# Wai Yuen Tong Medicine Holdings Limited

(Incorporated in Bermuda with limited liability)


**2011 ANNUAL REPORT**

STOCK CODE: 897

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## COMPANY SECRETARY

Ms. Mak Yuen Ming, Anita

## PRINCIPAL BANKERS

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

## AUDITORS

Deloitte Touche Tohmatsu

## LEGAL ADVISERS

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

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

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

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

## HOMEPAGE

www.wyth.net

## STOCK CODE

897

# CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board" or the "Directors") of Wai Yuen Tong Medicine Holdings Limited (the "Company"), I am pleased to present the audited consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2011.

## FINANCIAL RESULTS

The year marked another encouraging year for the Group. For the year ended 31 March 2011, both our turnover and profit attributable to equity owners attained a record high of approximately HK$639.5 million and approximately HK$99.1 million, representing year-on-year increases of approximately 20.8% and 116.4%, respectively, over that of the previous financial year. The basic earnings per share reached approximately HK7.65 cents.

## PROPOSED FINAL DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK0.3 cents per ordinary share for the year ended 31 March 2011, payable on or around Thursday, 18 August 2011, subject to approval by the shareholders of the Company at the forthcoming annual general meeting to be held on Tuesday, 9 August 2011.

## BUSINESS REVIEW

The record-breaking performance shows that our continuous brand-building efforts for "Wai Yuen Tong", "Madame Pearl's" and "Pearl's", are fruitful and our market strategies and development direction are in line with the needs of our broad-based customers.

Turnover of Chinese pharmaceutical products for the year ended 31 March 2011 was approximately HK$462.7 million, representing an increase of approximately 24.2%. Our increased sales resulted from a better recognition of our "Wai Yuen Tong" brand, a series of marketing campaigns and the more open policy of the government of the People's Republic of China (the "PRC") which allowed more Mainland Chinese tourists to visit Hong Kong. In order to further strengthen brand recognition and the Group's position as a leading Chinese medicine retail chains, Chinese medical practitioners' network and providers of quality Chinese pharmaceutical products, the Group intends to open integrated Chinese medical centres in order to provide one-stop services.

Despite the disposal of the Group's 64.2% equity interest in Hunan Xiangya Pharmaceutical Company Limited ("Hunan Xiangya") in April 2010, which had contributed turnover of approximately HK$25.9 million for the prior year ended 31 March 2010, turnover of western pharmaceutical products during the year under review still improved slightly by approximately 1.4% to approximately HK$137.2 million. Such increase was mainly attributable to the successful positioning of "Madame Pearl's" as a "Respiratory Specialist" and the secondary brand "Pearl's". During the year under review, personal care products such as the StopBugs under the "Pearl's" brand were launched and well accepted by the market.

Benefiting from the improved consumer sentiments resulting from the global economy recovery and the continuous efforts of our sales staff, the Group's bottled birds' nest drinks business recorded an impressive revenue increase by approximately 59.3% during the year under review as compared to the last financial year.

During the year, the Group implemented prudent financial strategies in accordance with its development needs. In October 2010, the Group succeeded in raising approximately HK$293.7 million by way of a rights issue, out of which approximately HK$117.8 million has been utilised to acquire five Hong Kong properties for expanding its properties portfolio. As at the end of the reporting period, the Group owned seven retail shops with an aggregate carrying amount of approximately HK$350.7 million, some of which were used by the Group as "Wai Yuen Tong" retail shops and some were leased out for rental income. Mostly benefit by the booming of local property market, the Group was allowed to enjoy steady rental income and capital appreciation.

In March 2011, the Group increased its equity interest in PNG Resources Holdings Limited ("PNG") (formerly known as LeRoi Holdings Limited) from 49.0% to approximately 49.6%. PNG is a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is principally engaged in the businesses of natural resources and forestry logging, property development in the PRC and sale of fresh pork meat and related produce. During the year under review, PNG and its subsidiaries reported a turnover of approximately HK$64.6 million and a net profit after tax attributable to owners of approximately HK$41.8 million.

## FUTURE OUTLOOK

Leveraging on the well-established brand position of "Wai Yuen Tong" as a leader amongst Chinese pharmaceutical and health food products; "Madame Pearl's" as the "Respiratory Specialist" and "Pearl's" as a mark of quality health care products, we continue to seek to enhance synergy effects in both the PRC and the Hong Kong markets for our Chinese and Western pharmaceutical products in order to accelerate business growth and fortify our market position.

Looking ahead, Hong Kong is expected to have to face increased inflationary pressures and in particular property and commodities prices will continue to rise at faster pace. This may pose greater challenges for Hong Kong in the coming year. We will remain alert to the challenges that may emerge, including fierce competition in the consumer market and rapid rise in wages. To this end, the Group will continue to focus its efforts on enhancing its efficiency and effectiveness and to exercise stringent cost control to stay competitive. Meanwhile, the Group will also seek new business opportunities to optimise the utilisation of our established distribution network in Hong Kong and the PRC in order to sustain growth in the Group's business and profitability.

## APPRECIATION

The Group's remarkable performance in the year ended 31 Mach 2011 is attributable to the continuous effort and contribution of our staff and my fellow Board members in the past year. On behalf of the Board, I would also like to extend my sincere gratitude to all the institutional investors, other shareholders, customers, suppliers and business partners for their unfailing support of and trust in the Group.

**Tang Ching Ho**
*Chairman*

Hong Kong, 17 June 2011

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS

For the financial year ended 31 March 2011, the Group recorded a turnover and a profit attributable to equity owners of the Company of approximately HK$639.5 million (2010: approximately HK$529.3 million) and approximately HK$99.1 million (2010: approximately HK$45.8 million), respectively.

## DIVIDENDS

The Board has recommended the payment of a final dividend of HK0.3 cents (2010: Nil) per ordinary share for the year ended 31 March 2011 to shareholders on the register of members of the Company as of Tuesday, 9 August 2011. The final dividend will be paid on or around Thursday, 18 August 2011, subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Tuesday, 9 August 2011. No interim dividend was made for the six months ended 30 September 2010 (30 September 2009: Nil).

## CLOSURE OF REGISTER

The register of members of the Company will be closed from Friday, 5 August 2011 to Tuesday, 9 August 2011, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the proposed final dividend and be qualified to attend and vote at the forthcoming annual general meeting, all shareholders are required to lodge their transfers with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration by no later than 4:00 p.m. on Thursday, 4 August 2011.

## BUSINESS REVIEW

For the year ended 31 March 2011, the Group achieved excellent results and recorded a turnover of approximately HK$639.5 million (2010: approximately HK$529.3 million), representing a growth of approximately 20.8% over the previous year. The profit attributable to equity owners of the Company was approximately HK$99.1 million (2010: approximately HK$45.8 million), a year-on-year increase of approximately 116.4%. The significant increase in profit was the combined effect of the growth of the underlying operating profit derived from the manufacturing and sale of Chinese and Western pharmaceutical and health food products, capital appreciation of the Group's portfolio of investment properties and gain on disposal of a subsidiary, Hunan Xiangya.

### (1) Chinese Pharmaceutical Products

Turnover for the year increased by approximately 24.2% from approximately HK$372.4 million to approximately HK$462.7 million. The achievement was the result of customers' confidence in our quality products, expansion of our products range, introduction of a customer loyalty program, the incentive scheme for our staff, a series of marketing campaigns and an increase in the number of Mainland Chinese tourists visiting Hong Kong. These resulted in better same store sales growth and a generally better performing retail business. To strengthen our position in the Chinese medicine and health food products industry, the Group plans to open integrated Chinese medical centres in Hong Kong in the coming year, namely Wai Yuen Tong Practicare Imperial, in addition to the existing traditional Chinese medical clinics operated within our retail shops.

### (2) Western Pharmaceutical Products

Turnover grew approximately 1.4% from approximately HK$135.3 million to approximately HK$137.2 million. It was mainly due to the disposal of Hunan Xiangya in April 2010. Besides the cough syrup products under the brand "Madame Pearl's", the Group has successfully launched personal care products under its secondary brand "Pearls" which were well received by the market.

## (3) Bottled Birds' Nest Drinks Products

Turnover for the year increased by approximately 59.3% from approximately HK$21.6 million to approximately HK$34.4 million. Improved consumer sentiments and management's and staff's sales efforts accounted for the improved results.

## (4) Investment Properties

The Group acquired six properties in Hong Kong during the year under review. Five of the properties were acquired from the indirect wholly-owned subsidiaries of Wang On Group Limited ("Wang On"), a shareholder of the Company whose shares are listed on the main board of the Stock Exchange. Some of the Group's properties were leased out for commercial purpose while some were used by its retail shops. Management believes in the long-term prospect of commercial properties in Hong Kong and considers that our investment property portfolio adds stability and strength to the Group's income base.

Besides, on 11 March 2011, the Group entered into a provisional sale and purchase agreement with an independent third party for the acquisition of an investment property located in North Point, Hong Kong, at a cash consideration of HK$35.28 million. The acquisition will be completed on or before 30 June 2011. Details of the property acquisition are set out in the Company's announcement dated 14 March 2011.

Furthermore, on 2 June 2011, the Group entered into a provisional sale and purchase agreement with an independent third party for the acquisition of a property located in Lai Chi Kok Road, Kowloon, Hong Kong, at a cash consideration of HK$26.0 million. The acquisition will be completed on or before 15 August 2011. Details of the property acquisition are set out in the Company's announcement dated 3 June 2011.

## (5) Investment in PNG

As at the beginning of the year under review, the Group had a 49.0% shareholding interest in PNG, a company listed on the main board of the Stock Exchange, which is principally engaged in forestry and logging operations in Papua New Guinea, property development in the PRC and retailing of the fresh pork meat and related produce in Hong Kong. During the year, the Group acquired further 45,000,000 shares of PNG and its shareholding in PNG increased from 49.0% to approximately 49.6% as at the end of the year under review.

As at 31 March 2011, the Group granted loans with an aggregate principal amount of HK$215.0 million to PNG. The loans are unsecured, interest bearing at a fixed rate of 8% per annum and repayable between 9 July 2011 and 12 November 2013.

## FINANCIAL REVIEW

### Fund Raising, Capital Structure, Liquidity and Gearing

#### *(1) Placing of New Shares*

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

#### *(2) Capital Reorganisation and Rights Issue*

On 5 August 2010, the Company proposed a capital reorganisation and rights issue (with bonus issue) whereby (i) every 25 shares of par value of HK$0.01 each in the issued share capital of the Company would be consolidated into one consolidated share of par value of HK$0.25; (ii) the par value of each of the issued consolidated shares would be reduced from HK$0.25 to HK$0.01; (iii) five rights shares were to be offered for every one consolidated share at HK$0.207 per rights share; and (iv) one bonus share would be issued for every five rights shares taken up. The capital reorganisation and rights issue were completed on 21 September 2010 and 27 October 2010, respectively.

