwill has been allocated to two cash-generating units ("CGUs"), including one subsidiary in the production and sale of Chinese pharmaceutical and health food products segment and one subsidiary in the production and sale of Western pharmaceutical and health food products segment. The carrying amount of goodwill as at the end of the reporting period has been allocated as follows:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Production and sale of: | | |
| – Chinese pharmaceutical and health food products | **7,700** | 7,700 |
| – Western pharmaceutical and health food products | **7,635** | 7,635 |
| | **15,335** | 15,335 |

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 risks specific to the CGUs.

The Group prepares 5-year cash flow forecasts based on financial budgets approved by the management. The rate used to discount the forecast cash flows for the production and sale of Chinese pharmaceutical and health food products and Western pharmaceutical and health food products is 15.70% (2009: 13.50%). Cash flows for the production and sale of Chinese pharmaceutical and health food products and Western pharmaceutical and health food products beyond the 5-year period are extrapolated using a steady 2% (2009: 3%) and 2% (2009: 2%) growth rate, respectively.

## 17. GOODWILL *(continued)*

As at 31 March 2009, in view of the general slowdown in the global economy brought by the financial tsunami, it was expected to be an adverse effect on the future profits on the Chinese pharmaceutical business. As a result, a recognition of impairment loss of goodwill allocated to the production and sale of Chinese pharmaceutical and health food products business of approximately HK$4,717,000 was made.

As at 31 March 2009, by considering the control on sales of cough syrup in the PRC had been tightened and the expected increase in compliance costs, a decrease in gross profit margin were expected for the Western pharmaceutical business. As a result, a recognition of impairment loss of goodwill allocated to the production and sale of Western pharmaceutical and health food products business of approximately HK$5,665,000 was made.

The carrying amount of goodwill for the production and sale of Chinese pharmaceutical and health food products and Western pharmaceutical and health food products had therefore been reduced to their recoverable amounts through the recognition of total impairment losses of approximately HK$10,382,000 for the year ended 31 March 2009.

## 18. INTERESTS IN ASSOCIATES

| | **2010<br>HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Cost of investment in associates, less impairment (Note a) | | |
| – Listed in Hong Kong (Note b) | **629,215** | 211,682 |
| – Unlisted (Note c) | **3,000** | 3,350 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **(23,249)** | (66,974) |
| | **608,966** | 148,058 |
| Market value of listed investments | **942,209** | 269,700 |

## 18. INTERESTS IN ASSOCIATES *(continued)*

(a) Included in cost of investment in associates is goodwill arising on acquisition of the associates. The movement of goodwill is set out below.

| | HK$'000 |
|---|---|
| COST | |
| At 1 April 2008, 31 March 2009 and 1 April 2009 | 37,694 |
| Arising on acquisition during the year (Note) | 320,308 |
| **At 31 March 2010** | **358,002** |
| IMPAIRMENT | |
| At 1 April 2008, 31 March 2009, 1 April 2009 and 31 March 2010 | (37,694) |
| CARRYING AMOUNT | |
| **At 31 March 2010** | **320,308** |
| At 31 March 2009 | – |

Note: During the year ended 31 March 2010, the acquisition of an additional 19.03% equity interest in LeRoi, details of which are described in note 18(b), gives rise to goodwill of approximately HK$320,308,000, which is included in the carrying amount of the interest in the associate. Such goodwill represents the excess of purchase consideration for the additional interest in LeRoi, being the fair value of the new shares issued by the Company, over the Group's share of the aggregate carrying amount of the identifiable assets, liabilities and contingent liabilities of LeRoi at the date of the acquisition of the additional interest acquired. The recoverable amount of the carrying amount of the investment in LeRoi as at 31 March 2010, which includes the carrying amount of goodwill, is determined on the basis of the market price of LeRoi's shares that was higher than the carrying value of the interest in LeRoi, therefore no impairment losses was recognised in the consolidated statement of comprehensive income.

## 18. INTERESTS IN ASSOCIATES *(continued)*

(b) On 18 November 2009, the Group further acquired 1,463,835,000 ordinary shares of LeRoi by issuing 3,659,587,500 shares of the Company to independent shareholders of LeRoi (the "Share Exchange Offer"). Details of the Share Exchange Offer were set out in the composite document and announcement jointly issued by the Company and LeRoi on 9 October 2009 and 13 November 2009, respectively. The consideration of the acquisition, represented by market price of the Company's shares issued on the acquisition date plus directly attributable acquisition costs, was added to the cost of investment in associates. As at 31 March 2010, the Group holds approximately 49.00% (2009: approximately 29.97%) equity interest in LeRoi.

The summarised financial information have been extracted from the published financial information of LeRoi as below:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Total assets | **1,207,815** | 711,555 |
| Total liabilities | **(496,247)** | (224,720) |
| Net assets | **711,568** | 486,835 |
| The Group's share of net assets of associate | **286,216** | 145,406 |

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Revenue | **58,987** | 61,822 |
| Profit (loss) for the year | **44,256** | (206,041) |
| Other comprehensive income | **59,807** | 6,270 |
| The Group's share of profit (loss) and other comprehensive income of associate for the year | **43,532** | (60,368) |

## 18. INTERESTS IN ASSOCIATES *(continued)*

(c) The summarised financial information in respect of the Group's principal unlisted associates is set out below:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Total assets | **8,872** | 9,214 |
| Total liabilities | **(2,491)** | (2,522) |
| Net assets | **6,381** | 6,692 |
| The Group's share of net assets of associates | **2,443** | 2,652 |
| Revenue | **23,469** | 23,589 |
| Profit (loss) and total comprehensive income (expense) for the year | **221** | (175) |
| The Group's share of total comprehensive income (expense) of associates for the year | **106** | (138) |

Details of the Group's principal associates at 31 March 2010 are set out in note 48.

## 19. OTHER INTANGIBLE ASSETS

| | Customer relationship HK$'000 | Trademark HK$'000 | Total HK$'000 |
|---|---|---|---|
| **COST** | | | |
| At 1 April 2008 | 600 | 4,850 | 5,450 |
| Additions | — | 75 | 75 |
| At 31 March 2009 and 1 April 2009 | 600 | 4,925 | 5,525 |
| Additions | — | 55 | 55 |
| Reclassified as held for sale | (600) | (3,200) | (3,800) |
| **At 31 March 2010** | **—** | **1,780** | **1,780** |
| **AMORTISATION** | | | |
| At 1 April 2008 | 50 | 796 | 846 |
| Provided for the year | 120 | 810 | 930 |
| At 31 March 2009 and 1 April 2009 | 170 | 1,606 | 1,776 |
| Provided for the year | 100 | 709 | 809 |
| Reclassified as held for sale | (270) | (1,374) | (1,644) |
| **At 31 March 2010** | **—** | **941** | **941** |
| **CARRYING AMOUNT** | | | |
| **At 31 March 2010** | **—** | **839** | **839** |
| At 31 March 2009 | 430 | 3,319 | 3,749 |

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

| | |
|---|---|
| Customer relationship | 5 years |
| Trademark | 5 to 10 years |

## 20. INVESTMENT IN AN UNLISTED NOTE

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| The amount shown under non-current assets comprises: | | |
| – unlisted note due from an associate | – | 172,682 |

The Group subscribed an unlisted note issued by an associate, LeRoi with principal amount of HK$190,000,000 on 5 October 2007 ("LeRoi Note") and details of LeRoi Note was as follows:

| | LeRoi Note |
|---|---|
| Coupon rate per annum | 3% |
| Maturity date | 4 October 2012 |

The Group was entitled at any time, after the date of issue up to the maturity date as stated above to convert LeRoi Note into ordinary shares of LeRoi at an initial conversion price (subject to adjustment) of HK$0.12 per share.

