THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in **Wai Yuen Tong Medicine Holdings Limited**, you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the bank manager, the licensed securities dealer or other agent through whom the sale or transfer was affected for transmission to the purchaser or the transferee.

WAI YUEN TONG MEDICINE HOLDINGS LIMITED
(位元堂藥業控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

(I) Discloseable Transactions in relation to Disposal and Top-up Subscription of LeRoi Shares
and
(II) Major Transaction in relation to Subscription of New LeRoi Shares and Convertible Bonds

Financial adviser to Wai Yuen Tong Medicine Holdings Limited

CIMB-GK Securities (HK) Limited

A notice convening a special general meeting of the Company to be held at 41/F., Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Thursday, 13 September 2007 at 10:30 a.m. is set out on pages 157 to 159 of this circular. A form of proxy for use at the special general meeting is enclosed. Whether or not you intend to attend the special general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or adjourned meeting, as the case may be. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting, as the case may be, should you so wish.

28 August 2007

* *For identification purpose only*

CONTENTS

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

"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	means a day other than Saturday, Sunday or public holiday in Hong Kong
"CB Subscription"	the subscription of the Convertible Bonds by Gain Better pursuant to the Subscription Agreement
"Company"	Wai Yuen Tong Medicine Holdings Limited, an exempted company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Conversion Price"	HK$0.12 per Conversion Share (subject to adjustments)
"Conversion Share(s)"	new LeRoi Shares falling to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds
"Convertible Bonds"	the Convertible Bonds with an aggregate principal amount of HK$190 million to be issued by LeRoi to Gain Better pursuant to the CB Subscription
"Directors"	the directors of the Company, including the independent non-executive directors of the Company
"Disposal"	the disposal of the Top-up Placing Shares held by Gain Better pursuant to the Top-up Placing
"Gain Better"	Gain Better Investments Limited, a company incorporated in the British Virgin Islands, which is an indirect wholly-owned subsidiary of the Company
"Group"	the Company and its subsidiaries
"HK$" and "HK cents"	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC

"Independent LeRoi Shareholders"	the shareholders of LeRoi, other than the Company and its associates and those (if any) who are required to abstain from voting at the LeRoi EGM in relation to the Subscriptions under the Listing Rules
"Joint Announcement"	the joint announcement dated 7 August 2007 made by the Company and LeRoi containing, among other things, the details of the Top-up Placing and Top-up Subscription, the New Issue Placings, the Subscriptions and the increase in authorized share capital of LeRoi
"Last Trading Day"	27 July 2007, being the last full trading day for the LeRoi Shares prior to the suspension in their trading pending the issue of the Joint Announcement
"Latest Practicable Date"	24 August 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"LeRoi"	LeRoi Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange
"LeRoi Director(s)"	the directors of LeRoi, including the independent non-executive directors of LeRoi
"LeRoi EGM"	an extraordinary general meeting of LeRoi to be convened and held for the purpose of considering and, if thought fit, approving, among other things, the New Issue Placings and the Subscriptions
"LeRoi Group"	LeRoi and its subsidiaries
"LeRoi Share(s)"	the ordinary share(s) of HK$0.01 each in the issued share capital of LeRoi
"LeRoi Shareholder(s)"	holder(s) of LeRoi Shares
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"New Issue Placings"	Tranche I New Issue Placing and Tranche II New Issue Placing, details of which are set out in the Joint Announcement

"New Issue Placing Agreement"	a conditional placing agreement dated 6 August 2007 entered into between LeRoi and the Placing Agent in relation to the New Issue Placings, details of which are set out in the Joint Announcement
"New Issue Placing Price"	HK$0.10 per New Issue Placing Share
"New Issue Placing Share(s)"	new LeRoi Shares to be issued pursuant to the New Issue Placings
"New Issue Subscription"	the subscription of the New Issue Subscription Shares by Gain Better pursuant to the terms of the Subscription Agreement
"New Issue Subscription Price"	HK$0.10 per New Issue Subscription Share
"New Issue Subscription Share(s)"	2,100,000,000 new LeRoi Shares to be issued to Gain Better pursuant to the New Issue Subscription
"Placee(s)"	the individual, institutional or other professional investor(s) procured by the Placing Agent to subscribe for the Top-up Placing Shares pursuant to the obligations of Placing Agent under the Top-up Placing Agreement
"Placing Agent"	Kingston Securities Limited, a licensed corporation to carry on business in types 1, 4, 6 and 9 (dealing in securities, advising on securities and corporate finance and asset management) regulated activities under the SFO
"PRC"	the People's Republic of China, which for the purpose of this circular shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region
"SGM"	a special general meeting of the Company to be convened and held for the purpose of considering and, if thought fit, approving, among other things, the Subscriptions
"Share(s)"	the ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	holders of the Shares
"SFO"	the Securities and Futures Ordinance, (Chapter 571 of the Laws of Hong Kong) as in force, from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriptions"	the CB Subscription and the New Issue Subscription

"Subscription Agreement"	a conditional subscription agreement dated 6 August 2007 entered into between LeRoi and Gain Better in relation to the Subscriptions
"substantial shareholder"	has the meaning ascribed thereto under the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as in force from time to time
"Top-up Placing"	placing of 161,900,000 existing LeRoi Shares, on a fully underwritten basis, by the Placing Agent pursuant to the terms of the Top-up Placing Agreement
"Top-up Placing Agreement"	a conditional placing agreement dated 6 August 2007 entered into between LeRoi, Gain Better and the Placing Agent in relation to the Top-up Placing and the Top-up Subscription
"Top-up Placing Price"	HK$0.265 per Top-up Placing Share
"Top-up Placing Share(s)"	an aggregate of 161,900,000 existing LeRoi Shares held by Gain Better to be placed pursuant to the terms of the Top-up Placing Agreement
"Top-up Subscription"	the subscription of Top-up Subscription Shares by Gain Better pursuant to the terms of the Top-up Placing Agreement
"Top-up Subscription Price"	HK$0.265 per Top-up Subscription Share
"Top-up Subscription Shares"	161,900,000 new LeRoi Shares issued to Gain Better pursuant to the Top-up Subscription
"Tranche I New Issue Placing"	the placing of 4,570,000,000 new LeRoi Shares, on a fully underwritten basis, by the Placing Agent pursuant to the terms of the New Issue Placing Agreement, the details of which are set out in the Joint Announcement
"Tranche I New Issue Placing Share(s)"	4,570,000,000 new LeRoi Shares to be issued pursuant to the Tranche I New Issue Placing, the details of which are set out in the Joint Announcement
"Tranche II New Issue Placing"	the placing of up to 2,000,000,000 new LeRoi Shares, on a best efforts basis, by the Placing Agent pursuant to the terms of the New Issue Placing Agreement, the details of which are set out in the Joint Announcement

"Tranche II New Issue Placing Share(s)"	up to 2,000,000,000 new LeRoi Shares to be issued pursuant to the Tranche II New Issue Placing
"US$"	United States dollar(s), the lawful currency of the United States of America
"%"	per cent.

WAI YUEN TONG MEDICINE HOLDINGS LIMITED
(位元堂藥業控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

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

Independent non-executive Directors:
Mr. Leung Wai Ho
Mr. Yuen Chi Choi
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business:
5th Floor
Wai Yuen Tong Medicine Building
9 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

28 August 2007

To the Shareholders and, for information only, holders of the share options

Dear Sir/Madam,

(I) Discloseable Transactions in relation to Disposal and Top-up Subscription of LeRoi Shares and (II) Major Transaction in relation to Subscription of New LeRoi Shares and Convertible Bonds

INTRODUCTION

On 7 August 2007, the Company published the Joint Announcement with LeRoi in relation to certain fund raising activities proposed to be carried out by LeRoi. The Disposal and the Top-up Subscription constitute discloseable transactions and the Subscriptions constitute major transaction of the Company for the purposes of the Listing Rules.

In the Joint Announcement, the Company has announced, among other things, that LeRoi, Gain Better and the Placing Agent entered into the Top-up Placing Agreement on 6 August 2007, pursuant

* *For identification purpose only*

to which (i) the Placing Agent has agreed to place, on a fully underwritten basis, the Top-up Placing Shares (being 161,900,000 existing LeRoi Shares) held by Gain Better to independent investors at the Top-up Placing Price of HK$0.265 per Top-up Placing Share; and (ii) LeRoi has conditionally agreed to issue and Gain Better has conditionally agreed to subscribe for the Top-up Subscription Shares (being 161,900,000 new LeRoi Shares) at the Top-up Subscription Price of HK$0.265 per Top-up Subscription Share.

In the Joint Announcement, the Company has also announced, among other things, that LeRoi and Gain Better entered into the Subscription Agreement pursuant to which Gain Better has conditionally agreed to subscribe for (i) the New Issue Subscription Shares at the New Issue Subscription Price of HK$0.10 per New Issue Subscription Share; and (ii) the Convertible Bonds which can be exercised and converted into 1,583,333,333 LeRoi Shares at an initial Conversion Price (subject to adjustments) of HK$0.12 per Conversion Share. The Subscriptions are subject to various conditions set out below under the section headed "Conditions of the Subscriptions".

The purpose of this circular is to provide you with (i) details regarding the Disposal, the Top-up Subscription and the Subscriptions; (ii) information about the Group and the LeRoi Group; (iii) the SGM notice; and (iv) other information as required under the Listing Rules.

THE TOP-UP PLACING AGREEMENT

Date 6 August 2007

Issuer LeRoi

Vendor and subscriber

Gain Better is an investment holding company indirectly wholly owned by the Company. Immediately before the Top-up Placing, Gain Better together with parties acting in concert with it held 205,000,000 LeRoi Shares, representing approximately 23.85% of the then existing issued share capital of LeRoi. As at the Latest Practicable Date, the shareholding of Gain Better and parties acting in concert with it in LeRoi has decreased to approximately 20.07% of the issued share capital of LeRoi following completion of the allotment and issue of the Top-up Subscription Shares to Gain Better.

Placing Agent

Kingston Securities Limited

The Placing Agent has confirmed to LeRoi and the Company that it and its ultimate beneficial owners are third parties independent of the Company, LeRoi and their connected persons.

The Placing Agent will receive a placing commission of 2.5% of the gross proceeds of the Top-up Placing pursuant to the terms of the Top-up Placing Agreement, which the Placing Agent has already received following completion of the Top-up Placing. The placing commission was arrived at after arm's length negotiations between LeRoi and the Placing Agent under normal commercial terms and with reference to the prevailing market practice.

The Top-up Placing

Pursuant to the Top-up Placing Agreement, the Placing Agent has agreed to place, on a fully underwritten basis, the Top-up Placing Shares to not less than six Placees and that such Placees and their respective ultimate beneficial owners are third parties independent of and not connected with LeRoi and its connected persons and not acting in concert with the connected persons of LeRoi. None of the individual Placee has become a substantial shareholder of LeRoi immediately after the Top-up Placing.

Each of the Top-up Placing Shares and the Top-up Subscription Shares represent approximately 18.83% of LeRoi's issued share capital immediately before the Top-up Placing and approximately 15.85% of LeRoi's existing issued share capital following completion of the allotment and issue of the Top-up Subscription Shares, respectively.

Completion of the Top-up Placing

Completion of the Top-up Placing is not subject to any condition precedent. As at the date of this circular, the Top-up Placing has already been completed in accordance with the Top-up Placing Agreement.

The Top-up Subscription

Pursuant to the Top-up Placing Agreement, LeRoi has conditionally agreed to issue and Gain Better has conditionally agreed to subscribe for the Top-up Subscription Shares (being 161,900,000 new LeRoi Shares).

Completion of the Top-up Subscription

The Top-up Subscription was completed on 16 August 2007 in accrodance with the Top-up Placing Agreement and the Top-up Subscription Shares have been allotted and issued to Gain Better pursuant to the general mandate granted to LeRoi Directors at the annual general meeting of LeRoi held on 28 August 2006. LeRoi has confirmed to the Company that the Listing Committee has on 15 August 2007 granted the listing of, and permission to deal in, the Top-up Subscription Shares.

As a result of the Top-up Subscription having being completed, LeRoi was responsible for the costs and expenses (including the fees and other payments payable to the Placing Agent) in connection with the Top-up Placing and the Top-up Subscription. After deducting the aforesaid expenses which are estimated to be approximately HK$5.1 million, the net price of each of the Top-up Subscription Share is approximately HK$0.233.

Ranking of Top-up Subscription Shares

The Top-up Subscription Shares rank *pari passu* in all respects with the other LeRoi Shares in issue.

Top-up Placing Price and Top-up Subscription Price

The Top-up Placing Price and the Top-up Subscription Price are the same, being HK$0.265 per LeRoi Share, which represents:

(i) a discount of approximately 10.17% to the closing price of HK$0.295 on the Last Trading Day;

(ii) a discount of approximately 19.94% to the average closing price of HK$0.331 over the last 5 trading days up to and including the Last Trading Day;

(iii) a discount of approximately 19.94% to the average closing price of HK$0.331 over the last 10 trading days up to and including the Last Trading Day;

(iv) a discount of approximately 71.20% to the closing price of HK$0.92 on the Latest Practicable Date; and

(v) a premium of approximately 9,714.81% over the audited net asset value per LeRoi Share (as at 31 March 2007) of approximately HK0.27 cents per LeRoi Share.

The Top-Up Placing Price and the Top-Up Subscription Price were determined with reference to the prevailing market prices of LeRoi Shares and were negotiated on an arm's length basis between LeRoi and the Placing Agent.

THE SUBSCRIPTION AGREEMENT

Date 6 August 2007

Issuer LeRoi

Subscriber Gain Better

The Subscriptions

New Issue Subscription

Pursuant to the Subscription Agreement, Gain Better has conditionally agreed to subscribe for the New Issue Subscription Shares (being 2,100,000,000 new LeRoi Shares) at the New Issue Subscription price of HK$0.10 per New Issue Subscription Share. The aggregate considerations for the New Issue Subscription will be approximately HK$210 million.

The issue of the New Issue Subscription Shares to Gain Better will increase the shareholding of Gain Better and parties acting in concert with it in LeRoi to (i) approximately 29.97% of the issued share capital of LeRoi as enlarged by the Top-up Subscription, the Tranche I New Issue Placing and the New Issue Subscription; and (ii) approximately 23.78% of the issued share capital of LeRoi as enlarged by the Top-up Subscription, the New Issue Placings (assuming the entire 2,000,000,000 Tranche II New Issue Placing Shares are issued pursuant to the Tranche II New Issue Placing) and the New Issue Subscription. You may refer to the Joint Announcement for details regarding the New Issue Placings, the Tranche I New Issue Placing and the Tranche II New Issue Placing.

The New Issue Subscription Price of HK$0.10 per New Issue Subscription Share represents (i) a discount of approximately 66.10% to the closing price of HK$0.295 on the Last Trading Day; (ii) a discount of approximately 69.79% to the average closing price of HK$0.331 over the last 5 trading days up to and including the Last Trading Day; (iii) a discount of approximately 69.79% to the average closing price of HK$0.331 over the last 10 trading days up to and including the Last Trading Day; (iv) a discount of approximately 89.13% to the closing price of HK$0.92 on the Latest Practicable Date; and (v) a premium of approximately 3,603.70% over the audited net asset value per LeRoi Share (as at 31 March 2007) of approximately HK0.27 cents per LeRoi Share.

The New Issue Subscription Price, which is the same as the New Issue Placing Price, was negotiated on arm's length basis between LeRoi and Gain Better and was determined after taking into account (a) the previous financial results and the current financial position of LeRoi; and (b) the market risks assumed by the Company on the fact that the New Issue Subscription is subject to and cannot be completed until approval by the Independent LeRoi Shareholders at the LeRoi EGM, which is expected to take place more than one month from the date of the Subscription Agreement.

CB Subscription

Pursuant to the Subscription Agreement, Gain Better has conditionally agreed to subscribe for the Convertible Bonds with a principal amount of HK$190 million which can be exercised and converted into 1,583,333,333 Conversion Shares at an initial Conversion Price (subject to adjustments) of HK$0.12 per Conversion Share.

The issue of the Conversion Shares (assuming full conversion of the Convertible Bonds), and the New Issue Subscription Shares will increase the shareholding of Gain Better and parties acting in concert with it in LeRoi to approximately 34.49% of the issued share capital of LeRoi as enlarged by the Top-up Subscription, the New Issue Placings (assuming the entire 2,000,000,000 Tranche II New Issue Placing Shares are issued pursuant to the Tranche II New Issue Placing), the New Issue Subscription and the issue of the Conversion Shares (assuming full conversion of the Convertible Bonds).

Principal Terms of the Convertible Bonds

Principal amount	HK$190 million
Coupon rate	3% per annum
Maturity	Fifth anniversary of the issue of the Convertible Bonds upon completion of the CB Subscription
Early Redemption	LeRoi shall be entitled at its discretion, by giving not less than 30 days notice to the holders of the Convertible Bonds, to redeem all (but not some only) outstanding Convertible Bonds at an amount equal to 100 per cent. of the outstanding principal amount at any time after the issue of the Convertible Bonds together with interest accrued to the date fixed for redemption.

Conversion	The holder of the Convertible Bonds will have the right to convert the Convertible Bonds into LeRoi Shares at the Conversion Price. Any conversion shall be made in amounts of not less than a whole multiple of HK$500,000 on each conversion save that if at any time the aggregate outstanding principal amount of the Convertible Bonds is less than HK$500,000, the whole (but not part only) of the outstanding principal amount of the Convertible Bonds may be converted.
Conversion Price	HK$0.12 per Conversion Share, representing: (i) a discount of approximately 59.32% to the closing price of HK$0.295 on the Last Trading Day; (ii) a discount of approximately 63.75% to the average closing price of HK$0.331 in the last 5 trading days prior to the Last Trading Day; (iii) a discount of approximately 63.75% to the average closing price of HK$0.331 in the last 10 trading days prior to the Last Trading Day; (iv) a premium of approximately 20.0% over the New Issue Subscription Price; (v) a discount of approximately 86.96% to the closing price of HK$0.92 on the Latest Practicable Date; and (vi) a premium of approximately 4,344.44% over the audited net asset value per LeRoi Share (as at 31 March 2007) of approximately HK0.27 cents per LeRoi Share. The initial Conversion Price of HK$0.12 per Conversion Share was negotiated on an arm's length basis between LeRoi and Gain Better and was determined with reference to (a) the previous financial results and the current financial position of LeRoi, and (b) the New Issue Subscription Price. The initial Conversion Price is subject to standard anti-dilution adjustment provisions applicable in the event of share consolidation, share subdivision, capitalization issue, capital distribution, rights issue (of shares, options or warrants) or issue of convertible securities or new shares in certain circumstances.
Voting	A holder of Convertible Bonds will not be entitled to receive notice of, attend or vote at any general meeting of LeRoi by reason only of it being a holder of Convertible Bonds.

Listing	No application will be made for the listing of the Convertible Bonds on the Stock Exchange or any other stock exchange. An application has been made by LeRoi to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares (if any) to be issued as a result of the exercise of the conversion rights attached to the Convertible Bonds.
Ranking	The Conversion Shares will rank, upon issue, pari passu in all respects with LeRoi Shares in issue on the date of allotment and issue of the Conversion Shares.
Transferability	Save with the consent of the Stock Exchange, none of the Convertible Bonds shall be transferable to any connected person of LeRoi. Subject to all applicable laws and regulations, the Convertible Bonds may be transferable to any person in whole multiples of HK$500,000 (or such lesser amount as may represent the entire principal amount thereof).

Conditions of the Subscriptions

The Subscriptions are conditional upon:–

(i) the passing by the Independent LeRoi Shareholders by way of a poll at the LeRoi EGM of an ordinary resolution to approve the Subscriptions and the issue of the Conversion Shares upon the exercise of any Convertible Bonds;

(ii) the passing by the Shareholders at the SGM of an ordinary resolution to approve the Subscriptions;

(iii) completion of the Tranche I New Issue Placing;

(iv) the passing of an ordinary resolution by LeRoi Shareholders at the LeRoi EGM to approve an increase in the authorized share capital of LeRoi; and

(v) the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the New Issue Subscription Shares and the Conversion Shares.

If any of the above conditions precedent is not fulfilled or waived by any of the parties to the Subscription Agreement, as the case may be, on or before Wednesday on 31 October 2007 or such later time and date as may be agreed in writing between the parties, the Subscription Agreement shall automatically terminate.

As at the Latest Practicable Date and as far as the Board is aware of, none of the above conditions precedent has been satisfied or waived (as the case may be).

Ranking of the New Issue Subscription Shares and the Conversion Shares

The New Issue Subscription Shares and the Conversion Shares will rank, upon issue, *pari passu* in all respects with the LeRoi Shares in issue on the respective dates of the allotment and issue of the New Issue Subscription Shares and of the Conversion Shares.

Completion of the Subscriptions

Subject to the fulfillment of the conditions set out above which apply to both the New Issue Subscription and the CB Subscription, each of the Subscriptions will be completed at the same time as the other.