The net proceeds of the rights issue were approximately HK$293.7 million and were intended to be used for (a) repayment of the Group's borrowings; (b) expansion of the Group's Chinese and Western health food and pharmaceutical business; (c) funding the acquisition of the entire issued share capital of five companies, which were indirect wholly-owned subsidiaries of Wang On, and which held five properties in Hong Kong; and (d) financing possible investment opportunities in the future and as general working capital. Details of these were set out in the announcement jointly issued by the Company and Wang On and in the circular and the prospectus issued by the Company on 9 August 2010, 27 August 2010 and 6 October 2010, respectively. The acquisition of the entire share capital of the five companies was completed on 28 October 2010.

#### *(3) Liquidity and Gearing*

As at 31 March 2011, the Group's total borrowings (including those classified as part of a disposal group held for sale) amounted to approximately HK$118.8 million (2010: approximately HK$51.9 million) which included bank borrowings of approximately HK$118.8 million (2010: approximately HK$48.6 million) and advances from non-controlling shareholders of a subsidiary of HK$ Nil (2010: approximately HK$3.3 million). The gearing ratio, being the ratio of total borrowings to equity attributable to owners of the Company, was approximately 7.5% (2010: approximately 4.7%).

## MAJOR ACQUISITION

On 6 August 2010, Guidepost Investments Limited ("Guidepost"), an indirect wholly-owned subsidiary of the Company, and East Run Investment Limited ("East Run"), an indirect wholly-owned subsidiary of Wang On, entered into a sale and purchase agreement, as supplemented by a deed executed between Wang On, East Run and Guidepost on 9 August 2010, pursuant to which, Guidepost agreed to acquire and East Run agreed to dispose of the entire issued share capital and the shareholder loans in its five subsidiaries, each of which holds a property in Hong Kong, at an aggregate consideration of approximately HK$117.8 million. The consideration was satisfied in cash out of the proceeds from the aforesaid rights issue and the acquisition was completed on 28 October 2010.

# MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

## FOREIGN EXCHANGE

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

## CAPITAL COMMITMENT

As at 31 March 2011, the Group had capital commitment of approximately HK$31.9 million (2010: approximately HK$0.6 million) in respect of the acquisition of property, plant and equipment and investment property, which were contracted for but not provided in the consolidated financial statements.

## CONTINGENT LIABILITIES

As at 31 March 2011, the Group had no material contingent liabilities.

## EMPLOYEES

As at 31 March 2011, the Group had 654 (2010: 682) employees, of whom approximately 67% (2010: approximately 64%) were located in Hong Kong. The Group remunerates its employees based on their performance and the prevailing market rates. The Group also operates a share option scheme under which the Board may grant share options to the employees of the Group. The Group's total staff costs for the year were approximately HK$107.6 million (2010: approximately HK$91.1 million).

## PROSPECTS

As the business environment in Hong Kong continues to improve, the directors are optimistic about the Group's prospects. The Group will continue to diversify its product range as well as its investment property portfolio so as to enhance the competitiveness of its brands and its products, and strengthen its income base.

Rising labour and raw material costs as well as rental expenses in Hong Kong are all expected to increase the Group's operating costs. The Group will strengthen cost control measures which include exploring new suppliers to ensure raw materials procured are of high quality and at competitive prices, improving our production efficiency and relocating some of our retail shops to lower our overall rental expenses. The Group will also consider acquiring appropriate retail premises to minimise the effect of the rising trend in retail rental.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Tang Ching Ho,** aged 49, was appointed as the Chairman of the Company in August 2001. He is also a member of remuneration committee and nomination committee of the Company. He is responsible for the strategic planning, policy making and business development of the Group. He has extensive experience in corporate management. He is also the chairman of Wang On. Mr. Tang is also appointed as a standing committee member of the tenth CPPCC Guangxi Zhuang Autonomous Region Committee and a standing committee member of the third CPPCC Guangxi Yulin City Committee. He is a brother of Ms. Tang Mui Fun, the executive Director.

**Mr. Chan Chun Hong**, **Thomas,** aged 47, was appointed as the Managing Director of the Company in August 2001. He is responsible for managing the corporate matters and overall management and supervision of the Group. He is also the managing director of Wang On, the chairman and managing director of PNG, the chairman and chief executive officer of China Agri-Products Exchange Limited and an independent non-executive director of Shanghai Prime Machinery Company Limited, all companies are listed on the main board of the Stock Exchange. He graduated from the Hong Kong Polytechnic University with a degree in Accountancy and is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

**Ms. Tang Mui Fun**, aged 40, joined the Group in 2000 and was appointed as the Executive Director in September 2007. She is responsible for the overall strategic planning and development and policy making for the core business of the Group. She graduated from the University of Hull (England) with a bachelor degree in accountancy. Prior to joining the Group, she had four years of experience in the accounting and auditing fields and five years of experience in general management. She is a sister of Mr. Tang Ching Ho, the Chairman of the Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Leung Wai Ho**, aged 61, was re-designated to an Independent Non-executive Director of the Company in April 2006 from non-executive Director and has joined the Group since 1994. Mr. Leung is a member of audit committee, remuneration committee and nomination committee of the Company. He has more than 46 years and 17 years of experiences in watch industry and financial industry respectively. He is a National Committee Member of the Chinese People's Political Consultative Conference, a Standing Committee Member of Hebei Province of the Chinese People's Political Consultative Conference, a Standing Committee Member of The Chinese General Chamber of Commerce, a Committee Member of The Chinese Manufacturers' Association of Hong Kong, a Honorary President of Hong Kong Chamber of Commerce in China — Guangdong. Mr. Leung was re-designated to the Chartered President of Dongguan City Association of Enterprises with Foreign Investment.

**Mr. Yuen Chi Choi**, aged 50, joined the Company as an Independent Non-executive Director in August 2001. He is the chairman of audit committee of the Company and a member of remuneration committee and nomination committee of the Company. Mr. Yuen is a certified public accountant in Hong Kong and an associate member of The Hong Kong Institute of Certified Public Accountants. He has more than 20 years of audit experience.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

**Mr. Siu Man Ho, Simon**, aged 37, joined the Company as an Independent Non-executive Director in August 2001. He is a member of audit committee and nomination committee of the Company and the chairman of remuneration committee of the Company. Mr. Siu is a practising solicitor of the High Court of Hong Kong. He obtained a bachelor of Laws degree from the University of Hong Kong in 1996 and is a partner of the law firm, namely Sit, Fung, Kwong & Shum. His areas of practice include corporate finance, capital markets, securities, mergers and acquisitions, joint ventures and general commercial matters. Mr. Siu is also an independent non-executive director of Brilliant Circle Holdings International Limited, a company listed on the main board of the Stock Exchange.

**Mr. Cho Wing Mou**, aged 70, joined the Company as an Independent Non-executive Director in September 2001. He is a member of audit committee and remuneration committee of the Company and the chairman of nomination committee of the Company. Mr. Cho has over 42 years of experience in banking industry and was formerly as a director and deputy general manager of Hua Chiao Commercial Bank Limited and The China State Bank Limited. He is a committee member of the 8th Political Consultative Conference Guangxi, a committee member of the 1st to 3rd Political Consultative Conference of Yulin City, Guangxi Province and a committee member of Political Consultative Conference of Maoming City, Guangdong Province and also the Chairman of Supervisor Gee Tuck General Association Hong Kong Limited and the vice president of Gee Tuck World Association Limited.

## SENIOR MANAGEMENT

**Mr. Chiu Kwok Ho**, **Benedict** joined the Group in April 2005 and is currently the Director of Luxembourg Medicine Group ("Luxembourg Group"), a principal subsidiary of the Group. He is responsible for the Luxembourg Group's overall Western pharmaceutical business in both Hong Kong and the PRC. Mr. Chiu graduated from Bradford University with a bachelor's degree in pharmacy and is a registered pharmacist in Hong Kong and the United Kingdom. He has 25 years of experience in the pharmaceutical industry.

**Ms. Wong Shuk Fong**, **Jaime** is currently the General Manager of Wai Yuen Tong Medicine Company Limited ("WYTM"), a principal subsidiary of the Group, and is responsible for the overall operation of WYTM, including retail business. Ms. Wong graduated from The Hong Kong Polytechnic University with a master degree in business administration. Ms. Wong has extensive experience in strategic management, sales and marketing management, and had been engaged in the strategic direction in FMCG and Chinese medicinal industries for over 23 years. With her innovative marketing initiatives, such companies have successfully established their brands with a strong position among their counterparts. Ms. Wong has also been stationed in the PRC, the U.S. and Australia prior to joining WYTM. The Group is hence expecting further growth with her international horizon and extensive marketing practice.

**Mr. Lao Wai Keung** is the Financial Controller of the Company. Mr. Lao graduated from the University of London with a bachelor's degree in Economics and later qualified as a chartered accountant in England. He is an associate member of the Institute of Chartered Accountants in England and Wales, a certified public accountant and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lao had more than 6 years of experience in an international firm of certified public accountants and over 10 years of experience in key financial position in Hong Kong listed companies.

**Ms. Law Yin Man** is currently the General Manager of WYTM — the PRC. Ms. Law joined the Group in 2001 as the General Manager of Luxembourg Group. She was responsible for business development of Madame Pearl's products in the PRC and successfully established different sales channels. In 2006, Ms. Law was transferred to manage the overall operation of WYTM — the PRC. As Ms. Law has extensive experience in sales and marketing in the PRC, the operation has achieved rapid growth and the sales point of our Group in the PRC is over 100.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

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

The Company adopted a code on corporate governance practices set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and has complied with the code provisions set out in the CG Code throughout the year ended 31 March 2011.

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

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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

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

## THE BOARD

The Board currently comprises three executive Directors and four independent non-executive Directors ("INEDs"). The Directors during the year and up to the date of this annual report were:

### Executive Directors

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

### Independent non-executive Directors

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

The biographical details of the Directors are set out on pages 9 to 10 of this annual report.

The Board possesses a balance of skills and experience which are appropriate for the requirements of the business of the Company. The opinions raised by the INEDs in Board meetings facilitate the maintenance of good corporate governance practices. At least one of the INEDs has the appropriate professional qualification and/or accounting and audit experience expertise as required by Rules 3.10(1) and (2) of the Listing Rules. A balanced composition of executive and non-executive Directors also generates a strong independent element on the Board, which allows for an independent and objective decision making process for the best interests of the Company and its shareholders. The Company will review the composition of the Board from time to time to ensure that the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business and to enhance the shareholders' value.