LeRoi was entitled at its discretion, by giving not less than 30 days notice to the Group to redeem all outstanding LeRoi Note at an amount equal to 100% of the outstanding principal amount at any time after the issue date of LeRoi Note together with interest accrued to the date of redemption. The conversion option held by the Group continues to be exercisable during the 30 days notice period in the event of LeRoi giving the redemption notice.

As at 31 March 2009, the amount of unlisted note due from an associate represented the liability component of LeRoi Note. The effective interest rate of the liability component is 5.92% per annum.

The fair value of the liability component of LeRoi Note at 31 March 2009 was approximately HK$167,212,000, as determined by a firm of independent valuers using the discounted cash flow method.

As at 31 March 2009, the net fair value of the derivatives embedded in LeRoi Note amounted to HK$35,648,000, representing the fair value of the conversion option of HK$69,484,000 less the fair value of the issuer's redemption option of HK$33,836,000.

On 28 August 2009, LeRoi requested an early redemption of LeRoi Note in full conditional upon the Share Exchange Offer becoming unconditional in all respects. On 13 November 2009, the Share Exchange Offer became unconditional in all respects and the early redemption of LeRoi Note was completed. A gain on early redemption amounting to HK$10,342,000 was recognised in the consolidated statement of comprehensive income.

The net fair value of the derivatives embedded in LeRoi Note amounted to HK$4,355,000 immediately before the redemption, representing the fair value of the conversion option of HK$256,390,000 less the fair value of the issuer's redemption option of HK$252,035,000. The change in fair value of HK$31,293,000 was recognised in consolidated statement of comprehensive income.

## 20. INVESTMENT IN AN UNLISTED NOTE *(continued)*

The movement of the net fair value of the derivatives embedded in LeRoi Note is set out below:

| | HK$'000 |
|---|---|
| At 1 April 2008 | 288,475 |
| Change in fair value | (252,827) |
| At 31 March 2009 and 1 April 2009 | 35,648 |
| Change in fair value up to redemption date | (31,293) |
| Recognised in consolidated statement of comprehensive income upon redemption | (4,355) |
| **At 31 March 2010** | **–** |

The fair values of the derivatives embedded in LeRoi Note at the redemption date and at 31 March 2009 were determined by reference to a valuation conducted by a firm of independent valuers using Binomial Model. The inputs and methodology used for the calculation of fair values of derivatives embedded in LeRoi Note were as follows:

| | 13 November 2009 | 31 March 2009 |
|---|---|---|
| Methodology | Binomial Model | Binomial Model |
| Risk-free rate | 0.802% | 1.35% |
| Time to maturity | 3 years | 4 years |
| Dividend yield | 0% | 0% |
| Volatility | 74.806% | 50% |

The volatility used was based on the three year volatility of comparable companies' price return.

## 21. LOANS TO AN ASSOCIATE

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| HK$190 million loan due on 12 November 2013 (Note a) | 193,748 | — |
| HK$10 million loan due on 9 July 2011 (Note b) | 10,559 | — |
| | 204,307 | — |

Notes:

(a) On 28 August 2009, the Group entered into a loan agreement (the "Loan Agreement") with LeRoi pursuant to which the Group agreed to grant a loan of HK$190,000,000 to LeRoi conditional upon the Share Exchange Offer becoming unconditional in all respects.

In addition, pursuant to the Loan Agreement, the loan of HK$190,000,000 was advanced by the Group to LeRoi by way of a discharge of the obligations of LeRoi in repayment of the outstanding principal amount of HK$190,000,000 upon the early redemption of LeRoi Note.

On 13 November 2009, the Share Exchange Offer became unconditional in all respects and the loan of HK$190,000,000 was granted to LeRoi. The loan is unsecured, interest bearing at a fixed rate of 8% per annum payable half-yearly in arrears on 30 June and 31 December in each year and repayable on 12 November 2013. The effective interest rate of the loan is 7.95% per annum.

(b) On 10 July 2009, the Group granted a loan with principal amount of HK$10,000,000 to LeRoi. The loan is unsecured, interest bearing at a fixed rate of 8% per annum and repayable on 9 July 2011 together with interest accrued. The effective interest rate of the loan is 7.70% per annum.

As at 31 March 2010, the loans to an associate are neither past due nor impaired. The credit quality of these loans is considered good as the directors assessed that LeRoi has future business prospects that could generate sufficient funds for repayment of the loans upon maturity. There is no significant change in the credit quality during the year.

## 22. INVENTORIES

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Raw materials and consumables | 20,355 | 23,461 |
| Work-in-progress | 5,103 | 3,678 |
| Finished goods | 50,647 | 53,612 |
| | 76,105 | 80,751 |
| Less: Inventories classified as assets held for sale (note 27) | (5,000) | — |
| | 71,105 | 80,751 |

## 23. TRADE AND OTHER RECEIVABLES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Trade receivables | **61,777** | 60,130 |
| Less: accumulated impairment | **(16,690)** | (16,792) |
| | **45,087** | 43,338 |
| Less: Amounts classified as assets held for sale (note 27) | **(3,315)** | — |
| | **41,772** | 43,338 |
| Deposits, prepayments and other receivables | **31,343** | 35,055 |
| Less: accumulated impairment | **(3,000)** | (3,000) |
| | **28,343** | 32,055 |
| Less: Amounts classified as assets held for sale (note 27) | **(1,152)** | — |
| | **27,191** | 32,055 |
| Total trade and other receivables | **68,963** | 75,393 |

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) presented based on the invoice date at the end of the reporting period. The analysis includes those classified as part of a disposal group held for sale.

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| 0 – 30 days | **19,472** | 18,650 |
| 31 – 60 days | **12,148** | 14,844 |
| 61 – 120 days | **9,993** | 7,415 |
| Over 120 days | **3,474** | 2,429 |
| | **45,087** | 43,338 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 80% (2009: 80%) of the trade receivables that are neither past due nor impaired are with good credit quality based on their settlement records.

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of HK$9,135,000 (2009: HK$8,646,000) which are past due at the reporting date for which the Group has not provided for impairment loss as the directors assessed that the balances will be recovered based on their settlement records. The Group does not hold any collateral over these balances.