SHAREHOLDING STRUCTURE OF LEROI

The table below set out the changes to the shareholding structure of LeRoi as a result of the completion of the Top-Up Placing, the Top-up Subscription, the New Issue Placings, the New Issue Subscription and conversion of the Convertible Bonds in full under different scenarios:

	Immediately before the Top-up Placing		Existing shareholding as at the date of the Latest Practicable Date after completion of the Top-up Subscription		Immediately after completion of the Top-up Subscription, Tranche I New Issue Placing, and New Issue Subscription	
The Company and its associates	205,000,000	23.85%	205,000,000	20.7%	2,305,000,000	29.97%
Public LeRoi Shareholders:						
Placees under:	0	0.00%	161,900,000	15.85%	4,731,900,000	61.52%
Top-up Placing	0	0.00%	161,900,000	15.85%	161,900,000	2.10%
Tranche I New Issue Placing	0	0.00%	0	0.00%	4,570,000,000	59.42%
Tranche II New Issue Placing	0	0.00%	0	0.00%	0	0.00%
Existing public LeRoi Shareholders	654,600,000	76.15%	654,600,000	64.08%	654,600,000	8.51%
Total	859,600,000	100.00%	1,021,500,000	100.00%	7,691,500,000	100.00%

	Immediately after completion of the Top-up Subscription, New Issue Placings (assuming 2,000,000,000 New Issue Placing Shares are issued pursuant to the Tranche II New Issue Placing), and New Issue Subscription		Immediately after completion of the Top-up Subscription, New Issue Placings (assuming 2,000,000,000 Tranche II New Issue Placing Shares are issued pursuant to the Tranche II New Issue Placing), New Issue Subscription, and the issue of the Conversion Shares (assuming full conversion of the Convertible Bonds)		Immediately after completion of the Top-up Subscription, Tranche I New Issue Placing (but assuming no Tranche II New Issue Placing Shares are issued pursuant to the Tranche II New Issue Placing), New Issue Subscription, and the issue of the Conversion Shares (assuming full conversion of the Convertible Bonds)	
The Company and its associates	2,305,000,000	23.78%	3,888,333,333	34.49%	3,888,333,333	41.92%
Public LeRoi Shareholders:						
Placees under:	6,731,900,000	69.47%	6,731,900,333	59.71%	4,731,900,333	51.02%
Top-up Placing	161,900,000	1.67%	161,900,000	1.44%	161,900,000	1.75%
Tranche I New Issue Placing	4,570,000,000	47.16%	4,570,000,000	40.53%	4,570,000,000	49.27%
Tranche II New Issue Placing	2,000,000,000	20.64%	2,000,000,000	17.74%	0	0.00%
Existing public LeRoi Shareholders	654,600,000	6.75%	654,600,000	5.80%	654,600,000	7.06%
Total	9,691,500,000	100.00%	11,274,833,333	100.00%	9,274,833,333	100.00%

The Company will comply with any mandatory offer obligation it may incur under the Takeovers Code arising out of any increase in its shareholding interest in LeRoi as a result of the exercise of the Convertible Bonds.

INFORMATION OF LEROI

LeRoi is principally engaged in the trading of fashion apparel to the PRC market, the sale of fresh pork meat and related products and property holding. Set out below is the audited consolidated financial information of LeRoi as extracted from the annual report of LeRoi for the year ended 31 March 2007:–

	For the year ended 31 March 2007	**For the year ended 31 March 2006**
	HK$'000	*HK$'000*
Revenue	**32,769**	78,833
Net loss before taxation	**44,569**	39,378
Net loss after taxation	**44,575**	39,410
Net loss after taxation attributable to the Company *(Note)*	**8,946**	7,910
Net assets	**2,167**	44,862
Net assets attributable to the Company *(Note)*	**435**	9,004

Note: Based on the Company's 20.07% shareholding interest in LeRoi as at the Latest Practicable Date.

INFORMATION OF THE COMPANY

The Company is principally engaged in (i) the 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; and (ii) the processing and retailing of western pharmaceutical products under the brandname of "Madame Pearl's".

CURRENT INTENTION OF LEROI

As stated in the Joint Announcement, given the continued influx of foreign investments, Vietnam is in the process of rapid urbanization, and currently the local demand for both residential real estate and offices space in the main population centres and areas of employment is outstripping supply. Accordingly, the LeRoi Directors are of the view that the future prospects of the property market of Vietnam are promising and investment in such projects may offer good financial return.

Currently, LeRoi Group is in negotiations regarding several residential and commercial property development the projects in Long An Province and the Binh Phuoc Province, Vietnam. In the meantime, the LeRoi Group is also exploring other possible business opportunities, including property developments in the PRC. If these negotiations can be concluded to the satisfaction of the LeRoi Board, LeRoi currently intends to use up to HK$400 million of the net proceeds raised under the Top-Up Subscription and the New Issue Placing for investment in these residential and commercial property development projects in Vietnam and/or the PRC.

REASONS FOR THE SUBSCRIPTIONS

Given the promising prospects of the Vietnam property market at present, the Directors are of the view that it is beneficial for the Company to maintain a substantial interest in LeRoi so that it may derive economic benefits from the potential of the Vietnam property market. Accordingly, the Directors consider that the Subscriptions, which will enable the Company to increase its shareholding in LeRoi to 29.97% (before conversion of the Convertible Bonds), are in the Company's interest.

The Company intends to finance the Subscriptions by internal resource and/or bank financing.

FINANCIAL EFFECT OF THE SUBSCRIPTION OF THE GROUP

Set out in Appendix III to this circular is the unaudited pro forma financial information of the Group after completion of (i) the Top-up Subscription; (ii) the Tranche I New Issue Placing, New Issue Subscription and the issue of the Convertible Bonds; and (iii) the Tranche II New Issue Placing which illustrates the financial impact of the Subscriptions on 31 March 2007 and on the assets and liabilities of the Group assuming the Subscriptions had taken place on 31 March 2007.

Based on the unaudited pro forma consolidated balance sheet in Appendix III to this circular, the total assets of the Group would increase by approximately 20.61% from HK$792.9 million to HK$956.3 million; its total liabilities would increase by approximately 120.86% from HK$135.2 million to HK$298.6 million; and its net assets would remain unchanged, as a result of the Subscriptions. The Directors consider that the Subscriptions will contribute to the earnings base of the Group but the quantification of such impact will depend on the future performance of LeRoi.

REQUIREMENTS OF THE LISTING RULES

Pursuant to the terms of the Top-up Placing and the Top-up Subscription, the Company will (through its indirect wholly-owned subsidiary, Gain Better) temporarily dispose of part of its shareholding interest in LeRoi. Each of the Disposal and the Top-up Subscription constitutes a discloseable transaction of the Company.

The Subscriptions constitute a major transaction of the Company and are subject to the approval of the Shareholders at the SGM. You should note that the Top-up Placing and the Top-up Subscription are not subject to Shareholders approval under the Listing Rules, and accordingly, the Board will not request Shareholders to vote on the Top-up Placing and the Top-up Subscription.

As none of the LeRoi Directors has interest in the Shares, and no Shareholder has a material interest in the Subscriptions which is different from the other Shareholders, no Shareholder is required to abstain from voting in the proposed ordinary resolution to approve the Subscriptions at the SGM.

SGM

The SGM will be held at 41/F, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Thursday, 13 September 2007 at 10:30 a.m., the notice of which is set out on pages 157 to 159 of this circular, to consider and, if thought fit, approve the ordinary resolution to approve the Subscriptions.

The resolution in the SGM will be conducted by way of poll. A form of proxy for use at the SGM is accompanied with this circular. Whether or not you will be able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish.

PROCEDURE FOR DEMANDING A POLL

Pursuant to bye-law 66 of the bye-laws of the Company, an ordinary resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the Top-up Placing Agreement (including the basis of the determination of the commission rate for the Top-up Placing, the Top-up Placing Price and the Top-up Subscription Price as detailed above) are on normal commercial terms following arm's length negotiation between LeRoi, the Placing Agent and/or Gain Better and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Directors also consider that the Subscription Agreement (including the basis of determination of the New Issue Subscription Price and the Conversion Price as detailed above) is on normal commercial terms following arm's length negotiation between LeRoi and Gain Better and is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to approve the Subscriptions to be proposed at the SGM.

You should note that a circular dated 27 August 2007 has been published by LeRoi to LeRoi Shareholders, which contains, among other things, details regarding the Subscriptions from the perspective of LeRoi's board of directors, LeRoi's independent board committee and Nuada Limited (the independent financial adviser to the independent board committee and the Independent LeRoi Shareholders). Shareholders may view and download this LeRoi's circular from LeRoi's website at http://finance.thestandard.com.hk/en/0221leroi or the website of the Hong Kong Exchanges and Clearing Limited at http://www.hkex.com.hk. You may refer to a letter from the independent board committee of LeRoi as set out on page 21 of LeRoi's circular and a letter of advice from Nuada Limited as set out on pages 22 to 35 of LeRoi's circular which contains, among other things, their advice to the independent board committee and the Independent LeRoi Shareholders in respect of the Subscriptions, and the principal factors and reasons considered by them in arriving at such advice. Your attention is also drawn to the additional information set out in the appendix to this circular and the notice convening the SGM.

Yours faithfully,
For and on behalf of
Wai Yuen Tong Medicine Holdings Limited
(位元堂藥業控股有限公司*)
Chan Chun Hong, Thomas
Managing Director

* *For identification purpose only*

I. SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the published results and the assets and liabilities of the Group as extracted from the relevant annual reports of the Company. There was no qualified opinion in the auditors reports of the Company for the years ended 31 March 2005, 2006 and 2007.

CONSOLIDATED INCOME STATEMENTS

	Year ended 31 March		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	381,266	324,756	326,909
Cost of sales	(205,952)	(190,904)	(162,134)
Gross profit	175,314	133,852	164,775
Other income	17,649	7,493	5,273
Selling and distribution costs	(118,004)	(105,168)	(104,996)
Administrative expenses	(64,922)	(76,785)	(84,084)
Finance costs	(6,085)	(7,751)	(3,108)
Impairment loss recognised in respect of goodwill	(49,558)	(40,095)	(26,337)
Impairment loss recognised in respect of property, plant and equipment	–	(11,762)	–
(Loss) gain on disposal of investment properties	(150)	1,920	–
Gain on disposal of a subsidiary	100,618	–	–
Write off of prepaid lease payment	–	(2,303)	–
Allowance for amount due from an associate	(6,389)	(5,000)	–
Increase of fair value of investment properties	–	–	4,226
Share of results of associates	(705)	(1,793)	(3,186)
Impairment loss recognised in respect of an associate	(36,863)	–	(15,202)
Profit (loss) before taxation	10,905	(107,392)	(62,639)
Income tax (expense) credit	(982)	1,240	(5,571)
Profit (loss) for the year	9,923	(106,152)	(68,210)
Attributable to:			
Equity holders of the Company	9,895	(98,370)	(67,958)
Minority interests	28	(7,782)	(252)
	9,923	(106,152)	(68,210)
Earnings (loss) per share – Basic	0.71 cents	(12 cents)	(18 cents)

CONSOLIDATED BALANCE SHEET

	Year ended 31 March		
	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Investment properties	–	9,100	41,200
Property, plant and equipment	37,229	84,934	103,030
Prepaid lease payments	97,503	140,721	146,536
Goodwill	206,064	255,461	296,516
Interests in associates	4,872	3,827	5,741
Amounts due from associates	20,000	7,300	7,250
Trademarks	1,100	1,216	737
Long-term bank deposits	7,813	7,762	–
Investments in unlisted notes	6,956	–	–
Deposits paid for investments	–	14,704	–
Deferred tax assets	57	341	341
	381,594	525,366	601,351
CURRENT ASSETS			
Inventories	67,059	66,958	68,897
Trade and other receivables	69,346	59,135	90,733
Prepaid lease payments	2,500	3,512	3,560
Amounts due from associates	9,525	13,631	20,069
Deposits paid for investments	9,378	–	–
Tax recoverable	435	1,294	–
Investments in unlisted notes	1,974	–	–
Investments held-for-trading	14,475	14,491	–
Derivative financial instruments	–	100	–
Pledged deposits	–	42,703	–
Bank balances and cash	236,625	108,793	43,545
	411,317	310,617	226,804
CURRENT LIABILITIES			
Trade and other payables	73,228	53,502	64,367
Tax payable	426	340	830
Obligations under finance leases	29	270	316
Bank borrowings	15,368	38,323	30,430
Deferred franchise income	223	234	283
Convertible loan stock	8	6	6
	89,282	92,675	96,232

	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*
NET CURRENT ASSETS	322,035	217,942	130,752
TOTAL ASSETS LESS CURRENT LIABILITIES	703,629	743,308	731,923
NON-CURRENT LIABILITIES			
Obligations under finance leases	22	104	278
Bank borrowings	43,855	94,363	112,756
Deferred franchise income	–	18	108
Convertible notes	–	–	13,754
Deferred tax liabilities	2,054	2,032	3,693
	45,931	96,517	130,589
NET ASSETS	657,698	646,791	601,334
CAPITAL AND RESERVES			
Share capital	13,964	13,964	34,909
Reserves	643,627	632,748	558,548
Equity attributable to equity holders of the Company	657,591	646,712	593,457
Minority interests	107	79	7,877
TOTAL EQUITY	657,698	646,791	601,334

Note: The summary of the results, assets and liabilities of the Group for the years ended 31 March 2004 and 2005 have been restated as a result of application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. Financial information for earlier years have not been adjusted to take into account the effect on the adoption of these new and revised HKFRSs as the directors considered that it is not practicable to do so.

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2007

Set out below is the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement of the Group, and the balance sheet of the Company together with the notes to the financial statements of the Group as extracted from pages 26 to 87 of the annual report of the Company for the year ended 31 March 2007.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
Revenue	*6*	381,266	324,756
Cost of sales		(205,952)	(190,904)
Gross profit		175,314	133,852
Other income	*8*	17,649	7,493
Selling and distribution costs		(118,004)	(105,168)
Administrative expenses		(64,922)	(76,785)
Finance costs	*9*	(6,085)	(7,751)
Impairment loss recognised in respect of goodwill		(49,558)	(40,095)
Impairment loss recognised in respect of property, plant and equipment		–	(11,762)
(Loss) gain on disposal of investment properties		(150)	1,920
Gain on disposal of a subsidiary		100,618	–
Write off of prepaid lease payment		–	(2,303)
Allowance for amount due from an associate		(6,389)	(5,000)
Share of results of associates		(705)	(1,793)
Impairment loss recognised in respect of an associate		(36,863)	–
Profit (loss) before taxation	*10*	10,905	(107,392)
Income tax (expense) credit	*12*	(982)	1,240
Profit (loss) for the year		9,923	(106,152)
Attributable to:			
Equity holders of the Company		9,895	(98,370)
Minority interests		28	(7,782)
		9,923	(106,152)
Earnings (loss) per share	*13*		
– Basic		0.71 cents	(12 cents)

CONSOLIDATED BALANCE SHEET

At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investment properties	14	–	9,100
Property, plant and equipment	15	37,229	84,934
Prepaid lease payments	16	97,503	140,721
Goodwill	17	206,064	255,461
Interests in associates	18	4,872	3,827
Amounts due from associates	19	20,000	7,300
Trademarks	20	1,100	1,216
Long-term bank deposits	21	7,813	7,762
Investments in unlisted notes	22	6,956	–
Deposits paid for investments	23	–	14,704
Deferred tax assets	35	57	341
		381,594	525,366
CURRENT ASSETS			
Inventories	24	67,059	66,958
Trade and other receivables	25	69,346	59,135
Prepaid lease payments	16	2,500	3,512
Amounts due from associates	19	9,525	13,631
Deposits paid for investments	23	9,378	–
Tax recoverable		435	1,294
Investments in unlisted notes	22	1,974	–
Investments held-for-trading	26	14,475	14,491
Derivative financial instruments	27	–	100
Pledged deposits	28	–	42,703
Bank balances and cash	29	236,625	108,793
		411,317	310,617
CURRENT LIABILITIES			
Trade and other payables	30	73,228	53,502
Tax payable		426	340
Obligations under finance leases	31	29	270
Bank borrowings	32	15,368	38,323
Deferred franchise income	33	223	234
Convertible loan stock	34	8	6
		89,282	92,675
NET CURRENT ASSETS		322,035	217,942
TOTAL ASSETS LESS CURRENT LIABILITIES		703,629	743,308

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	*31*	22	104
Bank borrowings	*32*	43,855	94,363
Deferred franchise income	*33*	–	18
Deferred tax liabilities	*35*	2,054	2,032
		45,931	96,517
NET ASSETS		657,698	646,791
CAPITAL AND RESERVES			
Share capital	*36*	13,964	13,964
Reserves		643,627	632,748
Equity attributable to equity holders of the Company		657,591	646,712
Minority interests		107	79
TOTAL EQUITY		657,698	646,791

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Attributable to the equity holders of the Company										
	Share capital	Share premium	Special reserve	General reserve	Share option reserve	Translation reserve	Convertible notes reserve	Accumulated (losses) profits	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* (note a)	*HK$'000* (note b)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	34,909	409,143	(27,150)	218,508	–	480	2,270	(44,703)	593,457	7,877	601,334
Exchange differences arising on translation of foreign operations	–	–	–	–	–	569	–	–	569	–	569
Share of translation reserve of associates	–	–	–	–	–	115	–	–	115	–	115
Net income recognised directly in equity	–	–	–	–	–	684	–	–	684	–	684
Loss for the year	–	–	–	–	–	–	–	(98,370)	(98,370)	(7,782)	(106,152)
Total recognised income (expense) for the year	–	–	–	–	–	684	–	(98,370)	(97,686)	(7,782)	(105,468)
Redemption of the convertible notes	–	–	–	–	–	–	(2,270)	–	(2,270)	–	(2,270)
Issue of new shares	10,473	146,616	–	–	–	–	–	–	157,089	–	157,089
Share issue expenses	–	(3,878)	–	–	–	–	–	–	(3,878)	–	(3,878)
Reduction in share capital	(31,418)	–	–	–	–	–	–	31,418	–	–	–
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(16)	(16)
At 31 March 2006	13,964	551,881	(27,150)	218,508	–	1,164	–	(111,655)	646,712	79	646,791
Exchange differences arising on translation of foreign operations	–	–	–	–	–	864	–	–	864	–	864
Share of translation reserve of associates	–	–	–	–	–	68	–	–	68	–	68
Net income recognised directly in equity	–	–	–	–	–	932	–	–	932	–	932
Profit for the year	–	–	–	–	–	–	–	9,895	9,895	28	9,923
Total recognised income for the year	–	–	–	–	–	932	–	9,895	10,827	28	10,855
Issue of share options	–	–	–	–	52	–	–	–	52	–	52
At 31 March 2007	13,964	551,881	(27,150)	218,508	52	2,096	–	(101,760)	657,591	107	657,698

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 CASH FLOW STATEMENT
For the year ended 31 March 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit (loss) before taxation	10,905	(107,392)
Adjustments for:		
Depreciation of property, plant and equipment	15,927	15,437
Finance costs	6,085	7,751
Loss (gain) on disposal of investment properties	150	(1,920)
Gain on disposal of a subsidiary	(100,618)	–
Impairment loss recognised in respect of property, plant and equipment	–	11,762
Allowance for inventories	1,374	1,054
Write off of prepaid lease payments	–	2,303
Impairment loss recognised in respect of goodwill	49,558	40,095
Allowance for amount due from an associate	6,389	5,000
Amortisation of prepaid lease payments	3,512	3,630
Amortisation of trademarks	154	84
Interest income	(6,002)	(2,460)
Loss on disposal of property, plant and equipment	–	41
Gain on disposal of investments held-for-trading	(5,244)	(548)
Fair value gain on investments held-for-trading	(1,047)	(265)
Loss (gain) on recognition of derivative financial instruments	100	(100)
Bad debts written off	–	2,625
(Reversal) recognition of allowance for trade and other receivables	(2,463)	1,419
Decrease in deferred franchise income	(29)	(139)
Share-based payment expenses	52	–
Share of results of associates	705	1,793
Impairment loss recognised in respect of an associate	36,863	–
Operating cash flows before movements in working capital	16,371	(19,830)
Decrease in inventories	663	2,880
(Increase) decrease in trade and other receivables	(6,934)	29,327
Decrease in amounts due from associates	3,316	6,438
Decrease (increase) in investments held-for-trading	6,307	(13,678)
Increase (decrease) in trade and other payables	98,600	(13,997)
Cash generated from (used in) operations	118,323	(8,860)
Interest received	4,913	1,910
Hong Kong Profits Tax refund (paid)	233	(1,698)
Overseas taxation refund (paid)	31	(507)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	123,500	(9,155)

	Notes	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of a subsidiary	39	100,061	–
Decrease (increase) in pledged deposits		42,703	(42,703)
Proceeds from disposal of investment properties		8,950	38,020
Interest received		1,089	550
Decrease (increase) in deposits paid for investments		2,326	(14,704)
Repayment from an associate		2,000	–
Dividend income from associates		301	162
Acquisition of subsidiaries, net of cash and cash equivalents acquired	38	10	(77)
Acquisition of an associate		(35,545)	–
Advance to associates		(20,600)	(5,050)
Purchase of investments in unlisted notes		(8,875)	–
Purchase of property, plant and equipment		(7,990)	(8,085)
Purchase of trademarks		(38)	(563)
Proceeds from disposal of property, plant and equipment		–	40
Increase in long-term bank deposits		–	(7,762)
Purchase of investment properties		–	(4,000)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		84,392	(44,172)
FINANCING ACTIVITIES			
New bank loans raised		43,240	27,800
Repayments of bank borrowings		(116,158)	(38,642)
Interest paid		(6,085)	(7,775)
Repayments of obligations under finance leases		(348)	(485)
Proceeds from issue of new shares, net of expenses		–	153,211
Redemption of convertible loan notes		–	(16,000)
Dividends paid to minority shareholders		–	(16)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(79,351)	118,093
NET INCREASE IN CASH AND CASH EQUIVALENTS		128,541	64,766
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		108,008	43,102
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		76	140
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		236,625	108,008
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		236,625	108,793
Bank overdrafts		–	(785)
		236,625	108,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

1. GENERAL

The Company was incorporated in Bermuda on 12 August 1994 under the Companies Act 1981 of Bermuda as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

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

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

In the current year, the Group has applied, for the first time, a number of new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The directors of the Company anticipate that the application of these new standards, amendment and interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with 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 (the "Listing Rules") on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 income statement 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 bring their accounting policies in line with those used by other members of the Group.

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities 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 consolidated income statement.

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

Previously capitalised goodwill arising on acquisitions of subsidiaries after 1 January 2001 is tested for impairment at least annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after 1 January 2005

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

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

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

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

Investments in associates

An associate is an entity in which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

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

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

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.