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

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

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

Regular Board meetings are held at least four times a year to approve annual and interim results, and to review the business operations and the internal control systems of the Group. Apart from these regular meetings, Board meetings are also held, as and when necessary, to consider major issues. At least 14 days notice for each regular meeting is given to all Directors. All such minutes are kept by the company secretary of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

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

| **Members of the Board** | **Attendance** |
|---|---|
| **Executive Directors** | |
| Mr. Tang Ching Ho | 4/4 |
| Mr. Chan Chun Hong, Thomas | 4/4 |
| Ms. Tang Mui Fun | 4/4 |
| **Independent non-executive Directors** | |
| Mr. Leung Wai Ho | 3/4 |
| Mr. Yuen Chi Choi | 4/4 |
| Mr. Siu Man Ho, Simon | 4/4 |
| Mr. Cho Wing Mou | 4/4 |

## ROLES OF CHAIRMAN AND MANAGING DIRECTOR

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

## BOARD COMMITTEE

The Board has established various committees, including audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and executive committee, each of which has the specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees are kept by the company secretary of the Company and open for inspection at any reasonable time on reasonable notice by any Director. Each committee is required to report to the Board on its decisions and recommendations, where appropriate.

### Audit Committee

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

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

The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

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

| **Members of the Audit Committee** | **Attendance** |
|---|---|
| Mr. Yuen Chi Choi *(Chairman)* | 2/2 |
| Mr. Leung Wai Ho | 1/2 |
| Mr. Siu Man Ho, Simon | 2/2 |
| Mr. Cho Wing Mou | 2/2 |

During the year under review, the Audit Committee's review covered the financial highlights and audit issue raised by external auditors, accounting principles and practices, amendments to the Listing Rules and accounting standards, internal controls, adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting matters, including the consolidated financial statements for the six months period ended 30 September 2010 and for the year ended 31 March 2011.

## Remuneration Committee

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

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

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

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

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

## Nomination Committee

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

The Nomination Committee has adopted a written nomination procedure specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee will base on the criteria in the procedure (such as appropriate experience, personal skills and time commitment, etc) to identify and recommend proposed candidates to the Board. During the year, the Nomination Committee did not hold any meeting.

## EXTERNAL AUDITORS' REMUNERATION

During the year and up to the date of this report, the remuneration paid/payable to the Company's external auditors, Deloitte Touche Tohmatsu ("Deloitte"), has been reviewed and approved by the Audit Committee and the Board, details of which are set out as follows:

| **Services rendered for the Group** | **Fees paid/payable to Deloitte**<br>HK$'000 |
|---|---|
| Audit services | |
| — For annual financial statements | 1,386 |
| Non-audit services: | |
| — Taxation and professional services | 294 |
| **Total** | **1,680** |

## COMMUNICATION WITH SHAREHOLDERS

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

The Company also acknowledges that general meetings are valuable forums for the Board to communicate directly with the shareholders and members of the Board and committees are encouraged to attend and answer questions at the general meetings.

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

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

## RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The Directors acknowledge their responsibility for preparing the accounts which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the auditors about their reporting responsibilities is set out on pages 24 to 25 of this annual report.

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



## INTERNAL CONTROLS

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

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

# REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and of the Group for the year ended 31 March 2011.

## PRINCIPAL ACTIVITIES

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

## RESULTS

The results of the Group for the year ended 31 March 2011 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 107.

The Group's revenue and net profit attributable to equity holders for the year ended 31 March 2011 amounted to approximately HK$639.5 million (2010: approximately HK$529.3 million) and approximately HK$99.1 million (2010: approximately HK$45.8 million), respectively.

The Board has recommended the payment of a final dividend of HK0.3 cents (2010: Nil) per ordinary share for the year ended 31 March 2011 to shareholders on the register of members of the Company as of Tuesday, 9 August 2011. The final dividend will be paid on or around Thursday, 18 August 2011, subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Tuesday, 9 August 2011. As no interim dividend was distributed for the six months ended 30 September 2010 (2009: Nil), the total dividend for the year ended 31 March 2011 will be HK0.3 cents (2010: Nil) per ordinary share.

## SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates as at 31 March 2011 are set out on pages 105 and 106 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in share capital and share option scheme of the Company during the year, together with the reasons therefore, are set out in notes 33 and 34 to the financial statements, respectively.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the Company's audited financial statements, is set out on page 108 of this annual report. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2011.

## RESERVES

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

## DISTRIBUTABLE RESERVES

At 31 March 2011, the Company's reserves available for distribution to equity owners, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$313,661,000 (2010: approximately HK$69,494,000) which represented the net balance of contributed surplus of approximately HK$18,494,000 (2010: approximately HK$18,494,000), general reserves of approximately HK$215,599,000 (2010: approximately HK$218,508,000) and accumulated profits of approximately HK$79,568,000 (2010: accumulated losses of approximately HK$167,508,000).

## DIRECTORS

The Directors of the Company during the year and up to the date of this annual report were:

**Executive Directors:**
Mr. Tang Ching Ho
Mr. Chan Chun Hong, Thomas
Ms. Tang Mui Fun

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

In accordance with bye-law 87 of the Company's bye-laws, Mr. Chan Chun Hong, Thomas, Mr. Yuen Chi Choi and Mr. Cho Wing Mou will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 10 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 12 and 43 to the financial statements, no Directors had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

As at 31 March 2011, the interests and short positions of the Directors and chief executive of the Company and/or any of their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code under the Listing Rules, were as follows:

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

| Name of Director | Date of grant | Exercise price per share HK$ | Number of share options outstanding | Exercisable period (Note 1) | Number of underlying shares | Number of total underlying shares | Approximate percentage of the Company's total issued share capital (Note 2) % |
|---|---|---|---|---|---|---|---|
| Ms. Tang Mui Fun | 3.1.2007 | 3.4488 | 78,214 | 2.1.2008–1.1.2012 | 78,214 | | |
| | 2.1.2008 | 1.8782 | 78,214 | 2.1.2009–1.1.2013 | 78,214 | | |
| | 8.1.2009 | 1.2050 | 78,214 | 8.1.2010–7.1.2019 | 78,214 | 234,642 | 0.01 |

Notes:

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

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

(2) The percentage represented the number of shares over the total issued share capital of the Company as at 31 March 2011 of 2,036,142,969 shares.

Save as disclosed above, as at 31 March 2011, none of the Directors and chief executive of the Company and/or any of their respective associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

## SHARE OPTION SCHEME

On 18 September 2003, the Company adopted a share option scheme (the "Scheme") for the primary purpose of providing incentives to eligible participants who contribute to the success of the Group. During the year under review, 8,450,000 share options were granted, excluding 1,000,000 share options which have not been accepted by an executive director. No share options was exercised and 820,000 share options lapsed during the year.

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

| Name or category of participant | Number of share options: Outstanding as at 1 April 2010 | Granted during the period | Lapsed and cancelled during the period | Adjustments due to Capital Reorganisation and Rights Issue during the year** | Outstanding as at 31 March 2011 | Date of grant | Exercise price per share# | Exercisable period* | Closing price per share immediately before the grant date |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | HK$ | | HK$ |
| **Executive Director** | | | | | | | | | |
| Tang Mui Fun | 650,000 | – | – | (571,786) | 78,214 | 3.1.2007 | 3.4488 | 2.1.2008–1.1.2012 | – |
| | 650,000 | – | – | (571,786) | 78,214 | 2.1.2008 | 1.8782 | 2.1.2009–1.1.2013 | – |
| | 650,000 | – | – | (571,786) | 78,214 | 8.1.2009 | 1.2050 | 8.1.2010–7.1.2019 | – |
| | 1,950,000 | – | – | (1,715,358) | 234,642 | | | | |
| **Other employees** | | | | | | | | | |
| In aggregate | 2,750,000 | – | (120,000) | (2,313,530) | 316,470 | 3.1.2007 | 3.4488 | 2.1.2008–1.1.2012 | – |
| | 4,290,000 | – | (350,000) | (3,465,897) | 474,103 | 2.1.2008 | 1.8782 | 2.1.2009–1.1.2013 | – |
| | 5,750,000 | – | (350,000) | (4,750,214) | 649,786 | 8.1.2009 | 1.2050 | 8.1.2010–7.1.2019 | – |
| | – | 8,450,000 | – | (7,433,207) | 1,016,793 | 12.5.2010 | 0.4321 | 12.5.2011–11.5.2020 | 0.052 |
| | 12,790,000 | 8,450,000 | (820,000) | (17,962,848) | 2,457,152 | | | | |
| | 14,740,000 | 8,450,000 | (820,000) | (19,678,206) | 2,691,794 | | | | |

Notes:

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

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

** Adjustments due to the capital reorganisation (the "Capital Reorganisation") completed on 21 September 2010 and the rights issue (with bonus issue) (the "Right Issue"), details of which are set out in the Company's circular dated 27 August 2010.

# As a result of the Capital Reorganisation and the Right Issue, the exercise prices of the share options were adjusted, details of which are set out in the Company's announcements dated 21 September 2010 and 26 October 2010.

As at the date of this annual report, the total outstanding shares options under the Scheme is 2,691,794, representing 0.13% of the Company's issued share capital and the total number of shares available for issue under the Scheme is 29,087,756 representing 1.43% of the Company's total issued share capital.

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

Other particulars of the Company's share option schemes are set out in note 34 to the financial statements.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' interests and short positions in shares, underlying shares or debentures of the Company and its associated corporations" and "Share option scheme" above and in the share option scheme disclosures in note 34 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 March 2011, to the best knowledge of the Directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that the following shareholders (other than Directors) had notified the Company of relevant interests and short positions in the shares and underlying shares of the Company:

Long positions in the shares of the Company:

| **Name of shareholder** | **Number of shares** | **Approximate percentage of the Company's total issued share capital** (Note 1) *(%)* |
|---|---|---|
| Wang On (Note 2) | 186,262,034 | 9.15 |
| Wang On Enterprises (BVI) Limited ("WOE") (Note 2) | 186,262,034 | 9.15 |
| Rich Time Strategy Limited ("Rich Time") (Note 2) | 186,262,034 | 9.15 |

Notes:

1. The percentage represented the number of shares over the total issued share capital of the Company as at 31 March 2011 of 2,036,142,969 shares.

2. Rich Time is wholly owned by WOE, which is a wholly-owned subsidiary of Wang On. WOE and Wang On are deemed to be interested in 186,262,034 shares held by Rich Time.

Save as disclosed above, as at 31 March 2011, no person (other than the Directors) had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme at the special general meeting held on 18 September 2003, as an incentive to Directors and eligible employees, details of the Scheme are set out in note 34 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 16.2% of the Group's turnover.

During the year, the largest supplier accounted for 16.0% of the Group's purchases and the five largest suppliers of the Group accounted for 42.4% of the Group's purchases.

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

## DONATIONS

During the year, the Group made charitable and other donations totaling approximately HK$0.5 million (2010: approximately HK$0.3 million).