## 23. TRADE AND OTHER RECEIVABLES *(continued)*

The following is an aged analysis of trade receivables which are past due but not impaired based on the due date:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| 0 – 30 days | 5,667 | 4,625 |
| 31 – 60 days | 1,907 | 1,308 |
| 61 – 120 days | 288 | 1,881 |
| 121 – 180 days | 1,273 | 832 |
| | 9,135 | 8,646 |

The Group has provided fully for all receivables over 180 days because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable.

**Movement in the allowance for trade and other receivables**

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Balance at the beginning of the year | 19,792 | 7,821 |
| Exchange realignment | 4 | 56 |
| Impairment losses (reversed) recognised on trade and other receivables | (106) | 11,915 |
| Balance at the end of the year | 19,690 | 19,792 |

Included in the allowance for trade and other receivables are individually impaired trade receivables and other receivables with an aggregate balance of approximately HK$16,690,000 (2009: approximately HK$16,792,000) and HK$3,000,000 (2009: HK$3,000,000) that are considered irrecoverable by the management after consideration on the credit quality of those individual customers based on the amounts subsequently received after year end, the ongoing relationship with the Group and the aging of these receivables. The Group does not hold any collateral over these balances.

At the end of the reporting period, the trade and other receivables that are denominated in currencies, other than the functional currencies of respective group entities, are set out below:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| HK$ | 74 | 541 |
| SGD | 879 | 224 |
| USD | 58 | 26 |
| RMB | – | 9 |

## 24. AMOUNTS DUE FROM ASSOCIATES

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Trade receivables due from associates (Note a) | **1,668** | 1,980 |
| Other receivables due from an associate (Note b) | **–** | 1,405 |
| | **1,668** | 3,385 |

Notes:

(a) Trade receivables due from associates are unsecured, interest-free and the Group allows a credit period of 90 days.

The aged analysis of the trade receivables due from associates presented based on the invoice date at the end of the reporting period is as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| 0 - 30 days | **1,322** | 1,136 |
| 31 - 60 days | **200** | 809 |
| 61 - 120 days | **146** | 35 |
| | **1,668** | 1,980 |

As at 31 March 2010 and 2009, substantially all of the trade receivables are neither past due nor impaired. These trade receivables have high credit quality based on their settlement records. The Group has not provided for impairment loss as the directors assessed that the balances will be recovered based on their settlement records. The Group does not hold any collateral over these balances.

(b) Other receivable due from an associate as at 31 March 2009 represented interest receivable on investment in an unlisted note due from LeRoi. The amount was unsecured, interest-free and repayable within one year. Such amount was fully settled during the year ended 31 March 2010.

## 25. INVESTMENTS HELD-FOR-TRADING

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Listed equity securities at fair value: | | |
| in Hong Kong | **25,449** | 2,656 |
| in overseas | **–** | 1,233 |
| | **25,449** | 3,889 |

At the end of the reporting period, the investments held-for-trading that are denominated in currencies, other than the functional currencies of respective group entities, are set out below:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| SGD | **–** | 1,233 |

## 26. BANK BALANCES AND CASH

Bank balances and cash comprises bank balances at prevailing market interest rate, cash held by the Group and short-term bank deposits that are interest bearing at fixed interest rate and have an original maturity of three months or less. The bank deposits carry effective interest rates ranging from 0.001% to 0.01% (2009: 0.001% to 0.925%) per annum.

At the end of the reporting period, the bank and cash balances that are denominated in currencies, other than the functional currencies of respective group entities, are set out below:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| RMB | **127** | 947 |
| HK$ | **3,338** | 355 |
| SGD | **317** | 294 |
| USD | **243** | 219 |

## 27. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 10 December 2009, the Group entered into a sale and purchase agreement with Hunan Fangsheng Pharmaceutical Company Limited ("Hunan Fangsheng"), an independent third party, to dispose of its entire 64.2% equity interests in Hunan Xiangya at a cash consideration of HK$37,350,000. Hunan Xiangya is engaged in the production and sale of Western pharmaceutical products in the PRC. The transaction was approved by shareholders at a special general meeting on 18 January 2010. The disposal was not completed as at 31 March 2010. The assets and liabilities of Hunan Xiangya, which are expected to be sold within twelve months, have been classified as assets held for sale and liabilities associated with assets held for sale in the consolidated statement of financial position as at 31 March 2010. No impairment loss was recognised on initial classification of the disposal as held for sale.

As at 31 March 2010, the Group received HK$5,000,000 from Hunan Fangsheng as a deposit for the disposal of Hunan Xiangya.

The major classes of assets and liabilities of Hunan Xiangya classified as held for sale are as follows:

| | 2010<br>HK$'000 |
|---|---|
| Property, plant and equipment | 23,205 |
| Prepaid lease payments | 1,103 |
| Other intangible assets | 2,156 |
| Inventories | 5,000 |
| Trade and other receivables | 4,467 |
| Bank balances and cash | 2,885 |
| Assets classified as held for sale | 38,816 |
| Trade and other payables | 7,528 |
| Bank borrowings | 171 |
| Advances from minority shareholders | 3,314 |
| Amounts due to group companies | 18,394 |
| | 29,407 |
| Less: Amounts due to group companies eliminated on consolidation | (18,394) |
| Liabilities associated with assets classified as held for sale | 11,013 |

## 28. TRADE AND OTHER PAYABLES

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Trade payables | **27,963** | 25,762 |
| Other payables | **42,226** | 34,452 |
| | **70,189** | 60,214 |
| Less: Amounts classified as liabilities associated with assets classified as held for sale (note 27) | **(7,528)** | — |
| | **62,661** | 60,214 |

The aged analysis of trade payables presented based on the invoice date is as follows. The analysis includes those classified as part of a disposal group held for sale.

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| 0 – 30 days | **16,589** | 12,610 |
| 31 – 60 days | **8,681** | 9,704 |
| 61 – 120 days | **1,754** | 1,766 |
| Over 120 days | **939** | 1,682 |
| | **27,963** | 25,762 |

The credit period on purchase of goods is 30 - 60 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

At the end of the reporting period, the trade and other payables that are denominated in currencies, other than the functional currencies of respective group entities, are set out below:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| RMB | **3,886** | 4,903 |
| USD | **605** | 69 |
| HK$ | **1,815** | 67 |
| AUD | **10** | 20 |

## 29. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable under finance leases: | | | | |
| Within one year | **–** | 11 | **–** | 9 |
| Less: Future finance charges | **–** | (2) | **–** | – |
| Present value of lease obligations | **–** | 9 | **–** | 9 |
| Less: Amount due within one year shown under current liabilities | | | **–** | (9) |
| Amount due after one year | | | **–** | – |

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is three years. For the year ended 31 March 2010, the effective borrowing rate is 7.1% (2009: 7.1%) 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.