Investment properties

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

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

Property, plant and equipment

Property, plant and equipment 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 over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

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

Trademarks

On initial recognition, trademarks are recognised at cost. After initial recognition, trademarks with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for trademarks with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement 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 balance sheet as obligations under finance leases. 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 the consolidated income statement.

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

Revenue recognition

Sales of goods are 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.

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

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.

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

Inventories

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

Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in consolidated income statement in the period in which they arise.

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables and bank borrowings 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.

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting (including conversion option right embedded in the convertible note) are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in the consolidated income statement.

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 directly in equity is recognised in the consolidated income statement.

Financial liabilities are derecognised from the Group's balance sheet 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 or payable is recognised in consolidated income statement.

Embedded derivatives

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

Research and development

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

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

Where no internally-generated intangible asset can be recognised, development expenditure is charged to the consolidated income statement in the period in which it is incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

Employee benefits

(i) Retirement benefit costs

Payments to defined contribution retirement benefit plans 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 options reserve).

At each balance sheet date, 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, if any, is recognised in consolidated income statement with a corresponding adjustment to share options 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 continue to be held in share option reserve/will be transferred to retained profits.

Borrowing costs

All borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying 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 financial statements are disclosed below:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or the risk associated with such cash flows is higher than expected, an additional impairment loss may arise. As at 31 March 2007, the carrying amount of goodwill is approximately HK$206,064,000. Details of the recoverable amount calculation are disclosed in note 17.

Estimated impairment of interests in associates

Determining whether interests in associates are impaired requires an estimation of the value in use of the associate. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the associate and a suitable discount rate in order to calculate the present value. As at 31 March 2007, an amount of HK$36,863,000 of investment cost in the associate was impaired and charged to consolidated income statement.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include investments held-for-trading, trade receivables, amounts due from associates, deposits paid for investments, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Certain long-term bank deposits and investment in unlisted notes of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management will continue to monitor foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's principal financial assets are amounts due from associates, long term bank deposits, trade receivables and bank balances and cash.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has concentration of credit risk in the amounts due from associates of approximately HK$29,525,000. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and balance with each associate at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

Although the long term bank deposits and 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.

Liquidity risk

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

Interest rate risk

The Group's long-term bank deposits, amounts due from associates and bank balances carry fixed or variable rates and the bank borrowings are variable-rate borrowings. Therefore, the Group is exposed to both fair value and cash flow interest rate risk respectively. The Group currently does not have specific interest rate hedging policy. However, the management monitors closely the interest rate change exposure and will consider hedging significant interest rate risk exposure should the need arises.

Price risk

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

b. Fair value

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

- the fair value of financial assets and financial liabilities (excluding the conversion option right embedded in convertible note and investments held-for-trading) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

- the fair value of the conversion option right embedded in convertible note in note 22 is determined based on the Binomial Option Pricing Model.

- the fair value of the investments held-for-trading in note 26 is determined based on quoted bid prices in the active market.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. REVENUE

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

	2007	**2006**
	HK$'000	*HK$'000*
Sales of goods	374,990	318,229
Management, advertising and promotion fees	4,457	4,724
Rental income generated from investment properties	1,819	1,803
	381,266	324,756

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

Consolidated Income Statement

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of Western pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Property investments and property holding		Elimination		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE												
External sales	271,236	237,322	75,158	44,319	33,053	41,312	1,819	1,803	–	–	381,266	324,756
Inter segment sales*	3,577	2,406	31	257	21,938	10,136	4,096	1,715	(29,642)	(14,514)	–	–
	274,813	239,728	75,189	44,576	54,991	51,448	5,915	3,518	(29,642)	(14,514)	381,266	324,756
RESULTS												
Segment results, excluding impairment loss recognised in respect of goodwill	7,771	(31,245)	9,410	4,857	(1,004)	(4,404)	97,190	(3,249)			113,367	(34,041)
Impairment losses recognised in respect of goodwill	(37,843)	(40,095)	(11,715)	–	–	–	–	–			(49,558)	(40,095)
Segment results	(30,072)	(71,340)	(2,305)	4,857	(1,004)	(4,404)	97,190	(3,249)			63,809	(74,136)
Other income											17,649	7,493
Unallocated corporate expenses											(20,511)	(26,205)
Finance costs											(6,085)	(7,751)
Allowance for amount due from an associate											(6,389)	(5,000)
Share of results of associates											(705)	(1,793)
Impairment loss recognised in respect of an associate											(36,863)	–
Profit (loss) before taxation											10,905	(107,392)
Income tax (expense) credit											(982)	1,240
Profit (loss) for the year											9,923	(106,152)

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

Consolidated Balance Sheet

	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		Property investments and property holding		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES										
ASSETS										
Segmental assets before goodwill	252,820	255,906	33,993	28,701	17,127	24,495	–	93,337	303,940	402,439
Goodwill	92,612	130,294	109,102	120,817	4,350	4,350	–	–	206,064	255,461
Segment assets	345,432	386,200	143,095	149,518	21,477	28,845	–	93,337	510,004	657,900
Interests in associates									4,872	11,127
Unallocated corporate assets									278,035	166,956
Consolidated total assets									792,911	835,983
LIABILITIES										
Segmental liabilities	53,100	32,926	8,564	11,074	5,641	7,157	–	1,220	67,305	52,377
Unallocated corporate liabilities									67,908	136,815
Consolidated total liabilities									135,213	189,192

	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		Property investments and property holding		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION										
Capital expenditure	7,794	8,514	–	58	13	713	839	4,099	8,646	13,384
Depreciation of property, plant and equipment	13,531	12,926	363	417	726	674	1,307	1,420	15,927	15,437
Amortisation of trademarks	154	84	–	–	–	–	–	–	154	84
Impairment loss recognised in respect of property, plant and equipment	–	11,762	–	–	–	–	–	–	–	11,762
(Reversal) recognition of allowance for trade and other receivables	(2,474)	599	(4)	–	15	820	–	–	(2,463)	1,419
Allowance (written back) for inventories	479	1,054	(283)	–	1,178	–	–	–	1,374	1,054

Geographical segments

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

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

	2007	**2006**
	HK$'000	*HK$'000*
Hong Kong	284,270	249,400
The PRC, other than Hong Kong	53,567	26,918
Singapore	21,995	31,601
Others	21,434	16,837
	381,266	324,756

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

	Carrying amount of segment assets		**Capital expenditure**	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	476,303	614,509	8,633	11,787
The PRC, other than Hong Kong	12,274	12,129	–	704
Singapore	16,350	29,989	13	713
Others	5,077	1,273	–	180
	510,004	657,900	8,646	13,384

8. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Exchange gain	684	–
Fair value gain on investments held-for-trading	1,047	265
Franchise income	418	458
Gain on disposal of investments held-for-trading	5,244	548
Gain on recognition of derivative financial instruments	–	100
Interest income from loans to associates	68	472
Interest income on bank deposits	5,640	1,910
Interest income on investment in unlisted notes	250	–
Other interest income	44	78
Processing fee income	2,183	2,359
Sundry income	2,071	1,303
	17,649	7,493

9. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	3,361	4,920
Bank borrowings not wholly repayable within five years	2,689	2,467
Convertible loan stock	1	307
Finance leases	34	57
	6,085	7,751

10. PROFIT (LOSS) BEFORE TAXATION

	2007 *HK$'000*	2006 *HK$'000*
Profit (loss) before taxation has been arrived at after charging (crediting):		
Staff costs		
– Directors' remuneration *(note 11(a))*	1,790	1,720
– Other staff costs	69,194	55,404
– Retirement benefit scheme contributions other than directors	3,508	2,746
Total staff costs	74,492	59,870
(Reversal) allowance for trade and other receivables	(2,463)	1,419
Allowance for obsolete stock	1,374	1,054
Amortisation of trademarks, included in administrative expenses	154	84
Auditors' remuneration	2,300	1,760
Depreciation of property, plant and equipment	15,927	15,437
Amortisation of prepaid lease payments	3,512	3,630
Management fee paid to a shareholder	996	972
Research and development expenses	1,009	135
Exchange loss	–	163
Gross rental income	(1,819)	(1,803)
Less: direct outgoing expenses	540	501
Sub-lease income	(90)	–

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the six (2006: six) directors are as follows:

	Mr. Tang Ching Ho	Mr. Chan Chun Hong, Thomas	Mr. Leung Wai Ho	Mr. Siu Man Ho, Simon	Mr. Yuen Chi Choi	Mr. Cho Wing Mou	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007							
Fees	–	–	140	140	140	140	560
Other emoluments:							
Salaries and other benefits	603	603	–	–	–	–	1,206
Retirement benefit scheme contributions	12	12	–	–	–	–	24
Total emoluments	615	615	140	140	140	140	1,790
2006							
Fees	–	–	120	150	150	150	570
Other emoluments:							
Salaries and other benefits	563	563	–	–	–	–	1,126
Retirement benefit scheme contributions	12	12	–	–	–	–	24
Total emoluments	575	575	120	150	150	150	1,720

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one director (2006: one) was a director of the Company whose emoluments are set out in note 11(a) above. The emoluments of the remaining four (2006: four) individuals are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	5,382	3,846
Retirement benefit scheme contributions	71	57
	5,453	3,903

Their emoluments were within the following bands:

	2007 Number of employees	**2006 Number of employees**
Nil to HK$1,000,000	1	3
HK$1,000,001 to HK$1,500,000	2	1
HK$1,500,001 to HK$2,000,000	1	–

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

12. INCOME TAX EXPENSE (CREDIT)

	2007 *HK$'000*	**2006** *HK$'000*
The charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax	404	292
Other jurisdictions	201	230
	605	522
Under (over) provision in prior years		
Hong Kong Profits Tax	76	(101)
Deferred taxation *(note 35)*		
Current year	301	(1,661)
	982	(1,240)

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

Singapore Income Tax is calculated at 18% (2006: 20%) of the estimated assessable profit for the year.

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

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

	2007	2006
	HK$'000	*HK$'000*
Profit (loss) before taxation	10,905	(107,392)
Tax at the domestic income tax rate of 17.5%	1,908	(18,794)
Tax effect of share of results of associates	129	313
Tax effect of expenses not deductible for tax purpose	18,522	15,988
Tax effect of income not taxable for tax purpose	(19,450)	(734)
Tax effect of tax losses not recognised	2,747	3,418
Under (over) provision in prior years	76	(101)
Utilisation of tax losses not recognised	(1,071)	(90)
Recognition of deferred tax assets in respect of tax losses previously not recognised	(601)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,232)	(1,240)
Others	(46)	–
Tax charge (credit) for the year	982	(1,240)

Details of deferred taxation are set out in note 35.

13. EARNINGS (LOSS) PER SHARE

For the year ended 31 March 2007, the calculation of the basic and diluted earnings per share is based on the following data:

	2007	2006
	HK$'000	*HK$'000*
Profit (loss) for the year attributable to the equity holders of the parent for the purpose of basic earnings per share	9,895	(98,370)
	Number of shares	**Number of shares**
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,396,347,688	816,344,166

The computation of diluted earnings per share for the year ended 31 March 2007 does not assume the exercise of the outstanding options of the Company as the exercise price of those options is higher than the average market price of the shares of the Company on the Hong Kong Stock Exchange nor the conversion of the outstanding convertible loan stock of the Company which would result in an increase in basic earnings per share.

For the year ended 31 March 2006, no diluted loss per share is presented as the conversion of the outstanding convertible loan stock of the Company would result in a decrease in net loss per share.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 March 2006 had been retrospectively adjusted for the effect of the capital reorganisation approved by the shareholders of the Company on 8 June 2005 as detailed in note 36(a).

14. INVESTMENT PROPERTIES

	HK$'000
VALUATION	
At 1 April 2005	41,200
Additions	4,000
Disposals	(36,100)
At 31 March 2006	9,100
Disposal	(9,100)
At 31 March 2007	–

At 31 March 2006, the investment properties were held under medium term leases in Hong Kong.

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

The Group has pledged its investment properties to secure a banking facility granted to the Group at 31 March 2006. The pledged of assets were released upon the disposal of the properties during the year.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture and equipment *HK$'000*	Motor vehicles *HK$'000*	Computer system *HK$'000*	Total *HK$'000*
COST							
At 1 April 2005	54,199	13,926	34,553	23,663	384	6,410	133,135
Exchange realignment	182	2	272	25	4	1	486
Additions	–	2,715	2,801	1,509	433	892	8,350
On acquisition of subsidiaries	–	443	–	28	–	–	471
Disposals	–	(51)	–	(6)	–	(35)	(92)
At 31 March 2006	54,381	17,035	37,626	25,219	821	7,268	142,350
Exchange realignment	–	49	261	96	80	30	516
Additions	–	4,849	210	2,085	–	846	7,990
On acquisition of a subsidiary	–	421	–	197	–	–	618
Disposal of a subsidiary	(41,500)	(1,946)	–	(638)	–	(21)	(44,105)
At 31 March 2007	12,881	20,408	38,097	26,959	901	8,123	107,369
DEPRECIATION AND MIMPAIRMENT LOSSES							
At 1 April 2005	2,076	4,950	6,351	13,572	142	3,014	30,105
Exchange realignment	32	2	79	6	3	1	123
Provided for the year	1,469	4,662	5,021	2,803	166	1,316	15,437
Eliminated on disposals	–	(8)	–	(2)	–	(1)	(11)
Impairment loss recognised	5,010	–	6,172	580	–	–	11,762
At 31 March 2006	8,587	9,606	17,623	16,959	311	4,330	57,416
Exchange realignment	–	36	185	58	70	19	368
Provided for the year 998	6,110	4,084	3,303	191	1,241	15,927	
Eliminated on disposal of a subsidiary	(2,654)	(624)	–	(283)	–	(10)	(3,571)
At 31 March 2007	6,931	15,128	21,892	20,037	572	5,580	70,140
CARRYING AMOUNT							
At 31 March 2007	5,950	5,280	16,205	6,922	329	2,543	37,229
At 31 March 2006	45,794	7,429	20,003	8,260	510	2,938	84,934

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
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 leasehold buildings at balance sheet date were situated in Hong Kong under medium term leases.

At 31 March 2007, the carrying amount of furniture and equipment includes an amount of approximately HK$211,000 (2006: HK$646,000) in respect of assets held under finance leases. The Group has pledged leasehold buildings with carrying amount of approximately HK$1,048,000 (2006: HK$40,758,000) to secure general banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments at balance sheet date represented leasehold land in Hong Kong under medium-term lease.

	2007	**2006**
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current assets	97,503	140,721
Current assets	2,500	3,512
	100,003	144,233

The Group pledged certain prepaid lease payments to the bank to obtain general banking facilities. Details of pledge of assets are set out in note 42.

17. GOODWILL

	HK$'000
CARRYING AMOUNT	
At 1 April 2005	296,516
Adjustments to measurement of consideration for acquisitions	(1,055)
On acquisition of subsidiaries	95
Impairment loss recognised	(40,095)
At 31 March 2006	255,461
On acquisition of a subsidiary *(note 38)*	161
Impairment loss recognised	(49,558)
At 31 March 2007	206,064

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

	2007 *HK$'000*	**2006** *HK$'000*
Production and sale of:		
– Chinese pharmaceutical and health food products	92,612	130,294
– Western pharmaceutical and health food products	109,102	120,817
– Bottled birds' nest drinks and herbal essence products	4,350	4,350
	206,064	255,461

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 cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and cash flows beyond that five year periods have been extrapolated using a zero growth rate (2006: based on the estimated zero growth rate) for the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled birds' net drinks and herbal essence products.

The rate used to discount the forecast cash flows for the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled birds' nest drinks and herbal essence products is 10.86%, 10.86% and 15%, respectively (2006: 11.51% to 15.61%, 12.25% and 14.04% for each of them).

Due to the increase in competition in the market, the Group has reviewed its cash flow forecast for these CGUs. The carrying amount of goodwill for the production and sale of Chinese pharmaceutical and health food products has therefore been reduced to their recoverable amounts through recognition of impairment losses of approximately HK$49,558,000 (2006: HK$40,095,000) during the year.

18. INTERESTS IN ASSOCIATES

	2007	**2006**
	HK$'000	*HK$'000*
Cost of investments in associates *(note a)*		
– Listed in Hong Kong *(note b)*	1,682	–
– Unlisted *(note c)*	10,821	10,821
Share of post-acquisition reserves, net of dividends received	(7,631)	(6,994)
	4,872	3,827
Market value of listed share	24,600	–

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

	HK$'000
COST	
At 1 April 2005 and 31 March 2006	15,202
Arising on acquisition during the year *(note i)*	36,863
At 31 March 2007	52,065
IMPAIRMENT	
At 1 April 2005 and 31 March 2006	(15,202)
Impairment loss recognised for the year	(36,863)
At 31 March 2007	(52,065)
CARRYING AMOUNT	
At 31 March 2007	–
At 31 March 2006	–

Note:

(i) The fair value of the goodwill as at 31 March 2007 is determined by the directors of the Group with reference to cash flow forecasts derived from the most recent financial budgets, the business operation and market condition of apparel products and together with the valuation performed by Sallmanns (Far East) Limited, a firm of independent valuers. In the opinion of directors, an impairment loss of approximately HK$36,863,000 has been charged to consolidated income statement during the year.

(b) On 27 January 2006, the Group entered into a share purchase agreement with Taco Holdings Limited ("Taco Holdings") pursuant to which the Group had conditionally agreed to purchase the 205,000,000 ordinary shares of LeRoi Holdings Limited ("LeRoi Holdings"), representing approximately 25.32% of the issued share capital in LeRoi Holdings for a total consideration of HK$37,500,000 from Taco Holdings. On 31 March 2006, HK$3,000,000 deposits was made (Balance as disclosed in note 23).

On 3 January 2007, the acquisition of LeRoi Holdings was completed. Accordingly the deposit paid for investment of HK$3,000,000 was reclassified from deposits paid for investments to interests in associates. LeRoi Holdings was incorporated in Cayman Inlands with limited liability and its shares are listed on the Hong Kong Stock Exchange. LeRoi Holdings is an investment holding company and its principal activity of its subsidiaries is the trading of fashion apparels.

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

	31.3.2007
	HK$'000
Total assets	80,182
Total liabilities	(78,015)
Net assets	2,167
The Group's share of net assets of associates	549

	4.1.2007 to 31.3.2007
	HK$'000
Revenue	4,276
Loss for the period	(4,475)
The Group's share of results of associates for the period	(1,133)

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

	2007	2006
	HK$'000	*HK$'000*
Total assets	51,934	51,992
Total liabilities	(39,920)	(40,668)
Net assets	12,014	11,324
The Group's share of net assets of associates	4,323	3,827
Revenue	67,421	68,639
Profit (loss) for the year	1,046	(3,668)
The Group's share of results of associates for the period	428	(1,793)

Details of the Group's principal associates at 31 March 2007 are set out in note 49.

19. AMOUNTS DUE FROM ASSOCIATES

	2007	2006
	HK$'000	*HK$'000*
Amounts due from associates – after one year	30,900	12,300
Less: Impairment loss recognised	(10,900)	(5,000)
	20,000	7,300
Amounts due from associates – within one year	10,014	13,631
Less: Impairment loss recognised	(489)	–
	9,525	13,631

At 31 March 2007, the amounts due from associates are unsecured, interest-free and repayable on demand, except for an amount of approximately HK$31,825,000 (2006: HK$13,252,000) which carries interest at 4% to 6.5% (2006: 4% to 6.5%) per annum and is repayable from 31 March 2007 to 29 January 2010 (2006: repayable from 31 March 2006 to 16 August 2015).

20. TRADEMARKS

	HK$'000
COST	
At 1 April 2005	936
Addition during the year	563
At 31 March 2006	1,499
Addition during the year	38
At 31 March 2007	1,537
AMORTISATION	
At 1 April 2005	199
Provided for the year	84
At 31 March 2006	283
Provided for the year	154
At 31 March 2007	437
CARRYING AMOUNT	
At 31 March 2007	1,100
At 31 March 2006	1,216

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

21. LONG-TERM BANK DEPOSITS

	2007	**2006**
	HK$'000	*HK$'000*
Deposits placed with financial institutions	7,813	7,762

The long-term bank deposits comprise:

			Carrying amount	
Principal amount	**Maturity date**	**Effective interest rate**	**2007**	**2006**
			HK$'000	*HK$'000*
US$1,000,000 *(note)*	8 March 2016	9.35%	7,813	7,762

Note:

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

The bank has the call option to cancel the contract, at any time from the date of signing the contract till the maturity date and return the principal amount and the accrued interest income to the Group.

22. INVESTMENTS IN UNLISTED NOTES

	2007	**2006**
	HK$'000	*HK$'000*
The amount comprise of:		
– unlisted convertible note due from an associate *(note a)*	3,055	–
– unlisted bank notes from financial institutions *(note b)*	5,875	–
	8,930	–
Carrying amount analysed for reporting purposes as:		
Non-current	6,956	–
Current	1,974	–
	8,930	–

Notes:

(a) The amounts represent the unlisted convertible note with principal amount of HK$3,000,000 issued by LeRoi Holdings ("LeRoi Note"). LeRoi Note bears interest at an contractual interest rate of 6.5% per annum and is due for redemption on 23 January 2010. The Group is entitled at any time after the date of issue of the LeRoi Note and up to the maturity date to convert the LeRoi Note into ordinary share of LeRoi Holdings at an initial conversion price of HK$0.2 per share (subject to adjustment). The effective interest rate for the year was 8.45%. The amount included the debt portion of investments in unlisted notes of HK$2,848,000 and the fair value of conversion option right embedded in convertible note of HK$207,000. The fair value of conversion option right embedded in convertible note is determined by the directors of the Group with reference to the valuation performed by Sallmanns (Far East) Limited, a firm of independent valuers.