## PRE-EMPTIVE RIGHTS

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

## CORPORATE GOVERNANCE

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

In the opinion of the Directors, the Company has complied with the code provisions under the CG Code contained in Appendix 14 to the Listing Rules throughout the financial year under review. Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 11 to 16 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's consolidated financial reporting process and internal controls. The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 March 2011 of the Group with the management and the auditors. The Audit Committee comprises the four INEDs, namely Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon, Mr. Yuen Chi Choi and Mr. Cho Wing Mou, and is chaired by Mr. Yuen Chi Choi.

## EVENTS AFTER THE REPORTING PERIOD

Details of significant events after the reporting period of the Group are set out in note 42 to the financial statements.

## AUDITORS

The consolidated financial statements for the year ended 31 March 2011 have been audited by Messrs. Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Tang Ching Ho**
*Chairman*

Hong Kong, 17 June 2011

# INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Wai Yuen Tong Medicine Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 107, which comprise the consolidated statement of financial position as at 31 March 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
17 June 2011

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Revenue** | 7 | **639,512** | 529,305 |
| Cost of sales | | **(337,902)** | (276,932) |
| Gross profit | | **301,610** | 252,373 |
| Other income | 9 | **25,468** | 19,943 |
| Selling and distribution expenses | | **(180,689)** | (162,526) |
| Administrative expenses | | **(101,123)** | (79,460) |
| Finance costs | 10 | **(1,276)** | (2,354) |
| Gain on early redemption of an unlisted note | | **–** | 10,342 |
| Change in fair value of options embedded in an unlisted note | | **–** | (31,293) |
| Change in fair value of investments held-for-trading | | **(2,305)** | 9,181 |
| Change in fair value of investment properties | | **51,551** | – |
| Gain on disposal of a subsidiary | 36 | **29,155** | – |
| Impairment losses recognised in respect of goodwill | 19 | **–** | (237) |
| Share of results of associates | | **3,170** | 31,938 |
| **Profit before taxation** | 11 | **125,561** | 47,907 |
| Income tax expense | 13 | **(20,666)** | (2,876) |
| **Profit for the year** | | **104,895** | 45,031 |
| **Other comprehensive income (expense)** | | | |
| Exchange differences on translation of foreign operations arising during the year | | **1,588** | 869 |
| Reclassification adjustment on disposal of a subsidiary | | **(890)** | – |
| Gain on revaluation on transfer from property, plant and equipment to investment properties | | **28,014** | – |
| Share of other comprehensive income of an associate | | **2,339** | 11,700 |
| Income tax relating to gain on revaluation on transfer from property, plant and equipment to investment properties | | **(4,622)** | – |
| **Other comprehensive income for the year (net of tax)** | | **26,429** | 12,569 |
| **Total comprehensive income for the year** | | **131,324** | 57,600 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 March 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Profit for the year attributable to:** | | | |
| Owners of the Company | | **99,133** | 45,797 |
| Non-controlling interests | | **5,762** | (766) |
| | | **104,895** | 45,031 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **125,905** | 58,326 |
| Non-controlling interests | | **5,419** | (726) |
| | | **131,324** | 57,600 |
| **Earnings per share** | 14 | | (restated) |
| — Basic and diluted | | **7.65 cents** | 8.16 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2011

| | Notes | 31.3.2011<br>HK$'000 | 31.3.2010<br>HK$'000<br>(restated) | 1.4.2009<br>HK$'000<br>(restated) |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 16 | **145,975** | 119,671 | 153,410 |
| Prepaid lease payments | 17 | **—** | — | 1,058 |
| Investment properties | 18 | **229,900** | — | — |
| Goodwill | 19 | **15,335** | 15,335 | 15,335 |
| Interests in associates | 20 | **626,495** | 608,966 | 148,058 |
| Other intangible assets | 21 | **682** | 839 | 3,749 |
| Investment in an unlisted note | | **—** | — | 172,682 |
| Derivative financial instruments | | **—** | — | 35,648 |
| Loans receivable | 22 | **285,638** | 204,307 | — |
| Deferred tax assets | 32 | **3,514** | 3,291 | 378 |
| Deposit for acquisition of investment property | | **3,528** | — | — |
| | | **1,311,067** | 952,409 | 530,318 |
| **CURRENT ASSETS** | | | | |
| Inventories | 23 | **95,428** | 71,105 | 80,751 |
| Trade and other receivables | 24 | **105,353** | 68,963 | 75,393 |
| Prepaid lease payments | 17 | **—** | — | 274 |
| Amounts due from associates | 25 | **2,933** | 1,668 | 3,385 |
| Investments held-for-trading | 26 | **126,465** | 25,449 | 3,889 |
| Loan receivable | 22 | **11,359** | — | — |
| Tax recoverable | | **127** | 232 | 2,014 |
| Bank balances and cash | 27 | **148,504** | 78,259 | 57,096 |
| | | **490,169** | 245,676 | 222,802 |
| Assets classified as held for sale | 28 | **—** | 38,816 | — |
| | | **490,169** | 284,492 | 222,802 |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 29 | **74,297** | 62,661 | 60,214 |
| Obligations under finance leases | | **—** | — | 9 |
| Bank borrowings | 30 | **33,329** | 48,453 | 63,252 |
| Deferred franchise income | 31 | **18** | 18 | 98 |
| Deposit received for disposal of a subsidiary | 28 | **—** | 5,000 | — |
| Loans from a shareholder | | **—** | — | 25,000 |
| Advances from non-controlling shareholders of a subsidiary | | **—** | — | 3,396 |
| Tax payable | | **3,464** | 4,439 | 1,360 |
| | | **111,108** | 120,571 | 153,329 |
| Liabilities associated with assets classified as held for sale | 28 | **—** | 11,013 | — |
| | | **111,108** | 131,584 | 153,329 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 March 2011

| | Notes | 31.3.2011 HK$'000 | 31.3.2010 HK$'000 (restated) | 1.4.2009 HK$'000 (restated) |
|---|---|---|---|---|
| **NET CURRENT ASSETS** | | **379,061** | 152,908 | 69,473 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,690,128** | 1,105,317 | 599,791 |
| **NON-CURRENT LIABILITIES** | | | | |
| Bank borrowings | 30 | **85,438** | — | 132 |
| Deferred tax liabilities | 32 | **16,533** | 248 | 110 |
| | | **101,971** | 248 | 242 |
| **NET ASSETS** | | **1,588,157** | 1,105,069 | 599,549 |
| **CAPITAL AND RESERVES** | | | | |
| Share capital | 33 | **20,361** | 60,719 | 20,104 |
| Reserves | | **1,560,060** | 1,038,269 | 572,632 |
| Equity attributable to owners of the Company | | **1,580,421** | 1,098,988 | 592,736 |
| Non-controlling interests | | **7,736** | 6,081 | 6,813 |
| **TOTAL EQUITY** | | **1,588,157** | 1,105,069 | 599,549 |

The consolidated financial statements on pages 26 to 107 were approved and authorised for issue by the Board of Directors on 17 June 2011 and are signed on its behalf by:

**TANG CHING HO**
DIRECTOR

**CHAN CHUN HONG, THOMAS**
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2011

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 (Note a) | General reserve HK$'000 (Note b) | Share option reserve HK$'000 | Translation reserve HK$'000 | Investment revaluation reserve HK$'000 | Asset revaluation reserve HK$'000 | Accumulated (losses) profits HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 April 2009 | 20,104 | 723,959 | (27,150) | 218,508 | 1,055 | 6,855 | – | – | (350,595) | 592,736 | 6,813 | 599,549 |
| Profit for the year | – | – | – | – | – | – | – | – | 45,797 | 45,797 | (766) | 45,031 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | 829 | – | – | – | 829 | 40 | 869 |
| Share of other comprehensive income of an associate | – | – | – | – | – | 2,006 | 9,694 | – | – | 11,700 | – | 11,700 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | 2,835 | 9,694 | – | 45,797 | 58,326 | (726) | 57,600 |
| Issue of shares | 4,020 | 31,356 | – | – | – | – | – | – | – | 35,376 | – | 35,376 |
| Share issue expenses | – | (1,586) | – | – | – | – | – | – | – | (1,586) | – | (1,586) |
| Recognition of share-based payment | – | – | – | – | 603 | – | – | – | – | 603 | – | 603 |
| Lapse of share options | – | – | – | – | (243) | – | – | – | 243 | – | – | – |
| Issue of shares for acquisition of additional interest in an associate | 36,595 | 376,938 | – | – | – | – | – | – | – | 413,533 | – | 413,533 |
| Dividends paid to non-controlling shareholders of a subsidiary | – | – | – | – | – | – | – | – | – | – | (6) | (6) |
| At 31 March 2010 and 1 April 2010 | 60,719 | 1,130,667 | (27,150) | 218,508 | 1,415 | 9,690 | 9,694 | – | (304,555) | 1,098,988 | 6,081 | 1,105,069 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 March 2011

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 (Note a) | General reserve HK$'000 (Note b) | Share option reserve HK$'000 | Translation reserve HK$'000 | Investment revaluation reserve HK$'000 | Asset revaluation reserve HK$'000 | Accumulated (losses) profits HK$'000 | Sub-total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| Profit for the year | – | – | – | – | – | – | – | – | 99,133 | 99,133 | 5,762 | 104,895 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | 1,527 | – | – | – | 1,527 | 61 | 1,588 |
| Reclassification adjustment on disposal of a subsidiary | – | – | – | – | – | (486) | – | – | – | (486) | (404) | (890) |
| Gain on revaluation on transfer from property, plant and equipment to investment properties | – | – | – | – | – | – | – | 28,014 | – | 28,014 | – | 28,014 |
| Share of other comprehensive income of an associate | – | – | – | – | – | 12,033 | (9,694) | – | – | 2,339 | – | 2,339 |
| Income tax relating to gain on revaluation on transfer from property, plant and equipment to investment properties | – | – | – | – | – | – | – | (4,622) | – | (4,622) | – | (4,622) |
| Total comprehensive income for the year | – | – | – | – | – | 13,074 | (9,694) | 23,392 | 99,133 | 125,905 | 5,419 | 131,324 |
| Issue of shares (note 33(c)) | 12,000 | 51,600 | – | – | – | – | – | – | – | 63,600 | – | 63,600 |
| Rights issue and bonus issue (note 33(e)) | 17,453 | 286,513 | – | (2,909) | – | – | – | – | – | 301,057 | – | 301,057 |
| Share issue expenses | – | (9,502) | – | – | – | – | – | – | – | (9,502) | – | (9,502) |
| Reduction in share capital (note 33(d)) | (69,811) | – | – | – | – | – | – | – | 69,811 | – | – | – |
| Reduction in share premium (Note c) | – | (263,511) | – | – | – | – | – | – | 263,511 | – | – | – |
| Recognition of share-based payment | – | – | – | – | 373 | – | – | – | – | 373 | – | 373 |
| Lapse of share options | – | – | – | – | (104) | – | – | – | 104 | – | – | – |
| Disposal of a subsidiary | – | – | – | – | – | – | – | – | – | – | (3,764) | (3,764) |
| **At 31 March 2011** | **20,361** | **1,195,767** | **(27,150)** | **215,599** | **1,684** | **22,764** | **–** | **23,392** | **128,004** | **1,580,421** | **7,736** | **1,588,157** |

Notes:

(a) The special reserve of the Group represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to a group reorganisation in 1995.