## 30. BANK BORROWINGS

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Secured | 47,221 | 62,460 |
| Unsecured | 1,403 | 924 |
| | 48,624 | 63,384 |
| Less: Amounts classified as liabilities associated with assets held for sale (note 27) | (171) | — |
| | 48,453 | 63,384 |
| The above bank borrowings are repayable as follows: | | |
| On demand or within one year | 11,953 | 16,202 |
| More than one year, but not exceeding two years | 9,600 | 10,682 |
| More than two years, but not exceeding five years | 26,900 | 25,800 |
| More than five years | — | 10,700 |
| | 48,453 | 63,384 |
| Less: Amount due within one year shown under current liabilities | (11,953) | (16,202) |
| Amount due after one year | 36,500 | 47,182 |

Details of assets that have been pledged as collateral to secure borrowings are disclosed in note 41.

During the year, the Group obtained new bank loans in an amount of approximately HK$3.3 million (2009: approximately HK$60.4 million). These loans carry interest at 1.58% to 7.25% (2009: 2.95% to 7.25%) per annum. The proceeds were used to finance the acquisition of property, plant and equipment and as general working capital purpose of the Group.

## 30. BANK BORROWINGS *(continued)*

Details of bank borrowings including those classified as part of a disposal group held for sale are as follows:

| | Maturity date | Effective interest rate per annum 2010 | Effective interest rate per annum 2009 | Carrying amount 2010 HK$'000 | Carrying amount 2009 HK$'000 |
|---|---|---|---|---|---|
| Fixed-rate borrowing: | | | | | |
| 6.37% secured RMB loan (1) | April 2010 | **6.37%** | 6.37% | **171** | 1,710 |
| Variable-rate borrowings: | | | | | |
| 3-month HIBOR plus 1.45% (2009: 2.25%) secured HK$ loan (2) | July 2014 | **1.58%** | 3.09% | **25,050** | 28,450 |
| 3-month HIBOR plus 1.45% (2009: 2.25%) secured HK$ loan (3) | July 2013 | **1.58%** | 3.10% | **21,000** | 27,000 |
| 3-month HIBOR plus 1.45% (2009: 2.25%) secured HK$ loan (4) | May 2010 | **1.58%** | 2.95% | **1,000** | 5,000 |
| Bank's cost of funds plus 3.0% SGD unsecured loan (5) Δ | July 2010 | **3.92%** | – | **1,403** | – |
| Singapore prime rate plus 1.75% SGD unsecured loan | April and May 2009 | **7.25%** | 7.25% | **–** | 924 |
| 3-month HIBOR plus 2.25% secured HK$ loan | September 2009 | **3.03%** | 3.03% | **–** | 300 |
| | | | | **48,624** | 63,384 |

(1) Repayable half-yearly in 5 years commencing on October 2005 to April 2010.

(2) Repayable in thirty-three instalments commencing on April 2006 to July 2014.

(3) Repayable in twenty instalments commencing on June 2008 to July 2013.

(4) Repayable in eight instalments commencing on February 2006 to May 2010.

(5) Repayable in four instalments commencing on August 2009 to July 2010.

Δ New bank loans obtained during the year.

## 31. DEFERRED FRANCHISE INCOME

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| At the beginning of the year | **98** | 113 |
| Additions during the year | **90** | 100 |
| Recognised during the year | **(170)** | (115) |
| At the end of the year | **18** | 98 |
| Less: Amount due within one year shown under current liabilities | **(18)** | (98) |
| | **–** | – |

## 32. LOANS FROM A SHAREHOLDER

As at 31 March 2009, the amount represented short term loans drawn from the loan facility granted by Rich Time, a shareholder of the Company. Details of the loan facility are disclosed in note 45. The amounts are unsecured, carry interest at the prime rate as quoted by The Hongkong and Shanghai Banking Corporation Limited and repayable within one year. The loans were fully repaid during the year ended 31 March 2010.

The effective interest rate during the year was 5% (2009: 5%) per annum.

## 33. ADVANCES FROM MINORITY SHAREHOLDERS OF A SUBSIDIARY

As at 31 March 2010, advances from minority shareholders of a subsidiary amounting to approximately HK$3,314,000 were included in liabilities associated with assets classified as held for sale (note 27). The advances were unsecured, interest bearing at a fixed rate of 7.02% per annum and repayable on demand.

As at 31 March 2009, the advances were unsecured and repayable on demand. Except for HK$3,168,000 which bore interest at a fixed rate of 7.02% per annum, the remaining balance was non-interest bearing.

## 34. 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$'000 | Allowance for bad and doubtful debts HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 April 2008 | 1,828 | (1,091) | 737 |
| Credit to profit or loss | (424) | (536) | (960) |
| Effect of change in tax rate | (102) | 62 | (40) |
| Exchange adjustment | (5) | — | (5) |
| At 31 March 2009 and 1 April 2009 | 1,297 | (1,565) | (268) |
| (Credit) charge to profit or loss | (3,041) | 261 | (2,780) |
| Exchange adjustment | 5 | — | 5 |
| At 31 March 2010 | (1,739) | (1,304) | (3,043) |

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Deferred tax assets | **(3,291)** | (378) |
| Deferred tax liabilities | **248** | 110 |
| | **(3,043)** | (268) |

At the end of the reporting period, the Group had unused tax losses of approximately HK$124,039,000 (2009: approximately HK$123,379,000) available to offset against future profits, of which approximately HK$120,578,000 (2009: approximately HK$119,896,000) has not yet been agreed by the Hong Kong Inland Revenue Department. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$8,783,000 (2009: approximately HK$20,438,000) in respect of accelerated accounting depreciation and allowance for bad and doubtful debts. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 35. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 31 March 2009 and 31 March 2010 | 60,000,000,000 | 600,000 |
| Issued and fully paid: | | |
| At 1 April 2008 | 1,675,347,688 | 16,754 |
| Issue of shares (Note a) | 335,004,000 | 3,350 |
| At 31 March 2009 and 1 April 2009 | 2,010,351,688 | 20,104 |
| Issue of shares (Note b) | 402,000,000 | 4,020 |
| Issue in consideration for the acquisition of additional interests in LeRoi (note 18 (b)) | 3,659,587,500 | 36,595 |
| **At 31 March 2010** | **6,071,939,188** | **60,719** |

Notes:

(a) On 7 May 2008, the Company, Rich Time and Kingston Securities Limited ("Kingston"), a placing agent, entered into a placing and subscription agreement pursuant to which (i) Rich Time agreed to place, through Kingston, on a best effort basis, 335,004,000 shares of the Company to independent placees at a price of HK$0.165 per share; and (ii) Rich Time conditionally agreed to subscribe for an aggregate of 335,004,000 shares at a price of HK$0.165 per share. Such transactions were completed on 19 May 2008.

These shares were issued under the general mandate granted to the directors of the Company on 30 August 2007. The issued price of HK$0.165 represented a discount of approximately 11.76% to the closing price of HK$0.187 on 7 May 2008. The net proceeds of approximately HK$53.6 million from the placing and subscription were used for expansion of retail network in the PRC and Hong Kong, repayment of interest bearing loans and as general working capital for the Group.