(b) The amounts represent notes issued by financial institutions. Details of the term of the bank notes are as follows:

Notional amount	**Maturity date**	**Effective interest rate**
US$500,000	11 December 2008	5.125%
HK$2,000,000	8 June 2007	3.6%

23. DEPOSITS PAID FOR INVESTMENTS

	2007	2006
	HK$'000	*HK$'000*
The amount comprises:		
– unlisted investment *(note a)*	9,378	11,704
– listed share *(note b)*	–	3,000
	9,378	14,704
Carrying amount anlaysed for reporting purposes as:		
Non-current	–	14,704
Current	9,378	–
	9,378	14,704

Notes:

(a) On 15 September 2005, the Group entered into a sale and purchase agreement (the "Acquisition Agreement") with an independent third party (the "Vendor") for the acquisition of an 8% equity interest in Dongguan Senox Industrial Co., Ltd. , Dongguan Senox Agricultural Products Co., Ltd. and Dongguan Senox Logistics Co., Ltd. (hereinafter collectively referred to as the "Senox Group") for an aggregate consideration of HK$24,000,000. The Senox Group is principally engaged in the investment in and management and provision of logistics services in PRC. A deposit of HK$12,000,000 was paid upon entering into the conditional agreements. In accordance with the Acquisition Agreement, after payment of the first instalment, the vendor should pay the Company the dividends or profit distribution attributable to 8% equity interest in Senox Group within 7 days upon actual receipt of dividends. At 31 March 2006, the Group shall contribute the outstanding HK$12,000,000 to the Vendor upon the fulfilment of certain conditions as stated in the Acquisition Agreement.

On 21 February 2007, the Group entered into a termination agreement with the Vendor for the termination of the Acquisition Agreement. Details of the termination are set out in the Company's announcement dated 23 February 2007.

During the year ended 31 March 2007, the Senox Group paid dividends amounting to RMB30,000,000 (2006: RMB4,000,000) and the Group was entitled to RMB2,400,000, approximately HK$2,371,000 (2006: RMB800,000, approximately HK$769,000).

(b) The amount was included in the interest in associates as the acquisition of LeRoi Holdings was completed as mentioned in note 18(b).

24. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials and consumables	26,339	20,508
Work-in-progress	3,021	4,496
Finished goods	37,699	41,954
	67,059	66,958

25. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	50,478	47,766
Less: accumulated impairment	(902)	(3,830)
	49,576	43,936
Other receivables and prepayments	19,770	15,199
Total trade and other receivables	69,346	59,135

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

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	18,360	15,216
31 – 60 days	18,718	8,221
61 – 120 days	9,418	17,755
Over 120 days	3,080	2,744
	49,576	43,936

26. INVESTMENTS HELD-FOR-TRADING

	2007	2006
	HK$'000	*HK$'000*
Listed equity securities at fair value:		
in Hong Kong	10,674	10,693
in overseas	3,801	3,798
	14,475	14,491

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2007	2006
	HK$'000	*HK$'000*
Forward contracts	–	100

For the year ended 31 March 2006, the amount represented forward contracts of the equity accumulators of various listed securities in Hong Kong. All the equity accumulators were matured in February 2007.

28. PLEDGED DEPOSITS

As at 31 March 2006, the amount represented deposits pledged to financial institutions to secure derivative financial instruments acquired by the Group. Deposits amounting HK$42,703,000 were pledged to secure derivative financial instruments that would be settled in the next twelve months and were therefore classified as current assets.

The deposits carried fixed interest rate of 3.51% and 4.03% on 31 March 2006. The pledged deposits were released upon the termination of the contract of derivative financial instruments.

29. BANK BALANCES AND CASH

Bank balances and cash comprises bank balances and cash held by the Group and short-term bank deposits that are interest-bearing at market interest rate. All bank deposits have a maturity of three months or less. The bank deposits carry fixed interest rates ranging from 2.25% to 5.17% (2006: 0.01% to 3.9%) per annum.

30. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$40,724,000 (2006: HK$26,933,000) and their aged analysis is as follows:

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	18,816	12,722
31 – 60 days	13,709	7,606
61 – 120 days	5,576	4,205
Over 120 days	2,623	2,400
	40,724	26,933
Other payables	32,504	26,569
	73,228	53,502

31. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	34	305	29	270
More than one year, but not exceeding two years	25	79	22	71
More than two years, but not exceeding three years	–	29	–	25
More than three years, but not exceeding four years	–	10	–	8
	59	423	51	374
Less: Future finance charges	(8)	(49)	–	–
Present value of lease obligations	51	374	51	374
Less: Amount due within one year shown under current liabilities			(29)	(270)
Amount due after one year			22	104

The average lease term is three years. For the year ended 31 March 2007, the average effective borrowing rate ranges from 5.4% to 10.9% per annum (2006: 5.4% to 10.9%). 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.

32. BANK BORROWINGS

	2007	**2006**
	HK$'000	*HK$'000*
Bank borrowings	59,223	131,901
Bank overdrafts	–	785
	59,223	132,686
Analysed as:		
Secured	53,250	77,091
Unsecured	5,973	55,595
	59,223	132,686

The above bank borrowings and bank overdrafts are repayable as follows:

On demand or within one year	15,368	38,323
More than one year, but not exceeding two years	10,105	20,887
More than two years, but not exceeding five years	15,850	44,534
More than five years	17,900	28,942
	59,223	132,686
Less: Amount due within one year shown under current liabilities	(15,368)	(38,323)
Amount due after one year	43,855	94,363

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

	2007	**2006**
Effective interest rate:		
Variable-rate borrowings	4.97% – 8.25%	1.983% – 8%

During the year, the Group obtained new loans in an amount of approximately HK$43.2 million (2006: HK$27.8 million). These loans carry interest at 5.08% to 8.25% per annum (2006: 3.00% to 5.51% per annum) and are repayable in instalments over a period of three to five years. The proceeds were used to finance the acquisition of property, plant and equipment, investments and for general working capital purpose of the Group.

33. DEFERRED FRANCHISE INCOME

	2007	**2006**
	HK$'000	*HK$'000*
At beginning of the year	252	391
Additions during the year	390	319
Recognised during the year	(419)	(458)
At end of the year	223	252
Less: Amount due within one year shown under current liabilities	(223)	(234)
	–	18

34. CONVERTIBLE LOAN STOCK

	2007	**2006**
	HK$'000	*HK$'000*
£590 (2006: £590) 9.5% unsecured convertible loan stock	8	6

35. DEFERRED TAXATION

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

	Accelerated tax depreciation	**Revaluation of investment properties**	**Allowance for bad and doubtful debt**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005	3,269	740	(350)	(307)	3,352
Charge (credit) to the income statement for the year	282	(592)	(175)	(1,176)	(1,661)
At 31 March 2006	3,551	148	(525)	(1,483)	1,691
(Credit) charge to the income statement for the year	(862)	(148)	417	894	301
Exchange adjustment	5	–	–	–	5
At 31 March 2007	2,694	–	(108)	(589)	1,997

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007	**2006**
	HK$'000	*HK$'000*
Deferred tax assets	(57)	(341)
Deferred tax liabilities	2,054	2,032
	1,997	1,691

At the balance sheet date, the Group had unused tax losses of approximately HK$96,749,000 (2006: HK$108,000,000) available to offset against future profits, of which HK$88,959,000 (2006: HK$90,949,000) are subject to the confirmation from Hong Kong Inland Revenue Department. A deferred tax asset has been recognised in respect of HK$3,363,000 (2006: HK$8,474,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

36. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
At 31 March 2006 and 31 March 2007, ordinary shares of HK$0.01 each	60,000,000,000	600,000
Issued and fully paid:		
At 1 April 2005, ordinary share of HK$0.01 each	3,490,869,225	34,909
Consolidation of shares *(note a)*	(3,141,782,303)	–
Adjustment to nominal value *(note a)*	–	(31,418)
Right issues *(note b)*	1,047,260,766	10,473
At 31 March 2006 and 31 March 2007, ordinary shares of HK$0.01 each	1,396,347,688	13,964

Notes:

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

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

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

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

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

(b) Pursuant to a resolution passed in a special general meeting on 16 November 2005, 1,047,260,766 ordinary shares of HK$0.01 each was issued and allotted by way of rights issue, in the proportion of three shares for every one existing share held ("Rights Share"), at a subscription price of HK$0.15 per Rights Share to the existing shareholders. The net proceeds of approximately HK$153.2 million from the rights issue were used for the repayment of bank borrowings, redemption of convertible notes issued by the Company, for the possible investment in new business opportunities and general working capital.

All the ordinary shares issued for the year ended 31 March 2006 rank pari passu with the then existing ordinary shares in all respects.

37. 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 incentives or rewards for their contribution or potential contribution to the Company and its subsidiaries. Pursuant to the 2004 Scheme, which will expire on 17 September 2014, the board of directors of the Company may grant options to directors and eligible employees of the Company or its subsidiaries to subscribe for shares in the Company at a consideration equal to the higher of the closing price of the shares of the Company on the Hong Kong Stock Exchange at the date of offer of grant and the average closing prices of the shares of the Company on the Hong Kong Stock Exchange for the five trading days immediately preceding the date of grant of the options.

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

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

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

The following tables disclose movement in the 2004 Scheme during the year ended 31 March 2007.

			Number of options		
Date of grant	**Exercise price per share**	**Exercisable period**	**Outstanding at 1.4.2005 and 31.3.2006**	**Granted during the year**	**Outstanding at 31.3.2007**
	HK$				
Employees					
3.1.2007	0.415	2.1.2008 to 1.1.2012	–	4,120,000	4,120,000

For the year ended 31 March 2007, no share options were exercised.

The options granted under the 2004 Scheme vest as follows:

On 2nd anniversary of the date of grant	30% vest
On 3rd anniversary of the date of grant Further	30% vest
On 4th anniversary of the date of grant Remaining	40% vest

The options will be expired upon the day before of 5th anniversary of the date of grant.

During the year ended 31 March 2007, 4,120,000 units of share options were granted on 3 January 2007. The estimated fair values of the options granted are HK$710,000.

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

Grant date	3 January 2007
Share Price	HK$0.39
Exercise price	HK$0.415
Expected volatility	70%
Risk-free rate	3.56% to 3.7%
Expected dividend yield	0%
Sub optimal early exercise factor	1.5 times
Total option life	5 years

Expected volatility was determined by using the historical volatility of the price return of the shares of the Company and comparable listed companies over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group and the Company recognised the total expense of approximately HK$52,000 for the year ended 31 March 2007 in relation to share options granted by the Company.

38. ACQUISITION OF A SUBSIDIARY

In July 2006, a wholly-owned subsidiary of the Company acquired an additional 50% of the issued share capital of Superfine Limited ("Superfine") for a consideration of HK$1. Superfine became a wholly-owned subsidiary afterward. Superfine engages in retailing of Chinese pharmaceutical products. This acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was HK$161,000.

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year ended 31 March 2007 have no significant differences from their respective carrying amount. The effect of the acquisition is summarised as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	618	471
Inventories	1,215	1,995
Trade and other receivables	112	718
Bank and cash balances	10	298
Trade and other payables	(2,116)	(3,132)
	(161)	350
Less: Interests acquired in previous acquisition:		
– net assets of associate	–	(70)
	(161)	280
Goodwill arising on acquisition	161	95
	–	375
Satisfied by:		
Cash consideration paid	–	375
Net inflow (outflow) arising on acquisition:		
Cash consideration paid	–	(375)
Cash and cash equivalents acquired	10	298
	10	(77)

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 subsidiary acquired during the year ended 31 March 2007 contributed approximately HK$2,904,000 (2006: HK$5,801,000) to the Group's revenue and a loss of approximately HK$126,000 (2006: a profit of approximately HK$44,000) to the Group's profit before taxation for the period between the date of acquisition and 31 March 2007.

If the acquisition had been completed on 1 April 2006, the total Group revenue for the period would have been approximately HK$381,847,000 and profit for the year would have been approximately HK$9,762,000. This proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that would actually have been achieved had the acquisitions been completed on 1 April 2006, nor is it intended to be a projection of future results.

39. DISPOSAL OF A SUBSIDIARY

On 27 March 2007, the Group disposed of its entire interest in Conful Limited ("Conful"). The major asset of Conful was Wai Yuen Tong Medicine Building ("WYT Building"). The Group has a leaseback arrangement for the WYT Building for ten years. Prior to the completion of the disposal and leaseback of WYT Building, a majority portion of the property was occupied by the group companies of the Company for operating use. Details of the disposal are set out in the circular dated 5 March 2007 and the details of the sales and leaseback arrangement are disclosed in note 44.

The net assets of Conful at the date of disposal were as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Net assets disposal of:		
Property, plant and equipment	40,534	–
Prepaid lease payments	40,718	–
Other payables	(84,609)	–
Tax payable	(200)	–
	(3,557)	–
Gain on disposal	100,618	–
Deferred income *(note)*	3,000	–
Total consideration	100,061	–
Satisfied by:		
Net inflow arising on disposal:		
Net cash consideration received	100,061	–

Note:

The deferred income represented the sales proceeds of Conful over the fair value of net assets disposed. The amount will be amortised over the lease term.

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2007, there are no major non-cash transactions.

During the year ended 31 March 2006, the major non-cash transactions were as follows:

(a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of lease contracts of HK$264,000.

(b) The Group is entitled an amount of approximately HK$1,055,000 from the vendor of CNT Health Food Pte Limited in the event that the aggregate profit after tax as defined in the Sale and purchase agreement is not more than S$800,000. The amount is not yet received and recognised as other receivable at the balance sheet date.

41. RETIREMENT BENEFIT PLANS

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

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

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$3,508,000 (2006: HK$2,746,000) charged to consolidated income statement represents contributions payable to these schemes by the Group in respect of the current accounting year. As at 31 March 2007, contributions of approximately HK$259,000 (2006: HK$250,000) due in respect of the reporting period had not been paid over to the schemes.

42. PLEDGE OF ASSETS

	2007	**2006**
	HK$'000	*HK$'000*
Prepaid lease payments	98,952	143,156
Buildings	1,048	40,758
Investment properties	–	9,100
Bank deposits	–	42,703
	100,000	235,717

43. CAPITAL COMMITMENTS

	2007	**2006**
	HK$'000	*HK$'000*
At the balance sheet date, the Group had contracted for but not provided in the financial statements in respect of acquisition of:		
– property, plant and equipment	1,324	2,990
– unlisted investment	–	12,000
– listed shares	–	34,500
	1,324	49,490

44. OPERATING LEASES

The Group as lessee:

The Group made minimum lease payments of approximately HK$31,435,000 (2006: HK$22,440,000) under operating leases during the year in respect of its office properties and retail shops.

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

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	40,519	27,930
In the second to fifth years inclusive	69,100	10,638
Over five years	65,800	–
	175,419	38,568

Operating lease payments represent rentals payable by the Group for certain of its office properties and retail shops. Leases are negotiated for a term ranging from one to ten years. Certain lease rentals are based on turnover of the relevant retail shops. The contingent rent paid for the year is approximately HK$63,000 (2006: HK$10,000).

As mentioned in note 39, the Group disposed of its property during the year and entered a sale and leaseback agreement with an independent third party. This sale and leaseback arrangement is classified as an operating lease.

The Group as lessor:

Property rental income and sub-lease income earned during the year were approximately HK$1,819,000 and HK$90,000 respectively (2006: HK$1,803,000 and Nil).

At 31 March 2007, the Group had contracted with tenants for future minimum lease payments due within one year of approximately HK$4,377,000 (2006: HK$405,000).

45. POST BALANCE SHEET EVENT

On 11 June 2007, the Company and Kingston Securities Limited ("Kingston") entered into a share placing agreement pursuant to which the Company has conditionally agreed to place, through Kingston on a fully underwritten basis, 279,000,000 shares ("Placing Share") to independent investors at a price of HK$0.46 per Placing Share.

In addition, the Company and Kingston also entered into a convertible note placing agreement pursuant to which Kingston agreed to place, on a fully underwritten basis, up to an aggregate principal amount of HK$250,000,000 convertible note which is exercisable and convertible into 431,034,482 shares of the Company at a conversion price of HK$0.58 per conversion share.

Details of the placement of share and convertible note were set out in the announcement dated 11 June 2007.

46. CONNECTED AND RELATED PARTY DISCLOSURES

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

Nature of related party		Transactions	2007	2006
			HK$'000	*HK$'000*
(i)	Substantial shareholder and its subsidiaries which exercise significant influence	Interest on convertible notes paid by the Group	–	330
		Management fee paid by the Group	996	972
		Rental paid by the Group	134	267
		Rental received by the Group	1,845	1,803
(ii)	Associates	Sales of Chinese pharmaceutical products by the Group	29,053	32,903
		Subcontracting fee paid by the Group	–	115
		Management, advertising and promotion fees received by the Group	2,459	2,583
		Facilities granted by the Group	45,000	10,000
		Interest income received by the Group	68	472

In January 2007, the Group entered into the loan agreement with LeRoi Holdings in which, the Group granted LeRoi Holdings with an unsecured loan facility with a limit up to HK$35,000,000. The loan is interest bearing at 6.5% per annum. At the balance sheet date, an amount of HK$20,000,000 was advanced from the Group to LeRoi Holdings.

(iii) Compensation of key management personnel

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

	2007	2006
	HK$'000	*HK$'000*
Short-term benefits	1,766	1,696
Post-employment benefits	24	24
	1,790	1,720

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

Details of the balances with related parties as at the balance sheet date are set out in the balance sheets and note 19.

47. PROFIT (LOSS) OF THE COMPANY FOR THE YEAR

The profit of the Company for the year ended 31 March 2007 amounting to HK$6,394,000 (2006: loss of HK$91,993,000) has been dealt with in the consolidated financial statements of the Group.

48. PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share registered capital	Proportion of issued share/ registered capital held by the Company Directly	Indirectly	Principal activity
Asia Brighter Investment Limited	Hong Kong	HK$2 Ordinary share	–	100%	Property investment
Billion Good Investment Limited	Hong Kong	HK$2 Ordinary share	–	100%	Property holding
Bright Leading Limited	Hong Kong	HK$2 Ordinary share	–	100%	Investment holding
CNT Health Food Pte Limited	Singapore	Singapore $1,610,000 Ordinary share	–	100%	Production and sales of Chinese health food
Global Winner Holdings Limited	Hong Kong	HK$360,000 Ordinary share	–	99.79%	Retailing of Chinese pharmaceutical products
Luxembourg Medicine Company Limited	Hong Kong	HK$434,747 Ordinary share	–	99.79%	Production and sale of Western pharmaceutical and health food products
Source Millennium Limited	British Virgin Islands	USD1 Ordinary share	–	100%	Investment holding
Total Smart Investments Limited	British Virgin Islands	USD1 Ordinary share	100%	–	Investment holding
Wai Yuen Tong (Retail) Limited	Hong Kong	HK$2 Ordinary share	–	99.79%	Retailing 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%	Production and trading of Chinese pharmaceutical and health food products

* *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.*

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results 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.

49. PARTICULARS OF ASSOCIATES

Details of the Group's principal associates at 31 March 2007 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	Principal activity
China Field Enterprises Limited	Incorporated	Hong Kong	Ordinary	49%	Investment holding
Chinese Leading Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Creation Sino Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Fortune Way Trading Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Hunan Xiangya Pharmaceutical Co., Ltd.	Incorporated	PRC	N/A	39.2%	Production of Chinese pharmaceutical products
LeRoi Holdings Limited*	Incorporated	Cayman Islands	Ordinary	25.32%	Investment holding and trading of fashion apparels
Longly Richly Limited pharmaceutical products	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese
Lucky Planning Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Venko Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products

* *Listed on The Stock Exchange of Hong Kong Limited*

III. INDEBTEDNESS

Borrowings

As at the close of business on 30 June 2007, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding secured bank loans of approximately HK$50.7 million which are secured by certain assets of the Group, unsecured bank loans of approximately HK$6.9 million, obligations under finance leases of approximately HK$36,000 and convertible loan stock of approximately HK$9,000.

Debt Securities

As disclosed in section "Borrowings" above, at 30 June 2007, the Group had convertible loan stock of approximately HK$9,000.

Securities

The secured bank loans of approximately HK$50.7 million as aforesaid were secured by the prepaid lease payments and building of the Group with carrying amount of approximately HK$98.3 million and HK$1.1 million respectively.

Commitment

As at 30 June 2007, the Group had a commitment of HK$1.3 million in respect of the acquisition of property, plant and equipment.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have, as at the close of business on 30 June 2007, any capital issued and outstanding, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgage, charges, hire purchases, commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated in Hong Kong dollars at the exchange rates prevailing at the close of business on 30 June 2007.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group after 30 June 2007 up to the latest practicable date.

IV. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that after taking into account the existing banking facilities available and the existing cash and bank balances, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

V. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

VI. FUTURE PLANS AND PROSPECTS

Looking forward, the Group will continue to strive to maintain the immense momentum we have built up to target long-term growth in the pharmaceutical industry. We will continue to use our best endeavours to develop top quality products, enhance our research and development capability, expand our sale network globally and satisfy our consumers' needs, so as to achieve further advance business growth and better returns in the future.

VII. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

The following is the management and discussion analysis extracted from the annual reports for the Company for the year ended 31 March 2005, 2006 and 2007.

(i) For the year ended 31 March 2005

Results

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

Dividend

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

Review of Operations

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

The Company

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

(1) Turnover by Channels

Retail

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

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

Wholesale

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

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

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

(2) Products

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

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

Men Series	–	Golden Deer's Tail, Dura-gizer, Prostate Clearer
Women Series	–	Pearl Powder, Pearl Whitening Mask, Bird's Nest Moisturizing Mask, Ganoderma Lucidum Anti-Winkle Mask, Ginseng Rejuvenating Renewal Mask, Ginseng and Pearl Facial Cream, Pearl and Aloe Vera Body Lotion, Health-promoting and Fat-clearing Essence

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

(3) Good Manufacturing Practice Certificate ("GMP")

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

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

Luxembourg

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

Madame Pearl's	–	Medical products such as Cough Syrup, Herbal Cough Syrup, Chesty Cough Syrup and Cough Syrup F2 for Children
Health Concept	–	Nutritional products such as Milk Calcium Candy with milk and chocolate flavour, OPC and DHA

Natural Spa	–	Personal health-care products such as shower gels and bath set
Natural Plus	–	Health food products such as Bio-Fiberact, Trimpower, Extra Slimming Tea
Pearl's	–	Household hygiene products such as Adult Antiseptic Diaper, Disinfectant Liquid, Laundry Detergent and Fabric Softener

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

CNT Health Food ("CNT")

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

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

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

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

Capital Reorganization

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

Liquidity and Financial Resources

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

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

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

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

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

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

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

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

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

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

The Group has no significant investment or capital asset held during the financial year.