(b) The general reserve represents the credits arising from the capital reduction effected by the Company less the amount utilised for the purpose of bonus issue of shares by the Company.

(c) Pursuant to a special resolution passed by shareholders of the Company in a special general meeting on 23 March 2011, share premium of approximately HK$263,511,000 was applied to offset accumulated losses of the Company.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2011

| | 2011 HK$'000 | 2010 HK$'000 (restated) |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **125,561** | 47,907 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **10,888** | 16,559 |
| Change in fair value of investments held-for-trading | **1,194** | (8,128) |
| Change in fair value of options embedded in an unlisted note | **—** | 31,293 |
| Finance costs | **1,276** | 2,354 |
| Gain on disposal of a subsidiary | **(29,155)** | — |
| Change in fair value of investment properties | **(51,551)** | — |
| Impairment losses recognised in respect of goodwill | **—** | 237 |
| Gain on early redemption of an unlisted note | **—** | (10,342) |
| Allowance for obsolete inventories | **111** | 82 |
| Amortisation of prepaid lease payments | **—** | 229 |
| Amortisation of other intangible assets | **179** | 809 |
| (Gain) loss on disposal of property, plant and equipment | **(9)** | 7 |
| Interest income | **(19,825)** | (12,536) |
| Recognition (reversal) of allowance for trade and other receivables | **20,831** | (106) |
| Recognition of deferred franchise income | **(90)** | (170) |
| Share-based payment expenses | **373** | 603 |
| Share of results of associates | **(3,170)** | (31,938) |
| Operating cash flows before movements in working capital | **56,613** | 36,860 |
| (Increase) decrease in inventories | **(22,547)** | 5,144 |
| (Increase) decrease in trade and other receivables | **(37,409)** | 2,751 |
| (Increase) decrease in amounts due from associates | **(1,265)** | 312 |
| Increase in investments held-for-trading | **(102,211)** | (13,432) |
| Increase in trade and other payables | **11,393** | 9,408 |
| Increase in deferred franchise income | **90** | 90 |
| Cash (used in) generated from operations | **(95,336)** | 41,133 |
| Interest received | **18** | 38 |
| Hong Kong Profits Tax paid | **(10,206)** | (205) |
| Overseas taxation paid | **(1,278)** | (646) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | **(106,802)** | 40,320 |

# CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 March 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000<br>(restated) |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | 35 | **(116,115)** | (302) |
| Advance to related companies | | **(90,000)** | (10,000) |
| Purchase of investment property | | **(36,349)** | — |
| Cost of acquisition of an associate | | **(12,240)** | (4,000) |
| Purchase of property, plant and equipment | | **(6,559)** | (5,650) |
| Deposit paid for acquisition of investment property | | **(3,528)** | — |
| Purchase of trademarks | | **(22)** | (55) |
| Disposal of a subsidiary | 36 | **22,895** | — |
| Interest received | | **17,117** | 6,975 |
| Dividends received from an associate | | **220** | 150 |
| Proceeds from disposal of property, plant and equipment | | **9** | — |
| Deposit received for disposal of a subsidiary | | **—** | 5,000 |
| NET CASH USED IN INVESTING ACTIVITIES | | **(224,572)** | (7,882) |
| FINANCING ACTIVITIES | | | |
| Repayments of bank borrowings | | **(13,522)** | (18,125) |
| Share issue expenses | | **(9,502)** | (1,586) |
| Interest paid | | **(1,276)** | (2,352) |
| Proceeds from issue of shares | | **364,657** | 35,376 |
| New bank borrowings raised | | **56,847** | 3,290 |
| Repayment of loans from a shareholder | | **—** | (25,000) |
| Repayments of obligations under finance leases | | **—** | (11) |
| Dividends paid to non-controlling shareholders of a subsidiary | | **—** | (6) |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | | **397,204** | (8,414) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **65,830** | 24,024 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | **81,144** | 57,096 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | **1,530** | 24 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | **148,504** | 81,144 |
| Represented by: | | | |
| Bank balances and cash | | **148,504** | 78,259 |
| Cash and cash equivalents included in a disposal group held for sale | | **—** | 2,885 |
| | | **148,504** | 81,144 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2011

## 1. GENERAL

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

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 45.

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

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

### New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (as revised in 2008) | Business Combinations |
| HKAS 27 (as revised in 2008) | Consolidated and Separate Financial Statements |
| HKAS 32 (Amendments) | Classification of Rights Issues |
| HKAS 39 (Amendments) | Eligible Hedged Items |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009, except for the amendments to paragraph 58 of HKFRS 5 and paragraph 80 of HKAS 39 |
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners |
| HK-Int 5 | Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the consolidated financial statements of the Group.

### Amendments to HKAS 17 Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 April 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant, and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of HK$95,004,000 and HK$92,504,000 as at 1 April 2009 and 31 March 2010 respectively being reclassified to property, plant and equipment.

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

### Amendments to HKAS 17 Leases *(continued)*

As at 31 March 2011, leasehold land that qualifies for finance lease classification has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years, and its effect on the financial positions of the Group as at 31 March 2010 and 1 April 2009 are as follows:

| | 31 March 2010 | | | 1 April 2009 | | |
|---|---|---|---|---|---|---|
| | Originally stated HK$'000 | Adjustments HK$'000 | Restated HK$'000 | Originally stated HK$'000 | Adjustments HK$'000 | Restated HK$'000 |
| Property, plant and equipment | 27,167 | 92,504 | 119,671 | 58,406 | 95,004 | 153,410 |
| Prepaid lease payments — non-current | 90,004 | (90,004) | — | 93,562 | (92,504) | 1,058 |
| Prepaid lease payments — current | 2,500 | (2,500) | — | 2,774 | (2,500) | 274 |
| | 119,671 | — | 119,671 | 154,742 | — | 154,742 |

### Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$36,500,000 and HK$47,050,000 have been reclassified from non-current liabilities to current liabilities as at 31 March 2010 and 1 April 2009, respectively. As at 31 March 2011, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$14,327,000 have been classified as current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 6 for details).

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

### New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010[1] |
| HKFRS 7 (Amendments) | Disclosures — Transfers of Financial Assets[3] |
| HKFRS 9 | Financial Instruments[4] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[5] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HK(IFRIC)-Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[6] |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition. Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipated that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 March 2014 and that the application of HKFRS 9 have no significant impact on the Group's financial assets.

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model. The management is still in the process of assessing the impact of the amendments.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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

### Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

#### *Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 April 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

#### *Changes in the Group's ownership interests in existing subsidiaries*

***Changes in the Group's ownership interests in existing subsidiaries on or after 1 April 2010***

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

### Basis of consolidation *(continued)*

#### *Changes in the Group's ownership interests in existing subsidiaries* *(continued)*

***Changes in the Group's ownership interests in existing subsidiaries on or after 1 April 2010*** *(continued)*

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

***Changes in the Group's ownership interests in existing subsidiaries prior to 1 April 2010***

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

### Business combinations

#### *Business combinations that took place on or after 1 April 2010*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits respectively*;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- 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* are measured in accordance with that Standard.

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

### Business combinations *(continued)*

#### *Business combinations that took place on or after 1 April 2010* *(continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

### Business combinations that took place prior to 1 April 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the conditions for recognition were generally recognised at their fair values at the acquisition date.

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

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

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

### Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

### Investments in associates

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

### Investments in associates *(continued)*

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 April 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### Non-current assets held for sale

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

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

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

### Revenue recognition

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

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

Processing fee income is recognised when services are provided.

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

### Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes other than properties under construction as described below, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

### Property, plant and equipment *(continued)*

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in asset revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Leasing

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

#### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

#### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and 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 profit or loss in the period in which the item is derecognised.

### Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Goodwill and fair value adjustments on identifiable assets acquired and liabilities assumed arising on an acquisition of a foreign operation on or after 1 April 2006 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

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

### Foreign currencies *(continued)*

From 1 April 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For other partial disposals (i.e. partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

### Borrowing costs

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

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

### Employee benefits

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

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

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

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

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

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

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

### Taxation

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

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

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

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

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

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

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

### Intangible assets

#### *Intangible assets acquired separately*

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

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

#### *Research and development expenditure*

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

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

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

### Intangible assets *(continued)*

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

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

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

### Inventories

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

### Financial instruments

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

#### *Financial assets*

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

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

Interest income is recognised on an effective interest basis for debt instruments.

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

### Financial instruments *(continued)*

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

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

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

A financial asset is classified as held for trading if:

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

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

***Loans and receivables***

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

***Impairment of loans and receivables***

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

Objective evidence of impairment could include:

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

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

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

### Financial instruments *(continued)*

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

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities and equity*

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

***Effective interest method***

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

Interest expense is recognised on an effective interest basis.

***Other financial liabilities***

Other financial liabilities including trade and other payables, bank borrowings, obligations under finance leases, deposit received for disposal of a subsidiary, loans from a shareholder and advances from non-controlling shareholders of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

***Equity instruments***

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

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

### Financial instruments *(continued)*

#### *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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management has made various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements are disclosed below:

### Estimated impairment of goodwill

In determining whether goodwill is impaired, the Group requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an additional impairment loss may arise. As at 31 March 2011, the carrying amount of goodwill is approximately HK$15,335,000 (2010: approximately HK$15,335,000). Details of the recoverable amount calculation are disclosed in note 19.

### Estimated impairment of loans receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment 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 (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 March 2011, the carrying amount of loans receivable is approximately HK$296,997,000 (2010: approximately HK$204,307,000).

## 5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 30, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

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

## 6. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Held for trading | 126,465 | 25,449 |
| Loans and receivables (including cash and cash equivalents) | 544,180 | 345,261 |
| **Financial liabilities** | | |
| Amortised cost | 168,858 | 95,308 |

### b. Financial risk management objectives and policies

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

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

#### *Market risk*

***(i) Currency risk***

The Company and several subsidiaries of the Company have foreign currency sales and purchases and foreign currency bank deposits, which expose the Group to foreign currency risk. Approximately 3.3% (2010: approximately 5.1%) of the Group's bank deposits are denominated in currency other than the functional currency of the group entities. Substantially all of the Group's sales are denominated in the relevant group entities' functional currency, whilst almost 67.3% (2010: 61.9%) of purchase costs are denominated in the relevant group entities' functional currency.