(b) On 11 May 2009, the Company, Rich Time and Kingston entered into a placing and subscription agreement pursuant to which (i) Rich Time agreed to place, through Kingston, on a best effort basis, 165,000,000 shares of the Company to independent placees at a price of HK$0.088 per share; and (ii) Rich Time conditionally agreed to subscribe for an aggregate of 165,000,000 shares at a price of HK$0.088 per share. Such transactions were completed on 21 May 2009.

In addition, the Company and Kingston entered into a placing agreement pursuant to which the Company agreed to allot and issue, through Kingston, on a best effort basis, 237,000,000 shares of the Company to independent placees at a price of HK$0.088 per share. Such transaction was completed on 26 May 2009.

These shares were issued under the general mandate granted to the directors of the Company on 27 August 2008. The issued price of HK$0.088 represented a discount of approximately 17.76% to the closing price of HK$0.107 on 11 May 2009. The net proceeds of approximately HK$33.8 million from the above placing and subscription were used for the repayment of interest bearing loans and as general working capital for the Group.

All the ordinary shares issued for the years ended 31 March 2010 and 2009 rank *pari passu* with the then existing ordinary shares in all respects.

# 36. SHARE OPTION SCHEME

**2004 Scheme**

On 18 September 2003, the Company adopted a share option scheme (the "2004 Scheme") for the primary purpose of providing incentives to selected eligible persons as detailed in the 2004 Scheme 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 18 September 2013, the board of directors of the Company may grant options to directors and eligible employees of the Company or its subsidiaries to subscribe for shares in the Company at a consideration equal to the higher of the closing price of the shares of the Company on the Stock Exchange at the date of offer of grant and the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the options.

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

The maximum number of shares of the Company in respect of which options may be granted, when aggregated with any other share option scheme of the Company, shall not exceed 30% 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 10% of the shares in issue as at the date of adoption of the 2004 Scheme or as refreshed 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 in any 12-month period is not permitted to exceed 1% of the aggregate number of shares for the time being issued and issuable under the 2004 Scheme.

## 36. SHARE OPTION SCHEME *(continued)*

The following tables disclose movements of the Company's share options granted under the 2004 Scheme during the year ended 31 March 2010:

| Date of grant | Exercise price per share HK$ | Exercisable period | Number of options: Outstanding at 1.4.2009 | Lapsed during the year | Outstanding at 31.3.2010 |
|---|---|---|---|---|---|
| Director | | | | | |
| Tang Mui Fun | | | | | |
| 3.1.2007 | 0.415 | 2.1.2008 to 1.1.2012 | 650,000 | – | **650,000** |
| 2.1.2008 | 0.226 | 2.1.2009 to 1.1.2013 | 650,000 | – | **650,000** |
| 8.1.2009 | 0.145 | 8.1.2010 to 7.1.2019 | 650,000 | – | **650,000** |
| | | | 1,950,000 | – | **1,950,000** |
| Employees | | | | | |
| 3.1.2007 | 0.415 | 2.1.2008 to 1.1.2012 | 3,070,000 | (320,000) | **2,750,000** |
| 2.1.2008 | 0.226 | 2.1.2009 to 1.1.2013 | 5,450,000 | (1,160,000) | **4,290,000** |
| 8.1.2009 | 0.145 | 8.1.2010 to 7.1.2019 | 7,110,000 | (1,360,000) | **5,750,000** |
| | | | 15,630,000 | (2,840,000) | **12,790,000** |
| | | | 17,580,000 | (2,840,000) | **14,740,000** |
| Exercisable at the end of the year | | | 4,062,000 | | **8,284,000** |
| Weighted average exercise price | | | HK$0.230 | HK$0.209 | **HK$0.234** |

## 36. SHARE OPTION SCHEME *(continued)*

The following tables disclose movements of the Company's share options granted under the 2004 Scheme during the year ended 31 March 2009:

| | | | Number of options | | | |
|---|---|---|---|---|---|---|
| Date of grant | Exercise price per share HK$ | Exercisable period | Outstanding at 1.4.2008 | Granted during the year | Lapsed during the year | Outstanding at 31.3.2009 |
| Director | | | | | | |
| Tang Mui Fun | | | | | | |
| 3.1.2007 | 0.415 | 2.1.2008 to 1.1.2012 | 650,000 | – | – | 650,000 |
| 2.1.2008 | 0.226 | 2.1.2009 to 1.1.2013 | 650,000 | – | – | 650,000 |
| 8.1.2009 | 0.145 | 8.1.2010 to 7.1.2019 | – | 650,000 | – | 650,000 |
| | | | 1,300,000 | 650,000 | – | 1,950,000 |
| Employees | | | | | | |
| 3.1.2007 | 0.415 | 2.1.2008 to 1.1.2012 | 3,470,000 | – | (400,000) | 3,070,000 |
| 2.1.2008 | 0.226 | 2.1.2009 to 1.1.2013 | 5,850,000 | – | (400,000) | 5,450,000 |
| 8.1.2009 | 0.145 | 8.1.2010 to 7.1.2019 | – | 7,110,000 | – | 7,110,000 |
| | | | 9,320,000 | 7,110,000 | (800,000) | 15,630,000 |
| | | | 10,620,000 | 7,760,000 | (800,000) | 17,580,000 |
| Exercisable at the end of the year | | | 1,236,000 | | | 4,062,000 |
| Weighted average exercise price | | | HK$0.299 | HK$0.145 | HK$0.321 | HK$0.230 |

## 36. SHARE OPTION SCHEME *(continued)*

Details of specific categories of share options are as follows:

| Date of grant | Number of options granted | Exercise price HK$ | Vesting period | Exercise period |
|---|---|---|---|---|
| 8 January 2009 | 2,328,000 | 0.145 | 8 January 2009 to 7 January 2010 | 8 January 2010 to 7 January 2019 |
| 8 January 2009 | 2,328,000 | 0.145 | 8 January 2009 to 7 January 2011 | 8 January 2011 to 7 January 2019 |
| 8 January 2009 | 3,104,000 | 0.145 | 8 January 2009 to 7 January 2012 | 8 January 2012 to 7 January 2019 |
| | 7,760,000 | | | |
| 2 January 2008 | 1,950,000 | 0.226 | 2 January 2008 to 1 January 2009 | 2 January 2009 to 1 January 2013 |
| 2 January 2008 | 1,950,000 | 0.226 | 2 January 2008 to 1 January 2010 | 2 January 2010 to 1 January 2013 |
| 2 January 2008 | 2,600,000 | 0.226 | 2 January 2008 to 1 January 2011 | 2 January 2011 to 1 January 2013 |
| | 6,500,000 | | | |
| 3 January 2007 | 1,236,000 | 0.415 | 3 January 2007 to 1 January 2008 | 2 January 2008 to 1 January 2012 |
| 3 January 2007 | 1,236,000 | 0.415 | 3 January 2007 to 1 January 2009 | 2 January 2009 to 1 January 2012 |
| 3 January 2007 | 1,648,000 | 0.415 | 3 January 2007 to 1 January 2010 | 2 January 2010 to 1 January 2012 |
| | 4,120,000 | | | |

For the years ended 31 March 2010 and 31 March 2009, no share options were exercised.