Charges on Group Assets

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

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

Foreign Exchange

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

Management and Staff

As at 31 March 2005, the Group had over 580 employees, approximately 73% of whom were located in Hong Kong. Staff requirement is regularly monitored with reference to the actual needs of the Group. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK$57.1 million. Remuneration packages, which comprise salaries, provident fund contributions and medical benefits, are periodically reviewed based on market trends, performance appraisals, working experience and industry practice.

Prospects

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

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

(ii) For the year ended 31 March 2006

Results

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

Dividend

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

Business Review

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

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

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

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

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

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

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

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

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

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

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

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

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

CNT will also target expanding its market to Hong Kong and the PRC.

Financial Review

(I) Capital Reorganisation

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

(II) Liquidity, Capital Structure, Gearing and Investments

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

There is no material acquisition or disposal of subsidiaries or associated companies in the course of the financial year.

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

The Group has no significant investment or capital asset held during the financial year.

(III) Foreign Exchange

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

(IV) Charges on Group Assets

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

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

(V) Contingent Liabilities and Capital Commitments

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

(VI) Rights Issues

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

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

(VII) Employees

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

(iii) For the year ended 31 March 2007

Results

The Group recorded a turnover of HK$381.3 million (2006: HK$324.8 million) for the year ended 31 March 2007, representing an increase of 17.4% compared to that of last year. The Group had turned around from a loss-making to aprofit-making position, recording a profit attributable to equity holders for the fiscal year ended 31 March 2007 of HK$9.9 million (2006: loss HK$98.4 million). Basic earnings per share was HK$0.71 cents (2006: basic loss per share of HK$12.0 cents).

Dividend

No interim dividend was paid during the year under review (2006: Nil). The Directors of the Company (the "Directors") do not recommend the payment of final dividend in respect of the year (2006: Nil).

Business Review

Despite the intensifying competition in the retailing and distribution of Chinese herbal medicinal and healthcare products in the local market, plus the escalating pressure of rising rental and staff costs, the Group launched its strategic plan of expansion and not only successfully secured its market position but deepened its market penetration in Hong Kong, mainland China and other overseas markets.

Chinese Pharmaceutical Products

Turnover for the year under review increased by 14.3% from HK$237.3 million to HK$271.2 million. The rising public awareness of health continued to bring a great deal of business momentum to our Group's flagship operation of the sale and distribution of Chinese herbal medicinal and healthcare products under the brand of "Wai Yuen Tong". In the fourth quarter of 2006, the Group launched a rebranding project with a series of marketing campaigns that were targeted to rejuvenate the brand of "Wai Yuen Tong". With the opening of a new retail store at Parkes Street, Jordan and adopting the new visual image in January 2007, the Group successfully strengthened its local leading position as the largest Chinese herbal medicine retail chain, the largest Chinese medical practitioners network, and the provider of the best quality products. The award of GMP Certificate in early 2006 led the Group's aggressive plan to extend our market coverage to South East Asia, Australia, Canada and the United States.

During the fiscal year, the Group continued to expand its retail network by opening 6 retail outlets in Hong Kong and 13 retail outlets in the PRC, bringing the total of retail outlets to 55 and 25 respectively. 45 of the 55 retail outlets in Hong Kong provide healthcare consultation services by registered Chinese medical practitioners. The overall gross profit margin increased as we improved our sales channels and product mix. In view of escalating rentals, the Group has started to focus on adjusting the location and size of its stores so as to lower the overall rental costs while keeping the loyal customers.

Western Pharmaceutical Products

Turnover in Western pharmaceutical and health products increased sharply by 69.8% from HK$44.3 million to HK$75.2million. The increase was mainly attributable to the core product, cough syrup, selling in the PRC as the Group successfully expanded its sales channels and network to over 18 provinces in the PRC. A series of rebranding activities launched in Hong Kong, together with the increased effort on sales channel management across dealers, keychains and drug stores, also brought growth in turnover.

The Group will continue to concentrate its efforts on the sale of cough syrup and other products related to upperrespiratory tract infections. Business opportunities will be sought to optimise the utilisation of the strong distribution network in Hong Kong and the PRC.

Chinese Health Food Business

The Group's manufacturing of Chinese health food business was operated through our production arm CNT HealthFood Pte Limited ("CNT") in Singapore. The revenue for the period under review was HK$33.1 million (2006: HK$41.3 million). During the fiscal year, CNT streamlined its operations, strengthened its purchasing function, and launched awastage reduction program. A remarkable improvement in gross profit margin had resulted and the operations started to bring contribution to the Group's results.

Investment in LeRoi

In January 2007, the Company acquired 25.32% equity interest in LeRoi. The Company also subscribed for a HK$3 million convertible notes issued by LeRoi and was granted an option to subscribe for additional HK$7 million convertible notes to be issued by LeRoi.

Looking forward, the LeRoi Group will keep its investment and operating strategies under review on an ongoing basis.

As a result of the completion of the acquisition of certain business and a number of properties in March 2007, the LeRoi Group has diversified into new areas of business which are wet market retailing and property investment. The acquisition will strengthen the revenue stream of the LeRoi Group and reduce the risk in reliance on a single line of business. The LeRoi Group is looking at the possibility of increasing the number of stalls for the pork business in different districts in Hong Kong. On the other hand, the properties acquired will provide a steady income and cash flow stream.

Financial Review

Liquidity, Capital Structure, Gearing and Investments

In view of acquiring potential business opportunities available in the market, it is appropriate for the Group to maintain sufficient working capital. During the year under review, the Group disposed one of its subsidiaries which owned an industrial property located in Kowloon Bay, for a cash consideration of HK$188 million. As at 31 March 2007, the Group's total borrowings amounted to HK$59.3 million (2006: HK$133.1 million) which included bank borrowings and overdrafts of HK$59.2 million (2006: HK$132.7 million) and obligations under a finance lease of HK$0.1 million (2006: HK$0.4 million).

The gearing ratio, defined as the ratio of total borrowings to equity attributable to equity holders was approximately 9.0% (2006: 20.6%).

Contingent Liabilities and Capital Commitments

The Group has no contingent liabilities or capital commitments as at 31 March 2007 (2006: HK$3.8 million and HK$49.5 million respectively).

Foreign Exchange

The board is of the opinion that there is no material foreign exchange exposure to the Group. All bank borrowings are denominated in Hong Kong and Singapore dollars. The revenue of the Group, being mostly denominated in Hong Kong and Singapore dollars, matched the currency requirement of the Group's operating expenses. The Group does not engage in any hedging contracts.

Charges on Group Assets

As at March 2007, the Group had pledge its prepaid lease payments and buildings with carrying amount of approximately HK$98,952,000 (2006: HK$143,156,000) and HK$1,048,000 (2006: HK$40,758,000) respectively.

Placing of New Shares

The Group placed 279,000,000 new shares of HK$0.01 each through a placing agent, on a fully underwritten basis, to independent investors at a price of HK$0.46 per share, completion of which took place on 29 June 2007. The net proceeds of approximately HK$124.1 million are intended to be used for the expansion of the Group's retail network in the PRC and Hong Kong and for general working capital of the Group.

Placing of Convertible Notes

On 11 June 2007, the Group entered into a placing agreement with a placing agent to place, on a fully underwritten basis, up to an aggregate principal amount of HK$250,000,000 convertible note at an initial conversion price of HK$0.58 per share. This placement is subject to the approval of the shareholders of the Company at the special general meeting to be held on 26 July 2007. The net proceeds of approximately HK$245.5 million are intended to be used as to approximately HK$180 million for capturing new investment opportunities and for the general working capital of the Group.

Employees

At the balance sheet date, the Group employed approximately 560 employees, of which approximately 84% were located in Hong Kong. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK$72.7 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group also makes available a share option scheme to its employees.

SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the published results and the assets and liabilities of the LeRoi Group as extracted from the relevant annual reports of the Company. There was no qualified opinion in the auditor's reports of LeRoi for the years ended 31 March 2005, 2006 and 2007.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March

	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	32,769	78,833	111,031
Cost of sales	(21,707)	(58,577)	(78,866)
Gross profit	11,062	20,256	32,165
Other revenue	115	66	40
Other income	1,712	443	–
Selling and distribution expenses	(9,392)	(12,258)	(14,128)
Administrative expenses	(14,002)	(15,111)	(12,937)
Impairment of goodwill	(1,515)	–	–
Impairment of property, plant and equipment	(701)	(663)	–
Impairment of interests in an associate	(265)	(105)	–
Provision for impairment of trade receivables	(10,405)	(11,328)	(2,677)
Provision for obsolete inventories	(18,770)	(20,740)	(4,822)
Operating loss	(42,161)	(39,440)	(2,359)
Finance costs	(446)	(6)	(12)
Share of (loss)/profit of an associate	(1,962)	68	15
Loss before taxation	(44,569)	(39,378)	(2,356)
Taxation	(6)	(32)	(1,284)
Loss for the year	(44,575)	(39,410)	(3,640)
Loss for the year attributable to:			
– Equity holders of the Company	(43,814)	(39,410)	(3,640)
– Minority interest	(761)	–	–
	(44,575)	(39,410)	(3,640)
Loss per share for loss attributable to equity holders of the Company			
– Basic	(HK5.41 cents)	(HK4.87 cents)	(HK0.45 cent)
– Diluted	N/A	N/A	N/A

CONSOLIDATED BALANCE SHEET

for the year ended 31 March

	2007 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*
Non-current assets			
Property, plant and equipment	258	2,947	4,226
Investment properties	11,720	–	–
Goodwill	5,052	–	–
Interests in an associate	6,487	8,976	9,011
	23,517	11,923	13,237
Current assets			
Inventories	20,517	24,929	40,772
Trade receivables	12,497	37,274	44,600
Prepayments, deposits and other receivables	2,152	856	771
Time deposits	14,280	–	–
Cash and bank balances	7,219	4,606	16,593
	56,665	67,665	102,736
Less: Current liabilities			
Trade payables	3,055	1,808	1,677
Accruals and other payables	4,806	3,183	1,985
Obligations under finance lease – due within one year	–	61	102
Tax payable	30,439	29,674	29,045
	38,300	34,726	32,809
Net current assets	18,365	32,939	69,927
Total assets less current liabilities	41,882	44,862	83,164
Less: Non-current liabilities			
Interest-bearing loans from shareholders	36,859	–	–
Convertible notes	2,856	–	–
Obligations under finance lease – due after one year	–	–	63
	39,715	–	63
Net assets	2,167	44,862	83,101
Capital and reserves			
Share capital	8,096	8,096	8,096
Reserves	(5,929)	36,766	75,005
Total equity attributable to equity holders of the Company	2,167	44,862	83,101
Minority interest	–	–	–
Total equity	2,167	44,862	83,101

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE LEROI GROUP FOR THE YEAR ENDED 31 MARCH 2007

Set out below is the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement of the LeRoi Group, and the balance sheet of LeRoi together with the notes to the financial statements of the LeRoi Group as extracted from pages 24 to 77 of the annual report of LeRoi for the year ended 31 March 2007.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	6	32,769	78,833
Cost of sales		(21,707)	(58,577)
Gross profit		11,062	20,256
Other revenue	6	115	66
Other income		1,712	443
Selling and distribution expenses		(9,392)	(12,258)
Administrative expenses		(14,002)	(15,111)
Impairment of goodwill		(1,515)	–
Impairment of property, plant and equipment		(701)	(663)
Impairment of interests in an associate		(265)	(105)
Provision for impairment of trade receivables		(10,405)	(11,328)
Provision for obsolete inventories		(18,770)	(20,740)
Operating loss	7	(42,161)	(39,440)
Finance costs	8	(446)	(6)
Share of (loss)/profit of an associate		(1,962)	68
Loss before taxation		(44,569)	(39,378)
Taxation	11	(6)	(32)
Loss for the year		(44,575)	(39,410)
Loss for the year attributable to:			
– Equity holders of the Company		(43,814)	(39,410)
– Minority interest		(761)	–
		(44,575)	(39,410)
Loss per share for loss attributable to equity holders of the Company	14		
– Basic		(HK5.41 cents)	(HK4.87 cents)
– Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	258	2,947
Investment properties	16	11,720	–
Goodwill	17	5,052	–
Interests in an associate	18	6,487	8,976
		23,517	11,923
Current assets			
Inventories	21	20,517	24,929
Trade receivables	22	12,497	37,274
Prepayments, deposits and other receivables		2,152	856
Time deposits		14,280	–
Cash and bank balances	23	7,219	4,606
		56,665	67,665
Less: Current liabilities			
Trade payables	24	3,055	1,808
Accruals and other payables		4,806	3,183
Obligations under finance lease – due within one year	25	–	61
Tax payable		30,439	29,674
		38,300	34,726
Net current assets		18,365	32,939
Total assets less current liabilities		41,882	44,862
Less: Non-current liabilities			
Interest-bearing loans from shareholders	26	36,859	–
Convertible notes	27	2,856	–
		39,715	–
Net assets		2,167	44,862
Capital and reserves			
Share capital	28	8,096	8,096
Reserves	30(a)	(5,929)	36,766
Total equity attributable to equity holders of the Company		2,167	44,862
Minority interest		–	–
Total equity		2,167	44,862

BALANCE SHEET

At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Interests in subsidiaries	20	–	22,684
Current assets			
Prepayments		357	156
Amounts due from subsidiaries	20	29,129	25,515
Time deposits		13,945	–
Cash and bank balances		193	18
		43,624	25,689
Less: Current liabilities			
Accruals and other payables		1,797	1,320
Amount due to a subsidiary	20	–	2,198
		1,797	3,518
Net current assets		41,827	22,171
Total assets less current liabilities		41,827	44,855
Less: Non-current liabilities			
Interest-bearing loans from shareholders	26	36,859	–
Convertible notes	27	2,856	–
		39,715	–
Net assets		2,112	44,855
Capital and reserves			
Share capital	28	8,096	8,096
Reserves	30(b)	(5,984)	36,759
Total equity attributable to equity holders of the Company		2,112	44,855

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Attributable to equity holders of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Exchange fluctuation reserve *HK$'000*	Convertible notes equity reserve *HK$'000*	Retained profits *HK$'000*	Capital reserve *HK$'000*	Total *HK$000*	Minority interest *HK$000*	Total equity *HK$000*
At 1 April 2005	8,096	9,827	–	–	65,178	–	83,101	–	83,101
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	1,171	–	–	–	1,171	–	1,171
Net loss for the year	–	–	–	–	(39,410)	–	(39,410)	–	(39,410)
At 31 March 2006 and at 1 April 2006	8,096	9,827	1,171	–	25,768	–	44,862	–	44,862
Cash received in excess of fair value of interest-bearing loans from shareholders	–	–	–	–	–	1,966	1,966	–	1,966
Equity component of convertible notes *(Note 27)*	–	–	–	152	–	–	152	–	152
Increase in minority interest resulting from deemed acquisition of a subsidiary	–	–	–	–	–	–	–	761	761
Exchange differences on translation of financial statements of overseas subsidiaries	–	–	(999)	–	–	–	(999)	–	(999)
Net loss for the year	–	–	–	–	(43,814)	–	(43,814)	(761)	(44,575)
At 31 March 2007	8,096	9,827	172	152	(18,046)	1,966	2,167	–	2,167
Reserves retained by:									
Company and subsidiaries		9,827	172	152	(16,161)	1,966	(4,044)	–	(4,044)
Associate		–	–	–	(1,885)	–	(1,885)	–	(1,885)
At 31 March 2007		9,827	172	152	(18,046)	1,966	(5,929)	–	(5,929)
Company and subsidiaries		9,827	1,171	–	25,691	–	36,689	–	36,689
Associate		–	–	–	77	–	77	–	77
At 31 March 2006		9,827	1,171	–	25,768	–	36,766	–	36,766

Notes: (1) The share premium account of the Group includes (i) shares issued at premium; and (ii) the difference between the nominal value of the aggregate issued share capital of the subsidiaries acquired, together with the share premium arising on the acquisition of the provision of administrative services and the trading of fashion apparel pursuant to the group reorganisation upon the listing of the Company, over the nominal value of the Company's share issued in exchange therefor.

(2) Capital reserve account of the Group represents the amount of cash received in excess of fair value of interest-bearing loans from shareholders during the year ended 31 March 2007. For details, please refer to Note 26 to the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(44,569)	(39,378)
Adjustments for:			
Depreciation		2,661	4,347
Loss on disposal of property, plant and equipment		23	68
Share of loss/(profit) of an associate		1,962	(68)
Interest income	*6*	(103)	(22)
Fair value gain in respect of investment properties	*16*	(75)	–
Finance costs	*8*	446	6
Negative goodwill		(26)	–
Reversal of provision for impairment of trade receivables		(41)	–
Reversal of provision for obsolete inventories		(693)	–
Provision for impairment of trade receivables		10,405	11,328
Impairment of interests in an associate		265	105
Provision for obsolete inventories		18,770	20,740
Provision for amount due from a minority shareholder		390	–
Impairment of property, plant and equipment		701	663
Impairment of goodwill		1,515	–
Exchange difference		(972)	524
Operating loss before working capital changes		(9,341)	(1,687)
Increase in inventories		(10,749)	(4,341)
Decrease/(increase) in trade receivables		12,517	(3,547)
Increase in prepayments, deposits and other receivables		(304)	(76)
Increase in trade payables		603	146
Increase in accruals and other payables		1,170	1,334
Cash used in operations		(6,104)	(8,171)
Interest paid		(1)	(6)
Net cash outflow from operating activities		(6,105)	(8,177)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		103	22
Purchase of property, plant and equipment		(435)	(3,728)
Purchase of investment properties		(1,105)	–
Acquisition of subsidiaries	*31*	(17,089)	–
Loan advanced to an associate		–	(2)
Repayment of loan advanced to an associate		262	–
Net cash outflow from investing activities		(18,264)	(3,708)

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of finance lease rental payments		(61)	(102)
Proceeds from issue of convertible notes	27	3,000	–
Interest-bearing loans from shareholders	26	38,750	–
Dividend paid to a subsidiary's ex-shareholders		(633)	–
Net cash inflow/(outflow) from financing activities		41,056	(102)
Net increase/(decrease) in cash and cash equivalents		16,687	(11,987)
Cash and cash equivalents at the beginning of the year		4,606	16,593
Effects of exchange rate changes on the balance of cash held in foreign currencies		206	–
Cash and cash equivalents at the end of the year		21,499	4,606
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		7,219	4,606
Time deposits		14,280	–
		21,499	4,606

NOTES TO FINANCIAL STATEMENTS

31 March 2007

1. CORPORATE INFORMATION

LeRoi Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The principal place of business of the Company in Hong Kong is located at 5th Floor, Wai Yuen Tong Medicine Building, 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the trading of fashion apparel, the sale of fresh pork meat and related produce, and the property holding. The business of the sale of fresh pork meat and related produce, and the property holding were commenced on 23 March 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand ("HK$'000") except otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 3 to the financial statements.

Impact of new and revised HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretations has had no material impact on these financial statements.

HKFRS 1 & 6 (Amendments)	First-time adoption of Hong Kong Financial Reporting Standards and Exploration for and evaluation of mineral resources
HKFRS 6	Exploration for and evaluation of mineral resources
HKAS 19 (Amendment)	Employee benefits
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts
HK (IFRIC) – Int 4	Determining whether an arrangement contains a lease
HK (IFRIC) – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK (IFRIC) – Int 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK (IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies

Impact of new and revised HKFRSs not yet effective

		Effective for accounting period beginning on or after
HKFRS 7	Financial instruments: Disclosures	1 January 2007
HKFRS 8	Operating segments	1 January 2009
HKAS 1 (Amendment)	Presentation of financial statements: Capital disclosures	1 January 2007
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HK (IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK (IFRIC) – Int 9	Reassessment of embedded derivatives	1 June 2006
HK (IFRIC) – Int 10	Interim financial reporting and impairment	1 November 2006
Revised guidance on implementing HKFRS 4 – Insurance		1 January 2007
HK (IFRIC) – Int 11	HKFRS 2, Group and treasury share transactions	1 March 2007
HK (IFRIC) – Int 12	Service concession arrangements	1 January 2008

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

The management is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards. The directors of the Company so far has concluded that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

A summary of significant accounting policies adopted by the Group in the preparation of the financial statements is set out below:

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention except for investment properties which have been carried at fair value as explained below.

Basis of consolidation

The consolidated financial statements included the financial statements of the Company and all its subsidiaries, associates and jointly-controlled entities for the year ended 31 March 2007. 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 income statement 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 into line with those used by other members of the Group.

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

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 the income statement.

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.

Subsidiaries

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

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

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Jointly-controlled entities

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

The Group recognises its interests in jointly-controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly-controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in a jointly-controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

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 income statement.

When a group entity transacts with a jointly-controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly-controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of the acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill arising on acquisition is presented separately in the consolidated balance sheet.

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

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

Negative goodwill

A discount of acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in income statement.

Impairment of non-financial assets (other than goodwill)

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

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

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest held under and operating lease which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated to fair value, which reflects market conditions at the balance sheet date.

Gain or loss arising from changes in fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year or retirement or disposal.