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

## 6. FINANCIAL INSTRUMENTS *(continued)*

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

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

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

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

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| Hong Kong Dollar ("HK$") | **1,891** | 1,815 | **3,322** | 3,412 |
| Renminbi ("RMB") | **4,019** | 3,886 | **249** | 127 |
| United States Dollar ("USD") | **443** | 605 | **16,568** | 301 |
| Australian dollar ("AUD") | **—** | 10 | **5** | — |
| Singapore dollar ("SGD") | **—** | — | **445** | 1,196 |
| Euro ("EUR") | **—** | — | **21** | — |

Sensitivity analysis

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

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

| | SGD Impact | | HK$ Impact | | RMB Impact | | AUD Impact | | EUR Impact | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| Increase (decrease) in profit | **19** | 50 | **60** | 67 | **(157)** | (157) | **—** | — | **1** | — |

## 6. FINANCIAL INSTRUMENTS *(continued)*

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

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

***(ii) Interest rate risk***

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 30) and bank deposits at prevailing market interest rate. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate loans receivable (see note 22) and fixed-rate short term bank deposits (see note 27).

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

Sensitivity analysis

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

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's profit for the year ended 31 March 2011 would decrease/increase by approximately HK$496,000 (2010: approximately HK$202,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate bank borrowings.

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

## 6. FINANCIAL INSTRUMENTS *(continued)*

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

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

***(iii) Security price risk***

The Group is exposed to security price risk because the fair value of investments held-for-trading is measured by reference to the prevailing market price. Details of investments held-for-trading are set out in note 26.

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

Sensitivity analysis

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

If market price of investments held-for-trading had been increased/decreased by 5% and all other variables were held constant, the Group's profit for the year ended 31 March 2011 would increase/decrease by approximately HK$5,280,000 (2010: approximately HK$1,062,000).

#### *Liquidity risk*

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

***Liquidity and interest risk tables***

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

## 6. FINANCIAL INSTRUMENTS *(continued)*

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

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

***Liquidity and interest risk tables*** *(continued)*

| | Weighted average effective interest rate<br>% | Less than 3 months<br>HK$'000 | 3–6 months<br>HK$'000 | 6 months to 1 year<br>HK$'000 | 1–5 years<br>HK$'000 | Over 5 years<br>HK$'000 | Total undiscounted cash flows<br>HK$'000 | Carrying amount<br>HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 31 March 2011** | | | | | | | | |
| Trade and other payables | – | 47,059 | 1,175 | 1,857 | – | – | 50,091 | 50,091 |
| Bank borrowings | | | | | | | | |
| — variable rate | 1.61 | 22,980 | 3,964 | 7,884 | 47,354 | 44,522 | 126,704 | 118,767 |
| | | 70,039 | 5,139 | 9,741 | 47,354 | 44,522 | 176,795 | 168,858 |
| **As at 31 March 2010** | | | | | | | | |
| Trade and other payables | – | 40,735 | 811 | 309 | – | – | 41,855 | 41,855 |
| Deposit received for disposal of a subsidiary | – | 5,000 | – | – | – | – | 5,000 | 5,000 |
| Bank borrowings | | | | | | | | |
| — variable rate | 1.64 | 48,453 | – | – | – | – | 48,453 | 48,453 |
| | | 94,188 | 811 | 309 | – | – | 95,308 | 95,308 |

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

#### *Credit risk*

As at 31 March 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group has concentration of credit risk in loans to PNG of approximately HK$220,873,000 (2010: approximately HK$204,307,000) and loans to China Agri-Products Exchange Limited ("China Agri-Products") of approximately HK$76,124,000 (2010: Nil) as detailed in note 22. As PNG and China Agri-Products are listed entities, the management of the Group reviews their published financial information regularly to ensure that such loans are recoverable at the respective maturity dates.

In order to minimise the credit risk on trade and other receivables, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk is significantly reduced.

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

## 6. FINANCIAL INSTRUMENTS *(continued)*

### c. Fair value

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

- the fair value of financial assets and financial liabilities at amortised costs are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of the investments held-for-trading in note 26 is determined based on quoted market 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 consolidated financial statements approximate their fair values.

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

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

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

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

| | **2011** | | | |
|---|---|---|---|---|
| | **Level 1<br>HK$'000** | **Level 2<br>HK$'000** | **Level 3<br>HK$'000** | **Total<br>HK$'000** |
| **Financial assets at FVTPL** | | | | |
| Investment held-for-trading | **126,465** | **–** | **–** | **126,465** |

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

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

## 7. REVENUE

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Sales of goods | 633,004 | 528,132 |
| Rental income from investment properties | 5,304 | — |
| Management and promotion fees | 1,204 | 1,173 |
| | 639,512 | 529,305 |

## 8. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the goods and services they provide. For management purposes, the Group operates in four business units, each of which constitutes an operating segment. Each of the Group's reportable and operating 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 reportable and operating segments. The Group's operating segments under HKFRS 8 are as follows:

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

(b) production and sale of Western pharmaceutical and health food products — processing and sale of western pharmaceutical products and personal care products under the brand name of "Madame Pearl's" and "Pearl's", respectively;

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

(d) property investment — investment in commercial premises for rental income.

Information regarding the above segments is reported below.

## 8. SEGMENT INFORMATION *(continued)*

### Segment revenues and results

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

| | Production and sale of Chinese pharmaceutical and health food products | | Production and sale of Western pharmaceutical and health food products | | Production and sale of bottled birds' nest drinks and herbal essence products | | Property investment | | Elimination | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
| **REVENUE** | | | | | | | | | | | | |
| External sales | 462,674 | 372,429 | 137,158 | 135,305 | 34,376 | 21,571 | 5,304 | – | – | – | 639,512 | 529,305 |
| Inter segment sales* | 543 | 2,640 | 1,490 | 820 | 50,109 | 32,904 | 1,734 | – | (53,876) | (36,364) | – | – |
| | 463,217 | 375,069 | 138,648 | 136,125 | 84,485 | 54,475 | 7,038 | – | (53,876) | (36,364) | 639,512 | 529,305 |
| **RESULTS** | | | | | | | | | | | | |
| Results, excluding impairment losses recognised in respect of goodwill | 35,747 | 18,408 | 19,346 | 15,368 | (324) | (1,895) | 2,928 | – | | | 57,697 | 31,881 |
| Impairment losses recognised in respect of goodwill | – | (237) | – | – | – | – | – | – | | | – | (237) |
| Segment results | 35,747 | 18,171 | 19,346 | 15,368 | (324) | (1,895) | 2,928 | – | | | 57,697 | 31,644 |
| Other income | | | | | | | | | | | 25,468 | 19,943 |
| Unallocated expenses | | | | | | | | | | | (37,899) | (21,494) |
| Finance costs | | | | | | | | | | | (1,276) | (2,354) |
| Gain on early redemption of an unlisted note | | | | | | | | | | | – | 10,342 |
| Change in fair value of options embedded in an unlisted note | | | | | | | | | | | – | (31,293) |
| Change in fair value of investments held-for-trading | | | | | | | | | | | (2,305) | 9,181 |
| Change in fair value of investment properties | | | | | | | | | | | 51,551 | – |
| Gain on disposal of a subsidiary | | | | | | | | | | | 29,155 | – |
| Share of results of associates | | | | | | | | | | | 3,170 | 31,938 |
| Profit before taxation | | | | | | | | | | | 125,561 | 47,907 |

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

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

## 8. SEGMENT INFORMATION *(continued)*

### Segment assets and liabilities

| | Production and sale of Chinese pharmaceutical and health food products | | Production and sale of Western pharmaceutical and health food products | | Production and sale of bottled birds' nest drinks and herbal essence products | | Property investment | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | | | | | | |
| **ASSETS** | | | | | | | | | | |
| Assets excluding goodwill | **129,747** | 200,624 | **59,849** | 69,191 | **22,902** | 16,666 | **354,272** | — | **566,770** | 286,481 |
| Goodwill | **7,700** | 7,700 | **7,635** | 7,635 | **—** | — | **—** | — | **15,335** | 15,335 |
| Segment assets | **137,447** | 208,324 | **67,484** | 76,826 | **22,902** | 16,666 | **354,272** | — | **582,105** | 301,816 |
| Interests in associates | | | | | | | | | **626,495** | 608,966 |
| Loans receivable | | | | | | | | | **296,997** | 204,307 |
| Investments held-for-trading | | | | | | | | | **126,465** | 25,449 |
| Tax recoverable | | | | | | | | | **127** | 232 |
| Deferred tax assets | | | | | | | | | **3,514** | 3,291 |
| Bank balances and cash | | | | | | | | | **148,504** | 78,259 |
| Unallocated assets | | | | | | | | | **17,029** | 14,581 |
| Consolidated total assets | | | | | | | | | **1,801,236** | 1,236,901 |
| **LIABILITIES** | | | | | | | | | | |
| Segment liabilities | **50,307** | 39,428 | **8,713** | 19,858 | **8,278** | 7,751 | **2,388** | — | **69,686** | 67,037 |
| Bank borrowings | | | | | | | | | **118,767** | 48,624 |
| Tax payable | | | | | | | | | **3,464** | 4,439 |
| Deferred tax liabilities | | | | | | | | | **16,533** | 248 |
| Deposit received for disposal of a subsidiary | | | | | | | | | **—** | 5,000 |
| Advances from non-controlling shareholders of a subsidiary | | | | | | | | | **—** | 3,314 |
| Unallocated liabilities | | | | | | | | | **4,629** | 3,170 |
| Consolidated total liabilities | | | | | | | | | **213,079** | 131,832 |

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

- all assets are allocated to operating segments other than interests in associates, loans receivable, investments held-for-trading, tax recoverable, deferred tax assets, bank balances and cash and unallocated assets representing property, plant and equipment and deposits, prepayment and other receivables of investment holding companies.

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

## 8. SEGMENT INFORMATION *(continued)*

### Other segment information

| | Production and sale of Chinese pharmaceutical and health food products | | Production and sale of Western pharmaceutical and health food products | | Production and sale of bottled birds' nest drinks and herbal essence products | | Property investment | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 (restated) | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 (restated) |
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | | | | | | | |
| Additions to non-current assets *(Note)* | 6,057 | 3,246 | 11 | 1,843 | 308 | 151 | 180,549 | – | 205 | 702 | 187,130 | 5,942 |
| Depreciation of property, plant and equipment | 6,555 | 10,613 | 3 | 2,693 | 1,281 | 1,182 | 1,376 | – | 1,673 | 2,071 | 10,888 | 16,559 |
| Amortisation of other intangible assets | 179 | 176 | – | 633 | – | – | – | – | – | – | 179 | 809 |
| Amortisation of prepaid lease payments | – | – | – | 229 | – | – | – | – | – | – | – | 229 |
| Recognition (reversal) of allowance for trade and other receivables | 6,066 | (85) | (187) | (59) | (48) | 38 | – | – | 15,000 | – | 20,831 | (106) |
| Recognition (reversal) of allowance for obsolete inventories | 466 | (329) | (148) | – | (207) | 411 | – | – | – | – | 111 | 82 |
| Amount regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets | | | | | | | | | | | | |
| Finance costs | 298 | 1,223 | 132 | 342 | 14 | 77 | 832 | – | – | 712 | 1,276 | 2,354 |
| Interest income | 14 | 12 | – | 24 | – | 1 | – | – | 19,811 | 12,499 | 19,825 | 12,536 |

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

## 8. SEGMENT INFORMATION *(continued)*

### Geographical information

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

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

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 (restated) |
| Hong Kong | **454,988** | 368,601 | **1,017,847** | 739,461 |
| The PRC, other than Hong Kong | **140,368** | 127,641 | **574** | 855 |
| Singapore | **26,167** | 14,907 | **3,494** | 4,075 |
| Others | **17,989** | 18,156 | **—** | 420 |
| | **639,512** | 529,305 | **1,021,915** | 744,811 |

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

### Information about major customers

During the years ended 31 March 2011 and 2010, no revenues from customers contributed over 10% of the total sales of the Group.