The options granted under the 2004 Scheme vest as follows:

| | |
|---|---|
| On 1st anniversary of the date of grant | 30% vest |
| On 2nd anniversary of the date of grant | Further 30% vest |
| On 3rd anniversary of the date of grant | Remaining 40% vest |

During the year ended 31 March 2010, no share options were granted.

During the year ended 31 March 2009, 7,760,000 units of share options were granted on 8 January 2009, where the share price of the Company's share at the date immediately before the date of grant was HK$0.142. The estimated fair value of the options granted was approximately HK$645,000.

## 36. SHARE OPTION SCHEME *(continued)*

These fair values were calculated by using the binomial model. The inputs into the model are as follows:

| | |
|---|---|
| Grant date | 8 January 2009 |
| Share price | HK$0.142 |
| Exercise price | HK$0.145 |
| Expected volatility | 96% |
| Risk-free rate | 1.38% |
| Expected dividend yield | 0% |
| Sub optimal early exercise factor | 1.5 times |
| Expected life | 10 years |

Expected volatility for the share options granted during the year ended 31 March 2009 was determined by using the historical volatility of the closing price of the shares of the Company over the previous ten years. Based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations, a 10-year expected life was applied in the model.

The binomial model had been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options were based on the directors' best estimate. The value of an option varied with different variables of certain subjective assumptions.

The Group recognised the total expense of approximately HK$603,000 (2009: approximately HK$813,000) for the year ended 31 March 2010 in relation to share options granted by the Company.

## 37. ACQUISITION OF SUBSIDIARIES

On 31 July 2009, the Group acquired an additional 49.9% equity interest in Lucky Planning Limited ("Lucky Planning") for a cash consideration of HK$350,000. Lucky Planning then became a non-wholly-owned subsidiary of the Group. Lucky Planning engages in retailing of Chinese pharmaceutical and health food products. This acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was HK$237,000.

On 1 April 2008, the Group acquired an additional 49.9% equity interest in Chinese Leading Limited ("Chinese Leading") for a cash consideration of HK$1,200,000. Chinese Leading then became a non-wholly-owned subsidiary of the Group. Chinese Leading engages in retailing of Chinese pharmaceutical and health food products. This acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was HK$241,000.

## 37. ACQUISITION OF SUBSIDIARIES *(continued)*

The fair values of the identifiable assets and liabilities of Lucky Planning and Chinese Leading acquired during the year ended 31 March 2010 and 2009, respectively, are not significantly different from their respective carrying amounts determined in accordance with HKFRSs immediately before the combination. The effect of the acquisition is summarised below:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Net assets acquired: | | |
| Property, plant and equipment | – | 1 |
| Tax recoverable | – | 40 |
| Inventories | – | 1,617 |
| Trade and other receivables | 193 | 565 |
| Bank balances and cash | 48 | 100 |
| Trade and other payables | (15) | (405) |
| Amounts due to shareholders | – | (600) |
| | 226 | 1,318 |
| Less: Carrying amount of interests in associates | (113) | (659) |
| Reclassify from amounts due from associates | – | 300 |
| | 113 | 959 |
| Goodwill | 237 | 241 |
| | 350 | 1,200 |
| Satisfied by: | | |
| Cash consideration paid | 350 | – |
| Prepayment for acquisition of interest in an associate | – | 1,200 |
| | 350 | 1,200 |
| Net cash (outflow) inflow arising on acquisition: | | |
| Cash consideration paid | (350) | – |
| Cash and cash equivalents acquired | 48 | 100 |
| | (302) | 100 |

On 1 April 2008, the Group acquired 99.79% equity interest in深圳市延養堂醫藥有限公司(「延養堂」)for a cash consideration of approximately HK$218,000 (equivalent to RMB 200,000). The acquisition has been accounted for using the purchase method. The amount of discount on acquisition arising from the acquisition was HK$691,000.

On 1 April 2008, the Group acquired 99.79% equity interest in深圳市衡潤堂貿易有限公司(「衡潤堂」)for a cash consideration of approximately HK$2,180,000 (equivalent to RMB 2,000,000). The acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was HK$205,000.

## 37. ACQUISITION OF SUBSIDIARIES *(continued)*

The fair values of the identifiable assets and liabilities of the above subsidiaries acquired during the year are not significantly different from their respective carrying amounts determined in accordance with HKFRSs immediately before the combination. Details of the identifiable assets and liabilities acquired are summarised as below:

| | | 2009 | |
|---|---|---|---|
| | 延養堂<br>HK$'000 | 衡潤堂<br>HK$'000 | Total<br>HK$'000 |
| Net assets acquired: | | | |
| Property, plant and equipment | 225 | 70 | 295 |
| Inventories | 2,906 | — | 2,906 |
| Trade and other receivables | 2,085 | 1,556 | 3,641 |
| Bank balances and cash | 134 | 362 | 496 |
| Trade and other payables | (4,441) | (13) | (4,454) |
| | 909 | 1,975 | 2,884 |
| Goodwill | — | 205 | 205 |
| Discount on acquisition | (691) | — | (691) |
| | 218 | 2,180 | 2,398 |
| Satisfied by: | | | |
| Cash consideration paid | 218 | 2,180 | 2,398 |
| Net cash (outflow) inflow arising on acquisition: | | | |
| Cash consideration paid | (218) | (2,180) | (2,398) |
| Cash and cash equivalents acquired | 134 | 362 | 496 |
| | (84) | (1,818) | (1,902) |

## 37. ACQUISITION OF SUBSIDIARIES *(continued)*

Details of the aggregate assets and liabilities acquired during the current and prior years in respect of the acquisition of the above subsidiaries are summarised as below:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Property, plant and equipment | **–** | 296 |
| Inventories | **–** | 4,523 |
| Tax recoverable | **–** | 40 |
| Trade and other receivables | **193** | 4,206 |
| Bank balances and cash | **48** | 596 |
| Trade and other payables | **(15)** | (4,859) |
| Amounts due to shareholders | **–** | (600) |
| | **226** | 4,202 |
| Less: Carrying amount of interests in associates | **(113)** | (659) |
| Reclassify from amounts due from associates | **–** | 300 |
| | **113** | 3,843 |
| Goodwill | **237** | 446 |
| Discount on acquisition | **–** | (691) |
| | **350** | 3,598 |
| Satisfied by: | | |
| Cash consideration paid | **350** | 2,398 |
| Prepayment for acquisition of interest in an associate | **–** | 1,200 |
| | **350** | 3,598 |
| Net cash (outflow) inflow arising on acquisition: | | |
| Cash consideration paid | **(350)** | (2,398) |
| Cash and cash equivalents acquired | **48** | 596 |
| | **(302)** | (1,802) |

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 ended 31 March 2010 contributed HK$nil (2009: approximately HK$25,323,000) to the Group's revenue and a loss of approximately HK$1,000 (2009: approximately HK$1,163,000) to the Group's profit before taxation for the period between the respective dates of acquisition and the end of the reporting period.