Property, plant and equipment

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

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

Furniture, fixtures and equipment	20-33$^1/_3$%
Leasehold improvements	Over the lease terms
Motor vehicles	20-33$^1/_3$%
Machineries	20-33$^1/_3$%

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

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

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities and equity

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

An equity instrument is a contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and financial liabilities at amortised costs.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are classified into (i) financial liabilities held for trading and (ii) those designated as at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and interest-bearing loans advanced from shareholders are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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

Convertible loan notes

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument is an equity instrument. For conversion option that does not meet the definition of an equity instrument, it is classified as a derivative financial liability and is carried at fair value.

Convertible notes that contain an equity component

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest rate method. The equity component will remain in convertible loan note equity reserve until the conversion option is exercised (in which case the amount will be transferred to the share premium account). Where the option remains unexercised at the expiry date, the amount stated in the convertible loan note equity reserve will be released to retained profits. No gain or loss is to be recognised in the income statement upon conversion or expiration of the option.

Convertible notes that do not contain an equity component

Conversion option that is classified as derivative financial liability are re-measured at each balance sheet date subsequent to initial recognition with changes in fair value recognised directly in the income statement in the period in which they arise.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying value of the financial liability derecognised and the consideration paid is recognised in the income statement.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs those have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions and contingent liabilities

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised costs less impairment loss for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Revenue recognition

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

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

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

- Rental income, on a time proportion basis over the lease terms.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. No accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward as the amount is immaterial.

Retirement benefits scheme

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share options scheme

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting periods, taking into account the probability that the options will vest.

During the vesting periods, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expenses is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to achieving conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Current assets and current liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Foreign currencies

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

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

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financial expenses.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income tax

The Group is subject to income taxes in Hong Kong, Macau, and the People's Republic of China (the "PRC"). Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for trade receivable are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provision are not made could affect the results of operations.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are primarily based on market conditions existing at each balance sheet date.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. Theses calculations require the use of estimates *(Note 17)*.

The carrying amount of goodwill at the balance sheet date was approximately HK$5,052,000 after an impairment of approximately HK$1,515,000 was recognised during the year.

Provision for obsolete inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes provision for obsolete and slow-moving inventory items. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items.

Estimated of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices, and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND ESTIMATES

The Group's principal financial instruments comprise cash and bank balances, and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Cash flow interest rate risk

The Group's interest rate risk arises from interest-bearing borrowings and bank balances. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. Bank balances carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk. The Group did not enter into interest rate swap to hedge against its exposures to changes in fair values of the borrowings.

Foreign exchange risk

The Group's sales are primarily in Hong Kong Dollars and Renminbi and its purchases are denominated primarily in Hong Kong Dollars and Renminbi. As it sales and purchases are denominated in Hong Kong Dollars and Renminbi, the Group considers there is no material currency risk and the Group does not have any formal hedging policy.

Credit risk

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relating to its financial assets. The Group has put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs period credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible accounts receivable has been made in the consolidated financial statements.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, and time deposits arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. Internally generated cash flow and funds raising from issuance of convertible notes and loans from shareholders during the year are the general source of funds to finance the operation of the Group. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The carrying amounts of the following financial assets and liabilities approximate their fair value: cash and cash equivalents, trade receivables less credit adjustments, prepayments, deposits and other receivables, trade payables, accruals and other payables.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. For the year ended 31 March 2007, the Group is primarily engaged in three business segments: (i) trading of fashion apparel; (ii) sales of fresh pork meat and related produce; and (iii) property holding.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade and other receivables, time deposits, and cash and bank balances.

Segment liabilities comprise operating liabilities.

Unallocated assets and liabilities comprise items such as corporate borrowings.

Business segments

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

The segment results for the year ended 31 March 2007 are as follows:

	Trading of fashion apparel *HK$'000*	**Sales of fresh pork meat and related produce** *HK$'000*	**Property holding** *HK$'000*	**Total** *HK$'000*
Segment revenue:				
External revenue	31,779	968	22	32,769
Segment results excluding impairment loss recognised in respect of goodwill	(37,430)	19	114	(37,297)
Impairment loss recognised in respect of goodwill	–	(1,515)	–	(1,515)
Segment results	(37,430)	(1,496)	114	(38,812)
Interest income and unallocated gains				115
Corporate and other unallocated expenses				(3,464)
Operating loss				(42,161)
Finance costs				(446)
Share of loss of an associate				(1,962)
Loss before taxation				(44,569)
Taxation				(6)
Loss for the year				(44,575)

	Trading of fashion apparel *HK$'000*	Sales of fresh pork meat and related produce *HK$'000*	Property holding *HK$'000*	Total *HK$'000*
Assets and liabilities				
Segment assets	39,183	8,034	11,953	59,170
Unallocated				21,012
Total assets				80,182
Segment liabilities	35,199	959	145	36,303
Unallocated				41,712
Total liabilities				78,015
Other segment information				
Depreciation	2,658	3	–	2,661
Capital expenditure	435	–	1,105	1,540
Capital expenditure resulting from acquisitions through business combination	–	6,747	10,540	17,287
Loss on disposal of property, plant and equipment	–	23	–	23
Impairment loss recognised in the income statement				
– property, plant and equipment	701	–	–	701
– goodwill in respect of a subsidiary	–	1,515	–	1,515

During the year ended 31 March 2006, over 90% of the Group's revenue, results, assets and liabilities were derived from the trading segment engaged in the trading of fashion apparel. No revenue, results, assets and liabilities were derived from segments engaged in sales of fresh pork meat and related produce and property holding. Accordingly, no further detailed analysis of the Group's business segments is disclosed.

Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. During the years ended 31 March 2006 and 2007, over 90% of the Group's revenue and assets were derived from customers and operations based in the People's Republic of China (the "PRC") including Mainland China and Hong Kong and accordingly, no further detailed analysis of the Group's geographical segments is disclosed.

6. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of fashion apparels, and fresh pork meat and related produce sold, after allowances for returns and trade discounts, and rental income. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue is as follows:

	2007	2006
	HK$'000	*HK$'000*
Turnover:		
Sale of fashion apparel	31,779	78,833
Sale of fresh pork meat	968	–
Rental income	22	–
	32,769	78,833
Other revenue:		
Interest income	103	22
Sundry income	12	44
	115	66
Total revenue	32,884	78,899

7. OPERATING LOSS

Operating loss is stated after charging:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Cost of inventories sold	21,707	58,577
Depreciation of owned property, plant and equipment	2,661	4,130
Depreciation of property, plant and equipment held under finance lease	–	217
Provision for impairment of trade receivables	10,405	11,328
Provision for obsolete inventories	18,770	20,740
Provision for amount due from a minority shareholder	390	–
Auditors' remuneration	731	773
Minimum lease payments under operating leases for land and buildings	829	741
Loss on disposal of property, plant and equipment	23	68
Impairment of property, plant and equipment	701	663
Impairment of interests in an associate *(Note 18)*	265	105
Impairment of goodwill *(Note 17)*	1,515	–
Salaries and other short-term employee benefits (excluding directors' remuneration – *Note 9*)	4,548	3,041
Retirement benefits scheme contributions	52	89
	4,600	3,130
and after crediting:		
Other income:		
Exchange gain	877	443
Negative goodwill *(Note 31)*	26	–
Fair value gain in respect of investment properties *(Note 16)*	75	–
Reversal of provision for impairment of trade receivables	41	–
Reversal of provision for obsolete inventories	693	–
	1,712	443

8. FINANCE COSTS

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Interest element of finance lease rental payments	1	6
Effective interest on convertible notes wholly repayable within five years	44	–
Effective interest on interest-bearing loans from shareholders wholly repayable within five years	401	–
	446	6

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

The remuneration of every Director for the year ended 31 March 2007 is set out below:

Name of director	**Basic salaries**	**Director's fee**	**Provident fund contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2007:				
Executive directors				
Ms. Yeung Sau Han, Agnes *(Note 1)*	684	–	14	698
Mr. Ng Cheuk Fan, Keith	650	–	12	662
Mr. Hung Man Sing	650	–	12	662
Mr. Lim Kwok Choi *(Note 2)*	101	–	5	106
Mr. Chan Chun Hong, Thomas *(Note 3)*	86	–	3	89
Mr. Cheung Wai Kai, Alvin *(Note 4)*	29	–	1	30
Independent non-executive directors				
Mr. Lok Shing Kwan, Sunny *(Note 5)*	–	97	–	97
Mr. Chiang Chi Kin, Stephen *(Note 6)*	–	97	–	97
Mr. Chan Kin Sang *(Note 7)*	–	97	–	97
Mr. Sin Ka Man, Kenneth *(Note 8)*	–	23	–	23
Mr. Yuen Kam Ho, George *(Note 9)*	–	4	–	4
Mr. Cheung Sau Wah, Joseph *(Note 10)*	–	4	–	4
	2,200	322	47	2,569

The remuneration of every Director for the year ended 31 March 2006 is set out below:

Name of director	Basic salaries	Director's fee	Provident fund contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2006:				
Executive directors				
Ms. Yeung Sau Han, Agnes	698	–	12	710
Mr. So Chi Hiu *(Note 11)*	58	–	2	60
Mr. Ng Cheuk Fan, Keith	638	–	12	650
Mr. Hung Man Sing *(Note 12)*	564	–	11	575
Mr. Lim Kwok Choi	215	–	11	226
Independent non-executive directors				
Mr. Hung Man Sing *(Note 12)*	–	12	–	12
Mr. Lok Shing Kwan, Sunny	–	120	–	120
Mr. Chiang Chi Kin, Stephen	–	120	–	120
Mr. Chan Kin Sang	–	108	–	108
	2,173	360	48	2,581

Notes:

1. Ms. Yeung Sau Han, Agnes resigned on 5 January 2007.
2. Mr. Lim Kwok Choi resigned on 5 January 2007.
3. Mr. Chan Chun Hong, Thomas was appointed on 5 January 2007.
4. Mr. Cheung Wai Kai, Alvin was appointed on 5 January 2007.
5. Mr. Lok Shing Kwan, Sunny resigned on 24 January 2007.
6. Mr. Chiang Chi Kin, Stephen resigned on 24 January 2007.
7. Mr. Chan Kin Sang resigned on 24 January 2007.
8. Mr. Sin Ka Man, Kenneth was appointed on 24 January 2007.
9. Mr. Yuen Kam Ho, George was appointed on 20 March 2007.
10. Mr. Cheung Sau Wah, Joseph was appointed on 21 March 2007.
11. Mr. So Chi Hiu resigned on 6 May 2005.
12. Mr. Hung Man Sing was appointed on 22 March 2005 as independent non-executive director and re-designated to executive director on 6 May 2005.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2006: Nil). None of the directors has waived any emoluments during the year (2006: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The aggregate emoluments of the five highest paid individuals included three (2006: three) executive directors of the Company, whose emoluments are included in Note 9 above. The aggregate emoluments of the remaining two (2006: two) highest paid individuals are as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Basic salaries and allowances	452	603
Retirement benefits scheme contributions	21	21
	473	624

The remuneration of each non-director, highest paid employee fell within the nil to HK$1,000,000 band.

During the year, no emoluments were paid by the Group to the non-director, highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2006: Nil).

11. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2006: Nil) on the estimated assessable profits arising in Hong Kong during the year. No provision for PRC income taxes has been made during the year as the subsidiaries operated in the PRC had no assessable profit for the year.

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
The Group:		
Current – Hong Kong	6	–
Current – Mainland China	–	32
Total tax charge for the year	6	32

During the year, the Hong Kong Inland Revenue Department ("IRD") issued two estimated assessments demanding for tax payment of approximately HK$4,193,000 and HK$800,000 to two wholly owned subsidiaries of the Group for the year of assessment of 2000/01. Both estimated tax assessments were held over unconditionally by the IRD.

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

The Group – 2007

	Hong Kong *HK$'000*	**Macau** *HK$'000*	**Mainland China** *HK$'000*	**Total** *HK$'000*
Loss before taxation	(12,334)	(5,049)	(27,186)	(44,569)
Tax at the applicable income tax rate	(2,160)*	(606)**	(8,972)***	(11,738)
Tax effect of income and expenses not taxable or deductible for tax purposes	250	606	(5,440)	(4,584)
Tax effect of unrecognised temporary differences	(19)	–	–	(19)
Tax effect of tax losses not recognised	1,935	–	14,412	16,347
Tax charge at the effective tax rate for the year	6	–	–	6

The Group – 2006

	Hong Kong *HK$'000*	**Macau** *HK$'000*	**Mainland China** *HK$'000*	**Total** *HK$'000*
Loss before taxation	(4,811)	(28,605)	(5,962)	(39,378)
Tax at the applicable income tax rate	(842)*	(3,432)**	(1,967)***	(6,241)
Tax effect of income and expenses not taxable or deductible for tax purposes	70	3,432	1,316	4,818
Tax effect of unrecognised temporary differences	35	–	–	35
Tax effect of tax losses not recognised	737	–	683	1,420
Tax charge at the effective tax rate for the year	–	–	32	32

* The standard Hong Kong Profits Tax rate is 17.5%.

** The standard Macau Complementary Tax rate is 12%.

*** The standard Mainland China Corporate Income Tax rate is 33% on deemed profit, which was based on the 30% recognised income of a Company's subsidiary.

The Group has estimated tax losses arising in Hong Kong of approximately HK$27,252,000 (2006: HK$16,727,000) that are available indefinitely for offsetting against future taxable profits of companies in which the losses arose. No deferred tax assets have been recognised due to the unpredictability of future profits streams.

There was no income tax consequence attaching to the payment of dividends by the Company to its shareholders.

12. LOSS FOR THE YEAR

The net loss for the year dealt with in the financial statements of the Company amounted to approximately HK$44,861,000 (2006: HK$19,057,000).

13. DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the year ended 31 March 2007 (2006: Nil).

14. LOSS PER SHARE FOR LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY FOR THE YEAR

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of approximately HK$43,814,000 (2006: HK$39,410,000), and the weighted average number of 809,600,000 (2006: 809,600,000) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31 March 2006 has not been disclosed as no diluting events existed during that year.

Diluted loss per share for the year ended 31 March 2007 has not been disclosed as the convertible notes outstanding during the year had an anti-dilutive effect on the basic loss per share for the year ended 31 March 2007.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Furniture, fixtures and equipment *HK$'000*	Leasehold improvements *HK$'000*	Motor vehicles *HK$'000*	Machineries *HK$'000*	Total *HK$'000*
Cost:					
At 1 April 2005	7,656	845	850	–	9,351
Additions	974	2,754	–	–	3,728
Disposals	(633)	(82)	–	–	(715)
Exchange realignment	143	14	–	–	157
At 31 March 2006 and 1 April 2006	8,140	3,531	850	–	12,521
Additions	90	345	–	–	435
Acquisition of subsidiaries *(Note 31)*	139	25	–	16	180
Disposals	(8)	(13)	–	(2)	(23)
Exchange realignment	417	180	–	–	597
At 31 March 2007	8,778	4,068	850	14	13,710

The Group

	Furniture, fixtures and equipment *HK$'000*	Leasehold improvements *HK$'000*	Motor vehicles *HK$'000*	Machineries *HK$'000*	Total *HK$'000*
Accumulated depreciation and impairment:					
At 1 April 2005	4,660	42	423	–	5,125
Charge for the year	2,517	1,547	283	–	4,347
Impairment loss recognised for the year	–	663	–	–	663
Written back on disposals	(633)	(14)	–	–	(647)
Exchange realignment	86	–	–	–	86
At 31 March 2006 and 1 April 2006	6,630	2,238	706	–	9,574
Charge for the year	1,083	1,434	144	–	2,661
Impairment loss recognised for the year	487	214	–	–	701
Exchange realignment	361	155	–	–	516
At 31 March 2007	8,561	4,041	850	–	13,452
Net book value:					
At 31 March 2007	217	27	–	14	258
At 31 March 2006	1,510	1,293	144	–	2,947

At the balance sheet date, no property, plant and equipment was held under finance leases (2006: HK$109,000).

During the year ended 31 March 2007, the Group carried out a review of the recoverable amount of its furniture, fixtures and equipment and leasehold improvements. The review led to the recognition of an impairment loss of approximately HK$701,000 (2006: HK$663,000), that has been recognised in the consolidated income statement. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 13.31% per annum.

Property, plant and equipment kept in three stalls selling fresh pork meat located in Tseung Kwan O with a carrying value of approximately HK$23,000 was damaged due to a fire accident on 29 March 2007. Subsequently, the Group has claimed compensation for loss of approximately HK$195,000. One of the stalls was re-opened for business on 7 June 2007.

16. INVESTMENT PROPERTIES

The Group

	2007	**2006**
	HK$'000	*HK$'000*
Fair value:		
At the beginning of the year	–	–
Additions	1,105	–
Acquisition of subsidiaries during the year *(Note 31)*	10,540	–
Net increase in fair value	75	–
At the end of the year	11,720	–

Investment properties were revalued at their open market values at 31 March 2007 by Messrs Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group, on an open market value, existing use basis. This valuation gave rise to a gain arising from change in fair value of approximately HK$75,000 at 31 March 2007, which has been charged to the consolidated income statement.

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

The investment properties are lease to third parties under operating lease. Property rental income earned during the year ended 31 March 2007 was approximately HK$22,000 (2006: Nil). No contingent rental income was recognised during the year ended 31 March 2007.

The Group leased its investment properties under operating lease arrangements with leases terms negotiated for terms ranging from 1 to 2 years, with an option to renew the contracts according to the prevailing market conditions. Tenants are required to pay security deposits under the lease terms.

At 31 March 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007 *HK$'000*	2006 *HK$'000*
Within one year	522	–
In the second to fifth years inclusive	16	–
	538	–

Particulars of the Group's investment properties are shown on page 78.

17. GOODWILL

The Group

	2007 *HK$'000*	2006 *HK$'000*
Cost:		
At the beginning of the year	–	–
Addition due to acquisition of subsidiaries *(Note 31)*	6,567	–
At the end of the year	6,567	–
Impairment:		
At the beginning of the year	–	–
Impairment loss recognised	(1,515)	–
At the end of the year	(1,515)	–
Net carrying amount at the end of the year	5,052	–

During the year ended 31 March 2007, the Group assessed the recoverable amount of goodwill, and determined the goodwill associated with the Group's sale of fresh pork meat and related produce was impaired by approximately HK$1,515,000 (2006: Nil). The recoverable amount of the sale of fresh pork meat and related produce cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13.31%.

Sale of fresh pork meat and related produce cash-generating unit

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Sales of fresh pork meat and related produce
	HK$'000
Carrying amount of goodwill	5,052

Key assumptions were used in the value-in-use calculation of the sale of fresh pork meat and related produce cash-generating unit for the year ended 31 March 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

18. INTERESTS IN AN ASSOCIATE

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Share of net assets	105	2,067
Less: Provision for impairment	(105)	(105)
	–	1,962
Loan advanced to an associate	6,752	7,014
Less: Provision for impairment	(265)	–
	6,487	7,014
	6,487	8,976

The loan advanced to the associate is unsecured, interest free and has no fixed terms of repayment. The directors consider that the carrying amount of loan advanced to an associate approximates its fair value.

Particulars of the Group's associate are as follows:

Name	Business structure	Place of incorporation/ and operations	Particulars of issued and paid up capital	Percentage of ownership attributable to the Group	Principal activity
Uni-Johnson Trading Limited ("Uni-Johnson")*	Corporate	Hong Kong/ Mainland China	HK$10,000	50%	Property holding

* The financial statements of Uni-Johnson were not audited by HLB Hodgson Impey Cheng.

The shareholding in the associate is held by the Company through a wholly-owned subsidiary.

Financial information of Uni-Johnson as extracted from its management accounts for the year ended 31 March 2007 is as follows:

	2007	2006
	HK$'000	*HK$'000*
Total assets	13,993	14,113
Total liabilities	(13,634)	(14,119)
Net assets/(liabilities)	359	(6)
Revenue	413	457
Profit for the year	368	136

19. INTERESTS IN A JOINTLY-CONTROLLED ENTITY

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Share of net assets	–	–

深圳豐德隆貿易有限公司 is registered as a Sino-foreign joint venture enterprise in the PRC on 21 February 2006. The registered capital of 深圳豐德隆貿易有限公司 is RMB1,000,000. The principal activities of 深圳豐德隆貿易有限公司 is sales of fashion apparel. The Group's share of registered capital amounting to RMB600,000 was paid during the year ended 31 March 2007. On 19 May 2006, the Group paid capital of RMB93,000. On 7 February 2007, the Group paid the remaining capital of RMB507,000.

Upon the set up of the joint venture, in accordance with the joint venture contracts and the articles of association of the jointly-controlled entity, the board of director of the jointly-controlled entity comprised of three directors. Two of which were appointed by the Group. In accordance with the article of association of the jointly-controlled entity,

(1) a quorum requires over two-third of the total number of directors. Resolution passed in a directors' meeting with attendance less than two-third of the total number of directors of the jointly-controlled entity is invalid.

(2) Certain significant matters require the unanimous approval of all directors of the jointly-controlled entity.

On 22 September 2006, the joint venture contract and the articles of association of the jointly controlled entity were amended and the number of directors of the joint venture has been increased from three to four. Three of which were appointed by the Group. Since then, the jointly-controlled entity became a 60% owned subsidiary of the Group.

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	**2006**
	HK$'000	*HK$'000*
Unlisted shares, at costs	38,898	38,898
Less: Provision for impairment	(38,898)	(16,214)
	–	22,684
Amounts due from subsidiaries	47,887	25,605
Less: Provision for impairment	(18,758)	(90)
	29,129	25,515
Amount due to a subsidiary	–	(2,198)

The carrying amount of the investments in subsidiaries is reduced to their recoverable amounts which are determined by reference to the estimation of future cash flows expected to be generated from the respective subsidiaries.