## 9. OTHER INCOME

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Effective interest income on investment in an unlisted note due from an associate | — | 6,150 |
| Effective interest income on loans receivable | 17,891 | 6,348 |
| Interest income on bank deposits | 18 | 38 |
| Interest income on investments held-for-trading | 1,916 | — |
| Total interest income | 19,825 | 12,536 |
| Dividends from investments held-for-trading | 242 | 253 |
| Exchange gain, net | — | 657 |
| Franchise income | 90 | 170 |
| Gain on disposal of property, plant and equipment | 9 | — |
| Processing fee income | 1,369 | 1,101 |
| Sub-lease rental income | 2,724 | 3,061 |
| Sundry income | 1,209 | 2,165 |
| | 25,468 | 19,943 |

## 10. FINANCE COSTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Advances from non-controlling shareholders of a subsidiary | — | 224 |
| Bank borrowings wholly repayable within five years | 982 | 1,400 |
| Bank borrowings not wholly repayable within five years | 294 | — |
| Loans from a shareholder | — | 712 |
| Obligations under finance leases | — | 2 |
| Others | — | 16 |
| | 1,276 | 2,354 |

## 11. PROFIT BEFORE TAXATION

| | 2011<br>HK$'000 | 2010<br>HK$'000<br>(restated) |
|---|---|---|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Directors' remuneration (note 12 (a)) | 4,462 | 3,800 |
| Other staff costs | | |
| — Salaries and other benefits | 96,887 | 80,886 |
| — Share-based payments excluding directors | 332 | 539 |
| — Retirement benefit scheme contributions other than directors | 5,960 | 5,923 |
| Total staff costs | 107,641 | 91,148 |
| Recognition (reversal) of allowance for trade and other receivables | 20,831 | (106) |
| Amortisation of other intangible assets, included in selling and distribution expenses | 179 | 809 |
| Amortisation of prepaid lease payments | — | 229 |
| Auditor's remuneration | | |
| — Current year | 1,800 | 2,062 |
| — Overprovision in prior year | (414) | (588) |
| | 1,386 | 1,474 |
| Cost of inventories recognised as an expense (including allowance for obsolete inventories of HK$111,000 (2010: HK$82,000)) | 337,902 | 276,932 |
| Depreciation of property, plant and equipment | 10,888 | 16,559 |
| Exchange loss (gain), net | 420 | (657) |
| (Gain) loss on disposal of property, plant and equipment | (9) | 7 |
| Management fee paid to a shareholder | 996 | 996 |
| Research and development expenses | 967 | 1,234 |
| Gross rental income | (5,304) | — |
| Less: direct outgoing expenses | 29 | — |
| | (5,275) | — |

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the seven (2010: seven) directors are as follows:

| | Ms. Tang Mui Fun HK$'000 | Mr. Chan Chun Hong, Thomas HK$'000 | Mr. Tang Ching Ho HK$'000 | Mr. Siu Man Ho, Simon HK$'000 | Mr. Yuen Chi Choi HK$'000 | Mr. Cho Wing Mou HK$'000 | Mr. Leung Wai Ho HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | | |
| Fees | **—** | **—** | **—** | **140** | **140** | **140** | **140** | **560** |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | **2,516** | **649** | **636** | **—** | **—** | **—** | **—** | **3,801** |
| Retirement benefit scheme contributions | **36** | **12** | **12** | **—** | **—** | **—** | **—** | **60** |
| Share-based payment | **41** | **—** | **—** | **—** | **—** | **—** | **—** | **41** |
| Total emoluments | **2,593** | **661** | **648** | **140** | **140** | **140** | **140** | **4,462** |
| 2010 | | | | | | | | |
| Fees | — | — | — | 140 | 140 | 140 | 140 | 560 |
| Other emoluments: | | | | | | | | |
| Salaries and other benefits | 1,868 | 624 | 624 | — | — | — | — | 3,116 |
| Retirement benefit scheme contributions | 36 | 12 | 12 | — | — | — | — | 60 |
| Share-based payment | 64 | — | — | — | — | — | — | 64 |
| Total emoluments | 1,968 | 636 | 636 | 140 | 140 | 140 | 140 | 3,800 |

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

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one was director (2010: one was director) of the Company whose emoluments are set out in note 12(a) above. The emoluments of the remaining four (2010: four) individuals are as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | 4,548 | 3,964 |
| Retirement benefit scheme contributions | 48 | 48 |
| Share-based payment | 72 | 105 |
| | 4,668 | 4,117 |

Their emoluments are within the following bands:

| | 2011<br>Number of<br>employees | 2010<br>Number of<br>employees |
|---|---|---|
| Nil to HK$1,000,000 | 2 | 2 |
| HK$1,000,001 to HK$1,500,000 | 2 | 2 |

During the year, no emolument was paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for a director not accepting 1,000,000 units of share options granted on 12 May 2010 (note 34), none of the directors has waived any emoluments during the year.

## 13. INCOME TAX EXPENSE

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Income tax recognised in profit or loss: | | |
| Current tax | | |
| Hong Kong | 7,744 | 5,703 |
| Other jurisdictions | 2,713 | 194 |
| | 10,457 | 5,897 |
| Under(over)provision in prior years | | |
| Hong Kong | 92 | 70 |
| Other jurisdictions | (218) | (311) |
| | (126) | (241) |
| Deferred taxation (note 32) | | |
| Current year | 10,335 | (2,780) |
| | 20,666 | 2,876 |
| Income tax recognised in other comprehensive income: | | |
| Deferred taxation (note 32) | | |
| Arising from gain on revaluation on transfer from property, plant and equipment to investment properties | 4,622 | — |

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

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the Enterprise Income Tax ("EIT") rate of one of the Group's subsidiaries established in the PRC is 25% from 1 January 2008 onwards. In addition, the EIT rate of two of the Group's subsidiaries established in the PRC increased from 15% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC range from 22% to 25% (2010: 20% to 25%).

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

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

PRC income tax is calculated at 22% for one of the other two PRC subsidiaries during the year ended 31 March 2011. No provision for the PRC income tax of this subsidiary had been made during the year ended 31 March 2010 as the assessable profits were wholly absorbed by tax losses brought forward. For the remaining one of the two PRC subsidiaries, no provision for the PRC income tax has been made as there were no assessable profits for both years.

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

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Profit before taxation | **125,561** | 47,907 |
| Tax at the domestic income tax rate of 16.5% | **20,718** | 7,905 |
| Tax effect of share of results of associates | **(523)** | (5,270) |
| Tax effect of expenses not deductible for tax purpose | **6,926** | 7,090 |
| Tax effect of income not taxable for tax purpose | **(5,841)** | (3,956) |
| Tax effect of tax losses not recognised | **127** | 440 |
| Overprovision in prior years | **(126)** | (241) |
| Utilisation of tax losses previously not recognised | **(385)** | (331) |
| Utilisation of deductible temporary differences previously not recognised | **(38)** | (2,389) |
| Tax effect of deductible temporary differences not recognised | **10** | 466 |
| Effect of tax exemption granted to a PRC subsidiary | **–** | (3) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(250)** | (715) |
| Others | **48** | (120) |
| Income tax expense for the year | **20,666** | 2,876 |

Details of deferred taxation are set out in note 32.

## 14. EARNINGS PER SHARE

For the year ended 31 March 2011, the calculation of the basic and diluted earnings per share is based on the following data:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share | **99,133** | 45,797 |

| | **Number of shares 2011** | Number of shares 2010 |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **1,296,609,837** | 561,177,810 |

The weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share for the years ended 31 March 2010 and 2011 has been retrospectively adjusted for the effect of the consolidation of shares as detailed in note 33(d) and the bonus element of the rights issue and bonus issue as detailed in note 33(e), respectively.

The computations of diluted earnings per share do not assume the exercise of the outstanding share options of the Company as the exercise prices of those options are higher than the average market price of the shares of the Company for both years.

## 15. DIVIDENDS

The final dividend of HK0.3 cents per share in respect of the year ended 31 March 2011 (2010: Nil) in aggregate of HK$6,108,000 has been proposed by the directors and is subject to approval by the shareholders in general meeting. No interim dividend was distributed for the six months ended 30 September 2010 (2009: Nil).

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Land and 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 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | |
| At 1 April 2009, restated | 127,264 | 35,291 | 35,769 | 30,882 | 1,321 | 10,114 | 10,723 | 251,364 |
| Exchange realignment | — | 179 | 412 | 92 | 91 | 30 | — | 804 |
| Additions | — | 1,916 | 331 | 890 | 1,047 | 176 | 1,290 | 5,650 |
| Disposals | — | — | — | (157) | (291) | (75) | — | (523) |
| Reclassified as held for sale | (14,558) | (532) | (3,286) | (631) | (547) | (126) | (12,013) | (31,693) |
| At 31 March 2010 and 1 April 2010, restated | 112,706 | 36,854 | 33,226 | 31,076 | 1,621 | 10,119 | — | 225,602 |
| Exchange realignment | — | 231 | 540 | 117 | 104 | 53 | — | 1,045 |
| Additions | — | 3,923 | 393 | 1,674 | — | 569 | — | 6,559 |
| Arising on acquisition of subsidiaries | 122,200 | — | — | — | — | — | — | 122,200 |
| Disposals | — | — | — | (6) | — | (125) | — | (131) |
| Transfer to investment properties | (105,000) | — | — | — | — | — | — | (105,000) |
| **At 31 March 2011** | 129,906 | 41,008 | 34,159 | 32,861 | 1,725 | 10,616 | — | 250,275 |
| **DEPRECIATION** | | | | | | | | |
| At 1 April 2009, restated | 16,352 | 24,956 | 22,351 | 25,850 | 852 | 7,593 | — | 97,954 |
| Exchange realignment | — | 28 | 197 | 78 | 90 | 29 | — | 422 |
| Provided for the year | 4,750 | 3,085 | 3,694 | 3,745 | 175 | 1,110 | — | 16,559 |
| Eliminated on disposals | — | — | — | (150) | (291) | (75) | — | (516) |
| Reclassified as held for sale | (6,369) | (74) | (1,669) | (210) | (141) | (25) | — | (8,488) |
| At 31 March 2010 and 1 April 2010, restated | 14,733 | 27,995 | 24,573 | 29,313 | 685 | 8,632 | — | 105,931 |
| Exchange realignment | — | 83 | 316 | 99 | 90 | 38 | — | 626 |
| Provided for the year | 2,049 | 4,292 | 2,183 | 1,521 | 220 | 623 | — | 10,888 |
| Eliminated on disposals | — | — | — | (6) | — | (125) | — | (131) |
| Eliminated on transfer to investment properties | (13,014) | — | — | — | — | — | — | (13,014) |
| **At 31 March 2011** | 3,768 | 32,370 | 27,072 | 30,927 | 995 | 9,168 | — | 104,300 |
| **CARRYING AMOUNT** | | | | | | | | |
| **At 31 March 2011** | **126,138** | **8,638** | **7,087** | **1,934** | **730** | **1,448** | **—** | **145,975** |
| At 31 March 2010, restated | 97,973 | 8,859 | 8,653 | 1,763 | 936 | 1,487 | — | 119,671 |
| At 1 April 2009, restated | 110,912 | 10,335 | 13,418 | 5,032 | 469 | 2,521 | 10,723 | 153,410 |