## 37. ACQUISITION OF SUBSIDIARIES *(continued)*

If the acquisition had been completed on 1 April 2009, the total Group revenue for the year would have been approximately HK$529,305,000 (2009: approximately HK$496,151,000) and profit for the year would have been approximately HK$45,030,000 (2009: loss for the year of approximately HK$345,942,000). This pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that would actually have been achieved had the acquisitions been completed on 1 April 2009 and 2008, nor is it intended to be a projection of future results.

## 38. DISPOSAL OF A SUBSIDIARY

On 21 July 2008, the Group disposed of its entire 72.86% interests in April Full Limited ("April Full") to an independent third party at a cash consideration of HK$2,000,000. In addition, pursuant to the agreement, the Group agreed to waive amounts due from April Full amounting to approximately HK$3,904,000 as part of the consideration.

The net liabilities of April Full at the date of disposal were as follows:

| | 2009<br>HK$'000 |
|---|---|
| Net liabilities disposed of: | |
| Bank balance and cash | 2 |
| Other payables | (181) |
| Amounts due to the Group | (3,904) |
| | (4,083) |
| Release of translation reserve | (439) |
| Waiver of amounts due from April Full | 3,904 |
| Minority interest | (18) |
| Gain on disposal | 2,636 |
| Total consideration | 2,000 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 2,000 |
| Bank balances and cash disposed of | (2) |
| | 1,998 |

The impact of the disposal of April Full on the Group's result and cash flow in the year ended 31 March 2009 was insignificant.

## 39. MAJOR NON-CASH TRANSACTIONS

(a) As detailed in note 18(b), the Company acquired 1,463,835,000 ordinary shares of LeRoi by issuing 3,659,587,500 shares of the Company.

(b) As detailed in note 21, the Group advanced a loan of HK$190,000,000 to LeRoi upon its redemption of LeRoi Note of HK$190,000,000.

## 40. RETIREMENT BENEFIT PLANS

The Group participates in 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 Occupational Retirement Scheme Ordinance Scheme prior to the establishment of the MPF Scheme were switched 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 (save for a director of the Company), which contribution is matched by the employees.

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$5,983,000 (2009: approximately HK$6,387,000) charged to consolidated statement of comprehensive income represents contributions paid and payable to these schemes by the Group in respect of the current accounting year. As at 31 March 2010, contributions of approximately HK$296,000 (2009: approximately HK$182,000) due in respect of the reporting period had not been paid over to the schemes.

## 41. PLEDGE OF ASSETS

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Prepaid lease payments | **91,531** | 94,005 |
| Buildings (Note) | **7,509** | 9,366 |
| | **99,040** | 103,371 |

Note: The amount for the year ended 31 March 2010 includes those classified as part of a disposal group held for sale.

## 42. CAPITAL COMMITMENTS

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **603** | 1,433 |

## 43. OPERATING LEASES

**The Group as lessee:**

The Group made minimum lease payments of approximately HK$60,427,000 (2009: approximately HK$60,114,000) under operating leases during the year in respect of its office properties and retail shops.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Within one year | 58,937 | 48,346 |
| In the second to fifth year inclusive | 74,653 | 76,909 |
| Over five years | 26,320 | 39,480 |
| | 159,910 | 164,735 |

Leases are negotiated for a term ranging from one to ten years. Certain leases have contingent rental payable which are based on turnover of the relevant retail shops. The contingent rent paid for the year is approximately HK$7,038,000 (2009: approximately HK$4,856,000).

**The Group as lessor:**

Property rental income earned during the year was approximately HK$3,061,000 (2009: approximately HK$2,477,000).

At the end of the reporting period, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Within one year | 1,680 | 480 |
| In the second to fifth year inclusive | 2,100 | — |
| | 3,780 | 480 |

## 44. EVENTS AFTER THE REPORTING PERIOD

(a) On 12 April 2010, the Company and Kingston entered into a placing agreement pursuant to which the Company has conditionally agreed to place, through Kingston, on a best effort basis, up to 1,200,000,000 shares of the Company to not fewer than six independent placees at a price of HK$0.053 per share. Details of the placing agreement are set out in the Company's announcement dated 12 April 2010. The transaction has been completed on 22 April 2010.

These shares were issued under the general mandate granted to the directors of the Company at a special general meeting of the Company held on 2 February 2010. The net proceeds of approximately HK$61.5 million from the placing agreement will be used for repayment of interest bearing debts, expansion of the Group's Chinese and Western health food and pharmaceutical businesses (including, if and when attractive opportunities arise, the acquisition of appropriate retail premises for use by the Group's retail network) and as general working capital of the Group.

## 44. EVENTS AFTER THE REPORTING PERIOD *(continued)*

(b) On 12 May 2010, 9,450,000 share options were granted to a director and eligible employees of the Group pursuant to the 2004 Scheme. The share options were accepted by the grantees on or before 11 June 2010 except for 1,000,000 share options granted to a director. Holders of the share options are entitled to subscribe for ordinary shares of the Company at an exercise price of HK$0.052 per share. The options are exercisable during the period from 12 May 2011 to 11 May 2020 upon expiration of the respective vesting periods as set out in note 36.

(c) On 15 May 2010, the Group entered into a provisional sale and purchase agreement with independent third parties for the purchase of an investment property located in Hip Wo Street, Kowloon, Hong Kong, at a cash consideration of HK$34.5 million. The acquisition was completed on 30 June 2010. Details of the property acquisition are set out in the Company's announcement dated 18 May 2010.

## 45. RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. 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 end of the reporting period, are as follows:

| Nature of related party | | Transactions | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|---|
| (i) | Wang On and its subsidiaries (Note a) # | Loan facility granted to the Group (Note b) | **—** | 30,000 |
| | | Rental received by the Group | **1,740** | 1,920 |
| | | Rental paid by the Group | **4,080** | 2,280 |
| | | Management fee paid by the Group | **996** | 996 |
| | | Loan interest paid by the Group | **712** | 456 |
| | | Sales of pharmaceutical products by the Group | **602** | 194 |
| (ii) | China Agri-Products Exchange Limited # | Rental received by the Group | **225** | — |
| | | Sales of Chinese pharmaceutical products by the Group | **3,412** | — |
| (iii) | Associates | Loan facility granted by the Group | **—** | 35,000 |
| | | Sales of Chinese pharmaceutical products by the Group | **15,503** | 15,259 |
| | | Effective interest income on an unlisted note received by the Group | **6,150** | 10,019 |
| | | Rental received by the Group | **476** | 476 |
| | | Effective interest income on loans received by the Group | **6,348** | 66 |
| | | Management and promotion fees received by the Group | **1,173** | 1,179 |

# Mr. Chan Chun Hong, Thomas, a director of the Company, is also the chairman of China Agri-Products Exchange Limited and the managing director of Wang On Group Limited, companies listed on the Stock Exchange.