The amount due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and are repayable on demand. The directors consider that the carrying amounts of the amounts due from/to subsidiaries approximate their fair value.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of ordinary/ paid up share capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Born Idea Limited	BVI	US$1,601	100%	Investment holding
Loyal Fame International Limited	BVI	US$1	100%	Investment holding
Indirectly held				
Allied Victory Investment Limited	Hong Kong	HK$2	100%	Property holding
Charmlink International Group Limited	BVI	US$50,000	100%	Investment holding
Go Fast Limited	Hong Kong	HK$100	100%	Investment holding
Goldbo Investment Limited	Hong Kong	HK$2	100%	Property holding
Greatest Wealth Limited	Hong Kong	HK$100	100%	Operation of retail stalls selling fresh pork meat and related products
LeRoi Macao Commercial Offshore Limited	Macau	MOP100,000	100%	Inactive
LeRoi Trading International Limited	BVI/Macau	US$1,000	100%	Inactive
Sincere Jade Limited	BVI/Mainland China	US$1	100%	Provision of quality control and design services
Stand Fancy Limited	Hong Kong	HK$10,000	100%	Investment holding
Top Infinity Limited	Hong Kong	HK$1	100%	Provision of administrative services

Name	Place of incorporation/ registration and operations	Nominal value of ordinary/ paid up share capital	Percentage of equity attributable to the Company	Principal activities
Top Million International Limited	Hong Kong	HK$1,000	100%	Provision of administrative services
東莞美爾奴時裝有限公司*	Mainland China	–	100%	Dormant
立宜服裝（深圳）有限公司	Mainland China	HK$1,000,000	100%	Design, production, sales and marketing of fashion apparel
深圳豐德隆貿易有限公司**	Mainland China	RMB1,000,000	60%	Sales of fashion apparel

* 東莞美爾奴時裝有限公司 is registered as a wholly-foreign owned enterprise in the PRC. No capital was paid up within 18 months after the issue of certificate of incorporation and up to the date of approval of these financial statements.

** 深圳豐德隆貿易有限公司 is registered as a Sino-foreign joint venture enterprise in the PRC on 21 February 2006. The registered capital of 深圳豐德隆貿易有限公司 is RMB1,000,000. The Group's share of paid up capital of RMB600,000 was fully injected during the year ended 31 March 2007.

On 22 September 2006, the Group gained control over 深圳豐德隆貿易有限公司 *(Note 19)*. Since then, 深圳豐德隆貿易有限公司 became a 60% owned subsidiary of the Group.

None of the above subsidiaries issued debt securities during the year or at the year end.

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

21. INVENTORIES

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Raw material	1,891	817
Finished goods	64,306	52,852
	66,197	53,669
Less: Provision for obsolete inventories	(45,680)	(28,740)
	20,517	24,929

22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit terms are generally for a period of 180 days (2006: 180 days). The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on invoice date, is as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within 90 days	8,487	19,784
91 to 180 days	5,586	17,378
Over 180 days	15,640	19,196
	29,713	56,358
Less: Accumulated impairment	(17,216)	(19,084)
	12,497	37,274

The directors consider that the carrying amount of trade receivables approximates its fair value.

23. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group included currencies denominated in Renminbi ("RMB") amounted to approximately HK$2,781,000 (2006: HK$1,668,000) which is not freely convertible into other currencies.

24. TRADE PAYABLES

An aged analysis of the Group's trade payables at the balance sheet date, based on invoice date, is as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Within 90 days	2,892	1,808
91 – 180 days	163	–
	3,055	1,808

The directors consider that the carrying amount of trade payables approximates its fair value.

25. OBLIGATIONS UNDER FINANCE LEASE

The Group leased a motor vehicle for its business. This lease was classified as a finance lease.

At 31 March 2007, the total future minimum lease payments under the finance lease and their present value were as follows:

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount payable under finance leases:				
Within one year	–	63	–	61
Less: Future finance charges	–	(2)	N/A	N/A
Present value of lease obligations	–	61	–	61
Less: Amount due within one year shown under current liabilities	–	(61)		
Amount due after one year	–	–		

26. INTEREST-BEARING LOANS FROM SHAREHODLERS

The Group and the Company

The loan with a principal amount of HK$20,000,000 from a shareholder, Gain Better Investments Limited, is unsecured, carries interest at 6.5% per annum, and is repayable on 26 January 2010. The effective interest rate of the loan is 8.45%.

The loan with a principal amount of HK$18,750,000 from a shareholder, Taco Holdings Limited, is unsecured, carries interest at 6.5% per annum, which is payable semi-annually in arrears, and is repayable not later than 4 January 2010. The effective interest rate of the loan is 8.45%.

27. CONVERTIBLE NOTES

On 24 January 2007, the Company issued 6.5% convertible notes ("Convertible Notes") with a principal amount of HK$3,000,000. Each note entitled the holder to convert to ordinary share of the Company at a conversion price of HK$0.2 each (subject to adjustment as stipulated in the agreement of the Convertible Notes).

The Convertible Notes carries interest at a rate of 6.5% per annum, which is payable semi-annually in arrears. The maturity date of the Convertible Notes is 23 January 2010.

The convertible notes contain two components, liability and equity elements. The equity element is presented in equity heading "Convertible notes equity reserve". The effective interest rate of the liability component is 8.45%.

The Convertible Notes issued during the year have been split as to the liability and equity components, as follows:

	2007	2006
	HK$'000	*HK$'000*
Nominal value of convertible notes issued during the year	3,000	–
Equity component	(152)	–
Direct transaction costs attributable to the liability component	–	–
Liability component at the issuance date	2,848	–
Interest expense charged	44	–
Interest payable	(36)	–
Liability component at the end of the year	2,856	–

28. SHARE CAPITAL

	2007	2006
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.01 each	20,000	20,000
Issued and fully paid:		
809,600,000 ordinary shares of HK$0.01 each	8,096	8,096

There were no movements in the Company's authorised and issued share capital during the years ended 31 March 2006 and 2007.

Share option scheme

Details of the Company's share option scheme are included in Note 29 to the financial statements.

29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, and customers of the Group. The Scheme became effective on 8 October 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Up to the date of this report, no share options have been granted by the Company under the Scheme.

30. RESERVES

(a) The Group

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

(b) The Company

	Share premium *HK$'000*	Convertible notes equity reserve *HK$'000*	Capital reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2005	58,932	–	–	(3,116)	55,816
Net loss for the year	–	–	–	(19,057)	(19,057)
At 31 March 2006 and at 1 April 2006	58,932	–	–	(22,173)	36,759
Deemed contribution from shareholders	–	–	1,966	–	1,966
Issue of convertible notes *(Note 27)*	–	152	–	–	152
Net loss for the year	–	–	–	(44,861)	(44,861)
At 31 March 2007	58,932	152	1,966	(67,034)	(5,984)

The share premium account of the Company includes (i) shares issued at a premium; and (ii) the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor pursuant to the group reorganisation upon the listing of the Company.

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

The capital reserve of the Company represents the amount of cash received in excess of the fair value of the interest-bearing loans from shareholders during the year ended 31 March 2007. For details, please refer to Note 26 to the financial statements.

31. ACQUISITION OF SUBSIDIARIES

On 23 March 2007, the wholly owned subsidiary of the Group, All Access Limited, acquired 100% interests in Greatest Wealth Limited ("Greatest Wealth") and a related shareholder's loan in the principal amount of HK$2,000,000 at a consideration of HK$8,000,000. The consideration was satisfied in cash. The amount of goodwill arising as a result of the acquisition was approximately HK$6,567,000.

On 23 March 2007, the wholly owned subsidiary of the Group, Garwell Investments Limited, acquired 100% equity interest in Allied Victory Investment Limited ("Allied Victory") at a consideration of HK$10,200,000 (included the shareholder's loan in the principal amount of HK$9,980,000). The consideration was satisfied in cash. The amount of negative goodwill arising as a result of the acquisition was approximately HK$26,000.

Greatest Wealth and Allied Victory were wholly owned subsidiaries of Wang On Group Limited which held 49% of the shareholding interests in Wai Yuen Tong Medicine Holdings Limited which held 25.32% of the shareholding interests in the Company at 23 March 2007. Such acquisitions constituted a major and connected transaction under the Listing Rules. For more details, please refer to the Company's circular dated 5 March 2007.

The effect of net assets acquired in the transaction and the goodwill/(negative goodwill) arising are as follows:

Net assets acquired:

	Greatest Wealth			Allied Victory			
	Acquiree's carrying amount before combination *HK$'000*	**Fair value adjustment** *HK$'000*	**Total** *HK$'000*	**Acquiree's carrying amount before combination** *HK$'000*	**Fair value adjustment** *HK$'000*	**Total** *HK$'000*	**Total fair value** *HK$'000*
Property, plant and equipment	180	–	180	–	–	–	180
Investment properties	–	–	–	10,540	–	10,540	10,540
Inventories	10	–	10	–	–	–	10
Prepayments, deposits and other receivables	1,339	–	1,339	43	–	43	1,382
Cash and bank balances	1,943	–	1,943	35	–	35	1,978
Trade payables	(644)	–	(644)	–	–	–	(644)
Other payables and accruals	–	–	–	(92)	–	(92)	(92)
Tax payable	(195)	–	(195)	–	–	–	(195)
Dividend payable	(633)	–	(633)	–	–	–	(633)
	2,000	–	2,000	10,526	–	10,526	12,526
Goodwill *(Note 17)*			6,567			–	6,567
Negative goodwill			–			(26)	(26)
			8,567			10,500	19,067

	Greatest Wealth *HK$'000*	**Allied Victory** *HK$'000*	**Total** *HK$'000*
Total consideration satisfied by:			
Cash consideration	8,000	10,200	18,200
Directly attributable costs	567	300	867
	8,567	10,500	19,067

Analysis of the net outflow in respect of the acquisition of subsidiaries:

	HK$'000
Cash paid	(19,067)
Bank balances and cash acquired	1,978
Net cash outflow in respect of the purchase of the subsidiaries	(17,089)

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire Greatest Wealth. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Greatest Wealth. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

During the year ended 31 March 2007, Greatest Wealth and Allied Victory contributed approximately HK$968,000 and HK$22,000 respectively to the Group's turnover for the period from the date of acquisition to the balance sheet date .

If the acquisition had been completed on 1 April 2006, total group revenue for the year would have been approximately HK$72,965,000, and loss for the year attributable to equity holders of the Company would have been approximately HK$41,762,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2006, nor is it intended to be a projection of future results.

32. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office premises and pork stalls under operating lease arrangements which are negotiated for lease terms of from one to three years.

At 31 March 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	4,200	458
In the second to fifth years, inclusive	5,375	159
	9,575	617

The Company has no material operating lease arrangement as at 31 March 2007.

33. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group had entered into the following transactions with related parties which, in the opinion of the directors, were carried out in the ordinary course of the Group's business.

(i) On 23 March 2007, the Group acquired 100% equity interests in Greatest Wealth and Allied Victory at a total consideration of HK$18,200,000 (inclusive of shareholders' loan in the principal amount of approximately HK$11,980,000). Greatest Wealth and Allied Victory were the subsidiaries of Wang On Group Limited which held 49% of the shareholding interest in Wai Yuen Tong Medicine Holdings Limited which held 25.32% of the shareholding interests in the Company as at 23 March 2007. For further details, please refer to the Company's circular dated 5 March 2007.

(ii) In addition, the leasing of retail stalls from Wang On Majorluck Limited or Majorluck Limited, which were the indirect wholly-owned subsidiaries of Wang On Group Limited, to Greatest Wealth for the operation of its sales of fresh pork meat and related produce of HK$98,000 constitute a connected transaction.

(iii) During the year, Gain Better Investments Limited ("Gain Better"), a wholly owned subsidiary of Wai Yuen Tong Medicine Holdings Limited and a shareholder of the Company, has undertaken to provide a HK$35,000,000 loan facility carries interest at a rate of 6.5% with maturity date on 26 January 2010 to the Company. As at 31 March 2007, the Company has obtained HK$20,000,000 loan from Gain Better *(Note 26)*.

(iv) During the year, Taco Holdings Limited ("Taco"), a shareholder of the Company, has undertaken to provide a HK$18,750,000 loan facility carries interest at a rate of 6.5% with maturity date on 4 January 2010 to the Company. As at 31 March 2007, the Company has obtained HK$18,750,000 loan from Taco *(Note 26)*.

(v) During the year, the Company issued 6.5% Convertible notes to Gain Better, a wholly owned subsidiary of Wai Yuen Tong Medicine Holdings Limited and a shareholder of the Company, with a principal amount of HK$3,000,000 *(Note 27)*.

The above transactions constitute connected transactions under Listing Rules.

Key management personnel compensation

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in Note 9 is as follows:

	The Group	
	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	2,401	2,173
Employer contribution to pension scheme	51	48
	2,452	2,221

34. CAPITAL COMMITMENT

At 31 March 2007, the Group had the following capital commitments:

	2007	2006
	HK$'000	*HK$'000*
Contracted but not provided for:		
Capital contributions payable to a jointly-controlled entity	–	577
Acquisition of investment properties	657	–
	657	577

The Company has no material capital commitment as at 31 March 2007.

35. CONTINGENT LIABILITIES

During the year, the Hong Kong Inland Revenue Department ("IRD") issued two estimated assessments demanding for tax payment of approximately HK$4,193,000 and HK$800,000 to two wholly-owned subsidiaries of the Group for the year of assessment of 2000/01. Both estimated tax assessments were held over unconditionally by the IRD. In the opinion of the directors, no provision is required at this stage for the Group's exposure, as such, no provision has been made in the financial statements for the above matters.

Apart from disclosed above, the Group does not have any material contingent liabilities as at 31 March 2007.

The Company has no material contingent liabilities as at 31 March 2007.

36. SUBSEQUENT EVENTS

(i) Subsequent to the balance sheet date, an indirect wholly-owned subsidiary of the Company acquired an investment property at a consideration of HK$2,100,000 and also entered into a sale and purchase agreement for acquisition of an investment property at a consideration of HK$1,950,000.

(ii) Subsequent to the balance sheet date, an indirect wholly-owned subsidiary of the Company entered into a hire purchase agreement for the acquisition of a motor vehicle at a consideration of HK$1,204,000.

37. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 July 2007.

FINANCIAL REVIEW

Financial year ended 31 March 2007 compared to financial year ended 31 March 2006

For the year ended 31 March 2007, the LeRoi Group recorded a turnover of approximately HK$32.8 million, representing a decrease of approximately 58.4% as compared to the corresponding period last year. Gross profit was approximately HK$11.1 million, representing a decrease of approximately 45.4%. However, there was an increase in profit margin from approximately 25.7% to 33.8%. This was mainly due to the change in selling arrangement with Group's franchisees from a trading basis to a consignment basis.

The LeRoi Group's loss attributable to shareholders for the year ended 31 March 2007 was approximately HK$43.8 million. The Group's loss for the year under review was mainly due to provisions of approximately HK$10.4 million and HK$18.8 million for impairment of trade receivables and obsolete inventories respectively. Moreover, the LeRoi Group also had to provide for impairment of goodwill of approximately HK$1.5 million and impairment of property, plant and equipment of approximately HK$0.7 million.

LeRoi entered into a subscription agreement on 27 January 2006 (as detailed in the Company's announcement dated 24 April 2006) pursuant to which LeRoi had agreed to issue and the Company had agreed to subscribe for convertible notes in a maximum aggregate principal amount of HK$10 million. The subscription was partially completed in January 2007 and the Company issued convertible notes for an aggregate principal amount of HK$3 million, the net proceeds of which have been used as the LeRoi Group's general working capital. The Company has the right to call for the issue of the balance of the convertible notes.

On 27 January 2006, the Company and Taco Holdings Limited ("Taco") (the then controlling shareholder of the Company) entered into a share purchase agreement pursuant to which the Company had conditionally agreed to purchase from Taco 205 million shares in the Company for a total consideration of HK$37.5 million. Upon completion in January 2007, the Company through its subsidiary was interested in approximately 25.32% of the issued capital of the Company. Pursuant to the share purchase agreement, Taco provided a sum of HK$18.75 million in the form of a shareholder's loan to LeRoi. The Company also made a shareholder's loan of HK$20 million to LeRoi. The shareholders' loans have almost been used up for acquisition, general working capital and future business development.

Financial year ended 31 March 2006 compared to financial year ended 31 March 2005

For the year ended 31 March 2006, the LeRoi Group recorded a turnover of approximately HK$79 million, representing a decrease of approximately 29.0% as compared to the corresponding period last year. Gross profit was approximately HK$20 million, representing a decrease of approximately 37.0%. There was also a slight decrease in profit margin from 29.0% to 25.7%.

The LeRoi Group's loss attributable to shareholders for the year ended 31 March 2006 was approximately HK$39 million. The LeRoi Group's loss for the year was due to the decrease in number of franchisees and drop in average sales per franchisee. Moreover, the LeRoi Group has provide for impairment of trade receivables of approximately HK$11 million and obsolete inventories of approximately HK$21 million.

LeRoi has entered into a Subscription Agreement on 27 January 2006 (announcement in respect of the details of the Subscription Agreement was published on 24 April 2006) pursuant to which the Company had agreed to issue and the Subscriber had agreed to subscribe for Convertible Notes to a maximum aggregate consideration of HK$10,000,000. Long Stop Date for the completion of the Subscription Agreement has extended to 31 August 2006.

LeRoi was advised that on 27 January 2006, the Subscriber and Taco Holdings Limited ("Taco") (controlling shareholder of the Company) has entered into a Share Purchase Agreement pursuant to which the Subscriber had conditionally agreed to purchase from Taco the Company's Shares for a total consideration of HK$37,500,000. Upon completion of the Share Purchase Agreement, the Subscriber will be interested in approximately 25.32% of the issued capital of LeRoi. A sum of HK$18,750,000 in the form of a shareholder's loan would be provided to LeRoi by Taco upon completion of the Share Purchase Agreement. The shareholder's loan will be used as general working capital and future business development. Long Stop Date for the completion of the Share Purchase Agreement has also extended to 31 August 2006.

Financial year ended 31 March 2005 compared to financial year ended 31 March 2004

For the year ended 31 March 2005, the Group recorded a turnover of approximately HK$111.0 million, representing a decrease of approximately 35.1% as compared to the corresponding period last year. Gross profit was approximately HK$32.2 million, representing a decrease of approximately 46.0%. For the summer season of 2004, the Group enhanced the quality of its products by using better quality textile. The increased cost however was not transferred onto the customers hence resulting in a decrease in profit margin from 34.8% to 29.0%. Nevertheless, the management believes customers will notice the improved quality of the LeRoi brand products and will recognise the good value for the money spent, hence boosting growth of the Group in the long run.

The Group suffered a loss attributable to shareholders for the year ended 31 March 2005 of approximately HK$3.6 million, a decrease of approximately 120.1% as compared to last year. The Group's performance for the year was mainly affected by the increased cost of production and the decrease in number of franchisees.

OPERATION

Operation and Business Review

Financial year ended 31 March 2007 compared to financial year ended 31 March 2006

During the year under review, there were 22 franchisees who joined the LeRoi's fashion apparel. On the other hand, there were 29 franchisees who dropped out. As a result, the total number of LeRoi's franchisees as at 31 March 2007 decreased from 58 to 51. The relatively high turnover in franchisees has affected the overall performance of the LeRoi Group.

As at 31 March 2007, the LeRoi Group's subsidiary in Shenzhen operated 10 counters in department stores in the PRC as compared to 9 counters last year. The LeRoi Group has been targeting locations that will widen the distribution network in the PRC.

As for the new businesses acquired in March 2007 (i.e. wet market retailing and property investment), only negligible contribution was reflected in the financial year under review.

Financial year ended 31 March 2006 compared to financial year ended 31 March 2005

During the year under review, there were 27 franchisees joined in. On the other hand, there were 38 franchisees dropped out. As a result, the total number of franchisees decreased from 69 to 58, across 7 provinces and 29 cities.

The LeRoi Group continued to launch new collections of trendy and contemporary fashion items. However, feedbacks from franchisees were that the LeRoi Group's products received only lurk warm responses from retail customers. As a result, comparatively lesser orders were being placed by franchisees.

Through the LeRoi Group's new subsidiary in Shenzhen, 9 counters in department stores in PRC were being established. The LeRoi Group has been targeting locations that will widen the distribution network in the PRC.

As for the new businesses the LeRoi Group has been developing, the Group has commenced marketing its female lingerie series in Hong Kong during the first quarter of 2005. While much effort has been put in marketing and various promotion activities, the contribution from this new line of business remain insignificant.

Financial year ended 31 March 2005 compared to financial year ended 31 March 2004

During the year under review, certain franchisees deferred their plans in opening new stores or discontinued operation upon their contracts expiring, harming the performance of the Group when compared to the corresponding year. The number of LeRoi franchisees decreased from 92 to 69, across 6 provinces and 27 cities. In view of the decrease, much effort has been and will continue to be put in to attract new franchisees.

The LeRoi Group continued to adopt the "Cutting clothes but not price" and "Unit price throughout the country" strategies.

And the Group continued to launch new collections of trendy and contemporary fashion items which attracted wide customer support.

In order to facilitate the Group's business expansion in the PRC, the Group has established a new subsidiary in Shenzhen.

The principal activities of the new subsidiary are the design, production, sales and marketing of fashion apparel.

As for the new businesses the Group has been developing, the Group has commenced marketing its female lingerie series in Hong Kong during the first quarter of 2005.

FUTURE PLANS AND PROSPECTS

Financial year ended 31 March 2007 compared to financial year ended 31 March 2006

Looking forward, the LeRoi Group will keep its investment and operating strategies under review on an ongoing basis.

As a result of the completion of the acquisition of certain business and a number of properties in March 2007, the LeRoi Group has diversified into new areas of business which are wet market retailing and property investment. The acquisition will strengthen the revenue stream of the LeRoi Group and reduce the risk in reliance on a single line of business. The LeRoi Group is looking at the possibility of increasing the number of stalls for the pork business in different districts in Hong Kong. On the other hand, the properties acquired will provide a steady income and cash flow stream.