## 45. RELATED PARTY DISCLOSURES *(continued)*

Notes:

(a) As at 31 March 2009, Rich Time, a subsidiary of Wang On Group Limited, held 26.21% shareholding in the Company and was a substantial shareholder which was in a position to exercise significant influence over the Group. Upon completion of the Share Exchange Offer on 18 November 2009, the shareholding of the Company held by Rich Time was reduced to 8.68%. Since then, Rich Time ceased to exercise significant influence over the Group and remained as a shareholder of the Company.

(b) In November 2008, an unsecured loan facility with a limit of up to HK$30,000,000 was granted to the Group by Rich Time. Such loan is interest bearing at prime rate as quoted by the Hongkong and Shanghai Banking Corporation Limited. The loan obtained from Rich Time amounting to HK$25,000,000 as at 31 March 2009 was fully repaid during the year ended 31 March 2010.

### Compensation of key management personnel

The remunerations of key management, which comprises directors only, during the year are as follows:

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Short-term benefits | **3,676** | 3,892 |
| Post-employment benefits | **60** | 60 |
| Share-based payment | **64** | 107 |
| | **3,800** | 4,059 |

The above remunerations were 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 end of the reporting period are set out in the consolidated statement of financial position and notes 20, 21, 24, 32 and 33.

## 46. LOSS OF THE COMPANY FOR THE YEAR

The loss of the Company for the year ended 31 March 2010 is approximately HK$1,140,000 (2009: approximately HK$20,360,000).

## 47. PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2010 and 2009 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Paid up issued ordinary share capital | Proportion of issued share capital held by the Company: Directly 2010 | Directly 2009 | Indirectly 2010 | Indirectly 2009 | Principal activity |
|---|---|---|---|---|---|---|---|
| Asia Brighter Investment Limited | Hong Kong | HK$1 Ordinary share | – | – | 100.00% | 100.00% | Property investment |
| Billion Good Investment Limited | Hong Kong | HK$2 Ordinary share | – | – | 99.79% | 99.79% | Property holding |
| CNT Health Food Pte Limited | Singapore | Singapore $1,694,737 Ordinary share | – | – | 95.00% | 95.00% | Production and sale of Chinese health food |
| China Field Enterprises Limited | Hong Kong | HK$25,000 Ordinary share | – | – | 81.00% | 81.00% | Investment holding |
| Richest Ever Limited | Hong Kong | HK$2 Ordinary share | – | – | 99.79% | 99.79% | Trading of Chinese pharmaceutical products |
| Hunan Xiangya # | PRC | RMB29,225,000 Paid-up capital | – | – | 52.00% | 52.00% | Production and sale of Western pharmaceutical products |
| Luxembourg Medicine Company Limited | Hong Kong | HK$434,747 Ordinary share | – | – | 99.79% | 99.79% | Production and sale of Western pharmaceutical and health food products |
| Total Smart Investments Limited | British Virgin Islands | USD1 Ordinary share | 100.00% | 100.00% | – | – | Investment holding |
| Wai Yuen Tong (Retail) Limited | Hong Kong | HK$2 Ordinary share | – | – | 99.79% | 99.79% | Retail and sale of Chinese pharmaceutical and health food products |
| Wai Yuen Tong Medicine Company Limited ("WYT Medicine Company") | Hong Kong | HK$217,374 Ordinary share HK$17,373,750 non-voting deferred * | – | – | 99.79% | 99.79% | Production and sale of Chinese pharmaceutical and health food products |
| Lucky Planning Δ | Hong Kong | HK$700,000 Ordinary share | – | – | 99.79% | 49.90% | Retailing of Chinese pharmaceutical and health food products |
| 延養堂 | PRC | RMB4,435,801 Paid-up capital | – | – | 99.79% | 99.79% | Retail and sale of Chinese pharmaceutical and health food products |

## 47. PRINCIPAL SUBSIDIARIES *(continued)*

* The non-voting deferred shares carry no voting rights or rights to dividends. On the winding-up of the WYT Medicine 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.

\# Sino-foreign equity joint venture established in the PRC.

Δ On 31 July 2009, the Group acquired an additional 49.90% of the issued share capital of Lucky Planning. Since then, Lucky Planning became a non-wholly-owned subsidiary of the Group.

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

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

## 48. PARTICULARS OF ASSOCIATES

Details of the Group's principal associates at 31 March 2010 and 2009 are as follows:

| Name of associate | Form of business structure | Place of incorporation/ operation | Class of shares held | Attributable proportion of nominal value of issued share capital indirectly held by the Company 2010 | 2009 | Principal activity |
|---|---|---|---|---|---|---|
| Creation Sino Limited | Incorporated | Hong Kong | Ordinary | **49.90%** | 49.90% | Retailing of Chinese pharmaceutical and health food products |
| Fortune Way Trading Limited | Incorporated | Hong Kong | Ordinary | **49.90%** | 49.90% | Retailing of Chinese pharmaceutical and health food products |
| LeRoi* | Incorporated | Cayman Islands | Ordinary | **49.90%** | 29.97% | Investment holding |
| Winning Forever Limited | Incorporated | Hong Kong | Ordinary | **49.90%** | 49.90% | Retailing of Chinese pharmaceutical and health food products |
| Venko Limited | Incorporated | Hong Kong | Ordinary | **49.90%** | 49.90% | Inactive |

* Listed on the Stock Exchange. The principal activities of its subsidiaries are forestry and logging operations, property development and retailing of fresh pork meat and related produce.

# FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 March 2010

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | **2010<br>HK$'000** |
| Revenue | 324,756 | 381,266 | 477,021 | 496,151 | **529,305** |
| (Loss) profit before taxation | (107,392) | 10,905 | 85,786 | (345,764) | **47,907** |
| Income tax credit (expense) | 1,240 | (982) | (2,404) | (178) | **(2,876)** |
| (Loss) profit for the year | (106,152) | 9,923 | 83,382 | (345,942) | **45,031** |
| Attributable to: | | | | | |
| Owners of the Company | (98,370) | 9,895 | 83,767 | (345,906) | **45,797** |
| Minority interests | (7,782) | 28 | (385) | (36) | **(766)** |
| | (106,152) | 9,923 | 83,382 | (345,942) | **45,031** |

## ASSETS, LIABILITIES AND MINORITY INTERESTS

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | **2010<br>HK$'000** |
| Total assets | 835,983 | 792,911 | 1,158,947 | 753,120 | **1,236,901** |
| Total liabilities | (189,192) | (135,213) | (263,680) | (153,571) | **(131,832)** |
| | 646,791 | 657,698 | 895,267 | 599,549 | **1,105,069** |
| Equity attributable to owners of the Company | 646,712 | 657,591 | 889,001 | 592,736 | **1,098,988** |
| Minority interests | 79 | 107 | 6,266 | 6,813 | **6,081** |
| | 646,791 | 657,698 | 895,267 | 599,549 | **1,105,069** |