Financial year ended 31 March 2006 compared to financial year ended 31 March 2005

Looking forward, the LeRoi Group needs to retain its current distribution network. To this effect, the LeRoi Group has set up a joint venture company in Shenzhen. The LeRoi Group holds 60% of the share capital of the joint venture while the remaining 40% is held by a PRC company. The joint venture company will take up the LeRoi Group's franchising business as well as operating its own directly managed shops. The LeRoi Group is expecting this arrangement will enhance the management of our franchising business and help to maintain the current distribution network. With this new arrangement in place, the LeRoi Group is considering ceasing its operation in Macau since dealings with franchisees and suppliers is being conducted in Shenzhen.

Feedback from franchisees was that some of the LeRoi Group's product lines might not have met the taste of its retail customers. The LeRoi Group will review its product lines and make necessary adjustments to its design strategy.

The female lingerie series has not brought about the expected results during the year under review. Having considered the cost and benefit of using the Group's resources, the LeRoi Group adjusted its investment strategy in this business by adopting a more conservative approach.

If completed, the Subscription Agreement LeRoi has entered into on 27 January 2006, will provide immediate funding HK$3,000,000 to LeRoi as general working capital and for future investment or development of the principal businesses of the LeRoi Group. The completion of the Share Purchase Agreement will provide an additional HK$18,750,000 shareholder's loan to LeRoi as general working capital and future business development.

Financial year ended 31 March 2005 compared to financial year ended 31 March 2004

Looking forward, the LeRoi Group will continue its effort to increase the number of franchisees. And for some locations, the LeRoi Group is also considering open its own directly managed stores. Both of such measures are aimed at improving the over-all performance of the LeRoi Group.

In addition, the LeRoi Group intends to place more emphasis on its marketing and promotional functions in order to enhance the LeRoi brand. Subsequent to the financial year under review, the LeRoi Group has engaged "Baby Q", an upcoming pop group of female singers in the PRC, to act as the LeRoi image girls.

It is expected that with the Shenzhen subsidiary in full operation, this will lessen the degree of reliance of the LeRoi Group on the two principal subcontractors as the source of supply during the year.

The LeRoi Group has launched its female lingerie series in the first quarter of 2005. The LeRoi Group expects that this diversification will bring new income sources and increase the LeRoi Group's profitability in the long run. The business will be closely monitored to see if it is bringing the expected results.

LIQUIDITY, FINANCIAL RESOURCES AND INVESTMENTS

Financial year ended 31 March 2007 compared to financial year ended 31 March 2006

As at 31 March 2007, the LeRoi Group had net current assets of approximately HK$18,365,000 (31 March 2006: approximately HK$32,939,000) and cash and bank deposits of approximately HK$21,499,000 (31 March 2006: approximately HK$4,606,000). The LeRoi Group did not raise any bank borrowing during the year, but obtained shareholders' loan of principal amount of HK$38,750,000 and issued convertible notes for an aggregate sum of HK$3,000,000. Its gearing ratio was 5.3% as at 31 March 2007 (31 March 2006: Nil), based on the interest-bearing debts to total assets.

For the year ended 31 March 2007, the LeRoi Group was not subject to any significant exposure to foreign exchange rates risk. Hence, no financial instrument for hedging was employed. As at 31 March 2007, the LeRoi Group was free from any mortgage charge on its assets.

The LeRoi Group has no significant investment held during the financial year.

Financial year ended 31 March 2006 compared to financial year ended 31 March 2005

As at 31 March 2006, the LeRoi Group had net current assets of approximately HK$32,939,000 (31 March 2005: approximately HK$69,927,000). As at 31 March 2006, the LeRoi Group had cash and bank deposits of approximately HK$4,606,000 (31 March 2005: approximately HK$16,593,000). The LeRoi Group did not raise any bank borrowing during the year and its gearing ratio was nil as at 31 March 2006 (31 March 2005: Nil), based on the interest-bearing debts to total assets.

For the year ended 31 March 2006, the LeRoi Group was not subject to any significant exposure to foreign exchange rates risk. Hence, no financial instrument for hedging was employed. As at 31 March 2006, the LeRoi Group was free from any mortgage charge on its assets.

The LeRoi Group has no significant investment held during the financial year.

Financial year ended March 2005 compared to financial year ended 31 March 2004

As at 31 March 2005, the LeRoi Group had net current assets of HK$69,927,000 (2004: HK$71,980,000). As at 31 March 2005, the LeRoi Group had cash and bank deposits of HK$16,593,000 (2004: HK$36,970,000). The LeRoi Group did not raise any bank borrowing during the year and its gearing ratio was nil as at 31 March 2005 (2004: Nil), based on the interestbearing debts to total assets.

For the year ended 31 March 2005, the LeRoi Group was not subject to any significant exposure to foreign exchange rates risk.

Hence, no financial instrument for hedging was employed. As at 31 March 2005, the LeRoi Group was free from any mortgage charge on the Group's assets.

The LeRoi Group has no significant investment held during the financial year.

ACQUISITION OR DISPOSAL OF SUBSIDIARIES OR ASSOCIATED COMPANIES

Financial year ended March 2007 compared to financial year ended 31 March 2006

On 23 March 2007, the wholly owned subsidiary of the LeRoi Group, All Access Limited, acquired 100% interests in Greatest Wealth Limited ("Greatest Wealth") and a related shareholder's loan in the principal amount of HK$2,000,000 at a consideration of HK$8,000,000. The consideration was satisfied in cash. The amount of goodwill arising as a result of the acquisition was approximately HK$6,567,000.

On 23 March 2007, the wholly owned subsidiary of the LeRoi Group, Garwell Investments Limited, acquired 100% equity interest in Allied Victory Investment Limited ("Allied Victory") at a consideration of HK$10,200,000 (included the shareholder's loan in the principal amount of HK$9,980,000). The consideration was satisfied in cash.

Financial year ended March 2006 compared to financial year ended 31 March 2005

There is no material acquisition or disposal of subsidiaries or associated companies in the course of the financial year.

Financial year ended March 2005 compared to financial year ended 31 March 2004

There is no material acquisition or disposal of subsidiaries or associated companies in the course of the financial year.

EMPLOYEES

Financial year ended March 2007 compared to financial year ended 31 March 2006

The employees are remunerated based on their work performance, experiences and the prevailing industry practice. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK$4.5 million. The LeRoi Group operates a Mandatory Provident Fund Scheme for those employees who are eligible to participate.

Financial year ended March 2006 compared to financial year ended 31 March 2005

As at 31 March 2006, theLeRoi Group had 108 employees. The employees are remunerated based on their work performance, work and professional experiences and the prevailing industry practice. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK$3 million. The LeRoi Group operates a Mandatory Provident Fund Scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance of those employees who are eligible to participate in the Scheme.

Financial year ended March 2005 compared to financial year ended 31 March 2004

As at 31 March 2005, the LeRoi Group had 29 employees. The employees are remunerated based on their work performance, work and professional experiences and the prevailing industry practice. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK$3.2 million. The LeRoi Group operates a Mandatory Provident Fund Scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance for those employees who are eligible to participate in the Scheme.

SHARE OPTION SCHEME

Financial year ended 31 March 2007 compared to financial year ended 31 March 2006

On 8 October 2002, LeRoi adopted a share option scheme which is in compliance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (as amended) (the "Listing Rules"). As at 31 March 2007, no share options have been granted under the share option scheme.

CHARGES ON GROUP ASSETS

As at the financial year ended 31 March 2005, 2006 and 2007, the LeRoi Group did not have any charge on group assets.

CONTINGENT LIABILITIES

For the financial year ended 31 March 2007

During the year, the Hong Kong Inland Revenue Department ("IRD") issued two estimated assessments demanded for tax payment of approximately HK$4,193,000 and HK$800,000 to two wholly-owned subsidiaries of the LeRoi Group for the year of assessment of 2000/01. Both estimated tax assessments were held over unconditionally by the IRD. No provision is required at this stage in respect of the LeRoi Group's exposure to the above matters.

Apart from above, the LeRoi Group does not have any material contingent liabilities as at 31 March 2007.

For the financial year ended 31 March 2006

The LeRoi Group did not have any significant contingent liabilities as at 31 March 2006.

Financial year ended March 2005 compared to financial year ended 31 March 2004

As at 31 March 2005, the LeRoi Group did not have any significant contingent liabilities.

REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Wai Yuen Tong Medicine Holdings Limited

We report on the unaudited pro forma financial information of Wai Yuen Tong Medicine Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the major transaction in relation to subscription of new 2,100,000,000 LeRoi Holdings Limited's Shares and HK$190 million of convertible bonds issued by LeRoi Holdings Limited to the Group might have affected the financial information presented, for inclusion in Appendix III of the circular dated 28 August 2007 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 148 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 March 2007 or any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 28 August 2007

THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

The accompanying unaudited pro forma statement of assets and liabilities of the Group has been prepared giving effect of the Tranche I New Issue Placing, New Issue Subscription and the issue of the Convertible Bonds had been completed on 31 March 2007.

The unaudited pro forma statement of assets and liabilities of the Group which has been prepared by the directors in accordance with paragraph 29 of Chapter 4 of the Listing Rules is for the purpose of illustrating the effect of the Group as if the above transactions have taken place on 31 March 2007.

The unaudited pro forma statement of assets and liabilities of the Group is prepared based on the audited consolidated balance sheet of the Group at 31 March 2007, which has been extracted from the annual report of the Group for the year ended 31 March 2007 as set out in Appendix I of this circular, after marking pro forma adjustment relating to the above transactions that are (i) directly attributable to the transactions; and (ii) factually supportable.

This unaudited pro forma statement of assets and liabilities of the Group is prepared by the directors to provide information of the Group upon completion of the above transactions. As it is prepared for illustration purpose only, it does not purport to give a true picture of the financial position of the Group following completion of the above transactions.

	The Group as at 31 March 2007	Pro forma adjustment relating to the completion of the Tranche I New Issue Placing, New Issue Subscription and the subscription of the Convertible Bonds	Pro forma Group immediately after completion of the Tranche I New Issue Placing, New Issue Subscription and the issue of the Convertible Bonds as at 31 March 2007
	HK$'000	*HK$'000*	*HK$'000*
		(Note)	
NON-CURRENT ASSETS			
Property, plant and equipment	37,229	–	37,229
Prepaid lease payments	97,503	–	97,503
Goodwill	206,064	–	206,064
Interests in associates	4,872	210,000	214,872
Amount due from associates	20,000	–	20,000
Trademarks	1,100	–	1,100
Long-term bank deposits	7,813	–	7,813
Investments in unlisted notes	6,956	190,000	196,956
Deferred tax assets	57	–	57
	381,594	400,000	781,594
CURRENT ASSETS			
Inventories	67,059	–	67,059
Trade and other receivables	69,346	–	69,346
Prepaid lease payments	2,500	–	2,500
Amount due from associates	9,525	–	9,525
Deposits paid for investments	9,378	–	9,378
Tax recoverable	435	–	435
Investments in unlisted notes	1,974	–	1,974
Investments held-for-trading	14,475	–	14,475
Bank balances and cash	236,625	(236,625)	–
	411,317	(236,625)	174,692

	The Group as at 31 March 2007 *HK$'000*	Pro forma adjustment relating to the completion of the Tranche I New Issue Placing, New Issue Subscription and the subscription of the Convertible Bonds *HK$'000* *(Note)*	Pro forma Group immediately after completion of the Tranche I New Issue Placing, New Issue Subscription and the issue of the Convertible Bonds as at 31 March 2007 *HK$'000*
CURRENT LIABILITIES			
Trade and other payables	73,228	–	73,228
Consideration payable	–	163,375	163,375
Tax payable	426	–	426
Obligations under finance leases	29	–	29
Bank borrowings	15,368	–	15,368
Deferred franchise income	223	–	223
Convertible loan stock	8	–	8
	89,282	163,375	252,657
NET CURRENT ASSETS	322,035	(400,000)	(77,965)
TOTAL ASSETS LESS CURRENT LIABILITIES	703,629	–	703,629
NON-CURRENT LIABILITIES			
Obligations under finance leases	22	–	22
Bank borrowings	43,855	–	43,855
Deferred tax liabilities	2,054	–	2,054
	45,931	–	45,931
NET ASSETS	657,698	–	657,698

Note: The adjustment reflects the payment of HK$400,000,000 made by the Company for (i) the New Issue Subscription of 2,100,000,000 LeRoi's share at the subscription price of HK$0.1 per share and (ii) the Convertible Bonds with principal amount of HK$190,000,000 under the Subscription Agreement dated 6 August 2007. For the purpose of preparing the unaudited pro forma statement of assets and liabilities of the Group, it has been assumed that the payment is financed by internal funding.

The initial measurement of the fair value of debt element, conversion option element and redemption option element of the Convertible Bonds as at 6 August 2007, the date of the Subscription Agreement, were HK$141,000,000, HK$74,000,000 and HK$25,000,000 respectively, based on a valuation report issued by Sallmanns (Far East) Limited dated 24 August 2007.

The goodwill of HK$8,029,000, which is included in interests in associates, would arise on the deemed acquisition of LeRoi upon the completion of i) the New Issue Subscription of 2,100,000,000 LeRoi Shares to the Company and ii) the Tranche I New Issue Placing of 4,570,000,000 LeRoi Shares to Placees both at the subscription price at HK$ 0.1 per share. The goodwill is calculated as (i) the payment for subscription of HK$210,000,000 less (ii) the change of share of the total adjusted net assets after these subscriptions of LeRoi of approximately HK$201,971,000 for the increase in shareholding held by the Group from 25.32% to 30.82% after these subscriptions of LeRoi on the assumption that the carrying value of the net assets of LeRoi at 31 March 2007 approximates its corresponding fair value.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

(a) The Directors' interests and short position in the securities of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any 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) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have, interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

(i) Interest in Shares

Name of Shareholder	Number of Shares or underlying Shares *(Note 1)*	Approximate percentage of the Company's existing issued share capital *(Note 2)*
Rich Time Strategy Limited *("Rich Time") (Note 3)*	474,209,324	28.31%
Wang On Enterprises (BVI) Limited ("WOE") *(Note 3)*	474,209,324	28.31%
Wang On Group Limited ("Wang On") *(Note 3)*	474,209,324	28.31%

Notes:

1. The interest is a long position in Shares.

2. The percentages shown are based on the 1,675,347,688 Shares in issue as at the Latest Practicable Date.

3. Rich Time is wholly owned by WOE, which is wholly owned by Wang On, a company with limited liability and the shares of which are listed on the Stock Exchange. WOE and Wang On are deemed to be interested in 474,209,324 Shares held by Rich Time.

(ii) Interests in a subsidiary of the Company

Name of subsidiary	Name	Capacity	Shareholding percentage
April Full Limited	Wong Lam Ping	Beneficial owner	27.14%

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by members of the Group within two years preceding the Latest Practicable Date and are or may be material:

(a) an equity transfer agreement (the "Equity Transfer Agreement") entered between Aimsight Investments Limited ("Aimsight"), a wholly-owned subsidiary of the Company, and Ms. Cai Xue Fang ("Ms. Cai"), dated 15 September 2005 whereby Aimsight agreed to purchase a 8% equity interest in each of Dongguan Senox Agricultural Products Co., Ltd., Dongguan Senox Industrial Co., Ltd and Dongguan Senox Logistics Co., Ltd for an aggregate cash consideration of HK$24 million;

(b) a provisional agreement entered into between Whole Winner Investment Limited, a wholly-owned subsidiary of the Company, and an individual dated 4 October 2005 in relation to the disposal of the property known as Unit B, 22/F., Block 8, Parc Palais, 18 Wylie Road, King's Park, Kowloon, Hong Kong at a consideration of HK$9.8 million;

(c) a share purchase agreement entered into between Gain Better and Taco Holdings Limited dated 27 January 2006 in relation to the acquisition of 25.32% shareholding interests in LeRoi from Taco Holdings Limited;

(d) a subscription agreement entered into between Gain Better and LeRoi dated 27 January 2006 in relation to the subscription of the convertible notes for a principal amount of HK$10,000,000 by Gain Better;

(e) a provisional agreement entered into between Sky Regal Investment Limited, a wholly-owned subsidiary of the Company, and certain individuals dated 21 November 2006 in relation to the disposal of the property known as Unit D, 23/F., Block 9, Parc Palais, 18 Wylie Road, King's Park, Kowloon, Hong Kong at a consideration of HK$8.95 million;

(f) a loan agreement entered into between Gain Better and LeRoi dated 26 January 2007 in relation to the provision of a maximum loan facility of HK$35,000,000 to LeRoi;

(g) a termination agreement entered into between Aimsight and Ms. Cai dated 21 February 2007 in relation to the termination of the Equity Transfer Agreement;

(h) a conditional sale and purchase agreement entered into between Plenty Time Investments Limited, a wholly-owned subsidiary of the Company, and Golden Orchard Holdings Limited dated 13 February 2007 in respect of the sale of the entire issued share capital of Conful Limited at a total cash consideration of HK$188 million;

(i) a placing agreement entered into between the Company and the Placing Agent dated 11 June 2007 in respect of the placing of 279,000,000 Shares at a placing price of HK$0.46 per Share;

(j) a conditional placing agreement entered into between the Company and the Placing Agent dated 11 June 2007 in respect of the placing of the Company's convertible notes of up to an aggregate principal amount of HK$250 million attaching rights to convert into the Shares at an initial conversion price of HK$0.58 per Share (subject to adjustments);

(k) the Top-up Placing Agreement; and

(l) the Subscription Agreement.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

7. INTEREST IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

(a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 March 2007 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and

(b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Group.

8. QUALIFICATION AND CONSENT

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants

Deloitte Touche Tohmatsu has given, and has not withdrawn, its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu was not interested in any Share or share in any member of the Group nor did it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Share or share in any member of the Group.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any direct or indirect interest in any asset which had been, since 31 March 2007, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposal of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. GENERAL

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company is at 5th Floor, Wai Yuen Tong Medicine Building, 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

(b) The qualified accountant of the Company is Mr. Lao Wai Keung, CPA.

(c) The company secretary of the Company is Mr. Chan Chun Hong, Thomas. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong from the date of this circular up to and including 13 September 2007.

(i) the memorandum of association and the bye-laws of the Company;

(ii) the annual reports of the Company for the two years ended 31 March 2007;

(iii) the material contracts referred to in the paragraph of this Appendix headed "Material contracts";

(iv) the letter of unaudited pro forma financial information of the Group set out in Appendix III to this circular;

(v) the Subscription Agreement;

(vi) a copy of the circular dated 26 February 2007 relating to discloseable transactions involving provision of financial assistance to an associate;

(vii) a copy of the circular dated 5 March 2007 relating to major transaction in respect of the disposal of the entire interest in Conful Limited; and

(viii) a copy of the circular dated 9 July 2007 relating to the proposed placing of convertible note in an aggregate principal amount of HK$250 million.

WAI YUEN TONG MEDICINE HOLDINGS LIMITED
(位元堂藥業控股有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Wai Yuen Tong Medicine Holdings Limited (位元堂藥業控股有限公司*) (the "**Company**") will be held at 41/F., Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Thursday, 13 September 2007 at 10:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution which will be proposed as ordinary resolution:–

ORDINARY RESOLUTION

"**THAT**

(a) the subscription agreement (the "**Subscription Agreement**") dated 6 August 2007 entered into between Gain Better Investments Limited ("**Gain Better**"), an indirect wholly-owned subsidiary of the Company, and LeRoi Holdings Limited ("**LeRoi**"), pursuant to which Gain Better has conditionally agreed to (i) subscribe for 2,100,000,000 new shares of HK$0.01 each in LeRoi (the "**New Issue Subscription Shares**") at the subscription price of HK$0.10 per share; and (ii) subscribe for the convertible bonds with a principal amount of HK$190 million (the "**Convertible Bonds**") which can be exercised and converted into 1,583,333,333 shares of HK$0.01 each in LeRoi (the "**Conversion Shares**") at an initial conversion price (subject to adjustments) of HK$0.12 per share, subject to the fulfilment of certain conditions as stated in the Subscription Agreement (a copy of which has been produced at this meeting and marked "A" and initialled by the chairman of this meeting for the purpose of identification and further details of which are provided in the circular of the Company dated 28 August 2007 in which notice of this meeting is set out) and the transactions contemplated thereunder (including (without limitation) the subscription by Gain Better of the New Issue Subscription Shares and the Convertible Bonds) be and are herby approved, ratified and confirm and any one director of the Company be and is hereby authorized to do all such acts and things as he may consider necessary or expedient to give effect to the foregoing arrangements;

* *For identification purpose only*

(b) the terms and conditions of the subscription by Gain Better of the New Issue Subscription Shares to be issued by LeRoi pursuant to the Subscription Agreement, subject to the fulfilment of certain conditions including (without limitation) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited for the issue and the listing of, and permission to deal in, the New Issue Subscription Shares be and are hereby approved; and

(c) the terms and conditions of the subscription by Gain Better of the Convertible Bonds to be issued by LeRoi pursuant to the Subscription Agreement, subject to the fulfilment of certain conditions including (without limitation) the Listing Committee of The Stock Exchange of Hong Kong Limited for the issue of the Convertible Bonds (if required) and the listing of, and permission to deal in, the Conversion Shares falling to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds be and are hereby approved."

By Order of the Board
Wai Yuen Tong Medicine Holdings Limited
(位元堂藥業控股有限公司*)
Chan Chun Hong, Thomas
Managing Director

Hong Kong, 28 August 2007

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
5th Floor
Wai Yuen Tong Medicine Building
9 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

* *For identification purpose only*

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or an attorney duly authorized in writing. If the appointer is a corporation, the form of proxy must be under its common seal or under the hand of an officer, attorney or other person authorized to sign the proxy.

3. Any shareholder of the Company entitled to attend and vote at the meeting convened by the above notice shall be entitled to appoint a proxy or more than one proxy to attend and vote on his/her behalf. A proxy need not be a shareholder of the Company.

4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

5. Completion and deposit of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjourned meeting (as the case may be) and in such event, the form of proxy will be deemed to be revoked.

6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, the most senior one shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.