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

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

| | |
|---|---|
| Land and buildings | 2% or over the terms of the relevant leases, whichever is shorter (note) |
| Leasehold improvements | 20–33 $^{1}/_{3}$% |
| Plant and machinery | 10%–20% |
| Furniture and equipment | 20–33 $^{1}/_{3}$% |
| Motor vehicles | 20% |
| Computer system | 20–33 $^{1}/_{3}$% |

The carrying value of land and buildings shown above comprises properties situated on:

| | **31.3.2011 HK$'000** | 31.3.2010 HK$'000 (restated) | 1.4.2009 HK$'000 (restated) |
|---|---|---|---|
| Land in Hong Kong: | | | |
| Medium-term lease | **126,138** | 97,973 | 100,633 |
| Land in the PRC (Note) | **—** | — | 10,279 |
| | **126,138** | 97,973 | 110,912 |

Note: These buildings are situated on allocated land without lease term in the PRC. Such land was obtained from local government. Depreciation on the buildings situated on such land and amortization on the prepaid lease payment are provided over the operating period of six years as stated in the business license. The land in the PRC cannot be sold and changed its usage freely without approval from local government. As at 31 March 2010, the prepaid lease payments over the land in the PRC as disclosed in note 17 and the buildings situated on such land included in property, plant and equipment were classified as held for sale (note 28).

The Group has pledged buildings to secure general banking facilities granted to the Group. Details of pledge of assets are set out in note 39.

## 17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

| | 31.3.2011<br>HK$'000 | 31.3.2010<br>HK$'000<br>(restated) | 1.4.2009<br>HK$'000<br>(restated) |
|---|---|---|---|
| Land in the PRC (Note) | – | 1,103 | 1,332 |
| Less: Reclassified as held for sale (note 28) | – | (1,103) | — |
| | – | — | 1,332 |

Note: This land is located in the PRC without lease term as disclosed in note 16.

| | 31.3.2011<br>HK$'000 | 31.3.2010<br>HK$'000<br>(restated) | 1.4.2009<br>HK$'000<br>(restated) |
|---|---|---|---|
| Analysed for reporting purposes as: | | | |
| Non-current assets | – | — | 1,058 |
| Current assets | – | — | 274 |
| | – | — | 1,332 |

The Group pledged certain prepaid lease payments for land to the bank to obtain general banking facilities. Details of pledge of assets are set out in note 39.

## 18. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| At 1 April 2009, 31 March 2010 and 1 April 2010 | — |
| Transfer from property, plant and equipment | 120,000 |
| Additions during the year | 36,349 |
| Arising on acquisition of assets through purchase of subsidiaries (note 35) | 22,000 |
| Change in fair value recognised in profit or loss | 51,551 |
| At 31 March 2011 | 229,900 |

## 18. INVESTMENT PROPERTIES *(continued)*

During the year ended 31 March 2011, property, plant and equipment with a carrying amount of HK$91,986,000 was transferred to investment property. The property was used by the Group as a retail shop before it was leased to an independent third party. The fair value of HK$120,000,000 at the date of transfer has been arrived at on the basis of a valuation carried out on that date by BMI Appraisals Limited, independent qualified professional valuers not connected with the Group. BMI Appraisals Limited are members of the Institute of Valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The fair value of the Group's investment properties at the date of acquisition of a subsidiary and at 31 March 2011 have been arrived at on the basis of a valuation carried out on respective dates by Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group. Vigers Appraisal & Consulting Limited are members of the Institute of Valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

All of the Group's property interests held to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

All of the Group's investment properties are held in Hong Kong under medium term leases.

Some of the Group's investment properties have been pledged to secure bank borrowings of the Group as detailed in note 39.

## 19. GOODWILL

| | HK$'000 |
|---|---|
| **CARRYING AMOUNT** | |
| At 1 April 2009 | 15,335 |
| Arising on acquisition of assets through purchase of subsidiaries (note 35) | 237 |
| Impairment loss recognised | (237) |
| At 31 March 2010, 1 April 2010 and 31 March 2011 | 15,335 |

## 19. GOODWILL *(continued)*

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Subsidiary A | 7,700 | 7,700 |
| Subsidiary B | 7,635 | 7,635 |
| | 15,335 | 15,335 |

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

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

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

The Group prepares 5-year cash flow forecasts based on financial budgets approved by the management. The rate used to discount the forecast cash flows for the CGUs is 13.45% (2010: 15.70%). Cash flows for the CGUs beyond the 5-year period are extrapolated using a steady 3% (2010: 2%) growth rate.

During the year ended 31 March 2011, management of the Group determines that there are no impairment of any of its CGUs containing goodwill.

## 20. INTERESTS IN ASSOCIATES

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Cost of investment in associates (Note a) | | |
| — Listed in Hong Kong (Note b) | **679,149** | 666,909 |
| — Unlisted (Note c) | **3,000** | 3,000 |
| Less: Impairment losses recognised | **(37,694)** | (37,694) |
| | **644,455** | 632,215 |
| Share of post-acquisition profits and other comprehensive income, net of dividends received | **(17,960)** | (23,249) |
| | **626,495** | 608,966 |
| Market value of listed investments | **991,597** | 942,209 |

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

| | HK$'000 |
|---|---|
| **COST** | |
| At 1 April 2009 | 37,694 |
| Arising on acquisition during the year (Note) | 320,308 |
| At 31 March 2010 and 1 April 2010 | 358,002 |
| Arising on acquisition during the year (Note) | 8,971 |
| **At 31 March 2011** | 366,973 |

Note: During the year ended 31 March 2011, the acquisition of an additional 0.59% (2010: 19.03%) equity interest in PNG, details of which are described in note 20(b), gives rise to goodwill of approximately HK$8,947,000 (2010: approximately HK$320,308,000), which is included in the carrying amount of the interest in the associate. Such goodwill represents the excess of purchase consideration for the additional interest in PNG, being the cash consideration paid (2010: fair value of the new shares issued) by the Company, over the Group's share of the aggregate carrying amount of the identifiable assets, liabilities and contingent liabilities of PNG at the date of the acquisition of the additional interest acquired. The recoverable amounts of the carrying amounts of the investment in PNG as at 31 March 2011 and 2010, which include the carrying amount of goodwill, are determined on the basis of the market price of PNG's shares that was higher than the carrying value of the interest in PNG, therefore no impairment losses was recognised in the consolidated statement of comprehensive income during the years ended 31 March 2011 and 2010.

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

(b) On 18 November 2009, the Group acquired additional 1,463,835,000 ordinary shares of PNG by issuing 3,659,587,500 shares of the Company to independent shareholders of PNG (the "Share Exchange Offer"). Details of the Share Exchange Offer were set out in the composite document and announcement jointly issued by the Company and PNG on 9 October 2009 and 13 November 2009, respectively. The consideration of the acquisition, represented by market price of the Company's shares issued on the acquisition date plus directly attributable acquisition costs, was added to the cost of investment in associates. In March 2011, the Group further acquired 45,000,000 ordinary shares of PNG in open market at a cash consideration of approximately HK$12,240,000.

As at 31 March 2011, the Group holds approximately 49.59% (2010: 49%) equity interest in PNG.

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Total assets | 1,580,778 | 1,207,815 |
| Total liabilities | (849,902) | (496,247) |
| Net assets | 730,876 | 711,568 |
| The Group's share of net assets of associate | 294,031 | 286,216 |
| Revenue | 64,565 | 58,987 |
| Profit for the year | 50,578 | 44,256 |
| Other comprehensive (expense) income | (31,270) | 59,807 |
| The Group's share of profit and other comprehensive income of associate for the year | 5,204 | 43,532 |

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

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

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Total assets | **6,699** | 8,872 |
| Total liabilities | **(330)** | (2,491) |
| Net assets | **6,369** | 6,381 |
| The Group's share of net assets of associates | **3,185** | 2,443 |
| Revenue | **25,907** | 23,469 |
| Profit and total comprehensive income for the year | **494** | 221 |
| The Group's share of total comprehensive income of associates for the year | **305** | 106 |

Details of the Group's principal associates at 31 March 2011 are set out in note 46.

## 21. OTHER INTANGIBLE ASSETS

| | Customer relationship HK$'000 | Trademark HK$'000 | Total HK$'000 |
|---|---|---|---|
| **COST** | | | |
| At 1 April 2009 | 600 | 4,925 | 5,525 |
| Addition during the year | — | 55 | 55 |
| Reclassified as held for sale | (600) | (3,200) | (3,800) |
| At 31 March 2010 and 1 April 2010 | — | 1,780 | 1,780 |
| Addition during the year | — | 22 | 22 |
| **At 31 March 2011** | — | 1,802 | 1,802 |
| **AMORTISATION** | | | |
| At 1 April 2009 | 170 | 1,606 | 1,776 |
| Provided for the year | 100 | 709 | 809 |
| Reclassified as held for sale | (270) | (1,374) | (1,644) |
| At 31 March 2010 and 1 April 2010 | — | 941 | 941 |
| Provided for the year | — | 179 | 179 |
| **At 31 March 2011** | — | 1,120 | 1,120 |
| **CARRYING AMOUNT** | | | |
| **At 31 March 2011** | — | 682 | 682 |
| At 31 March 2010 | — | 839 | 839 |

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

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

## 22. LOANS RECEIVABLE

Details of loans receivable are as follows:

| | Name of borrower | Maturity date | Effective interest rate per annum | Carrying amount 2011 HK$'000 | Carrying amount 2010 HK$'000 |
|---|---|---|---|---|---|
| 8% unsecured HK$190 million loan | PNG (Notes a, b) | 12 November 2013 | 7.95% | **193,748** | 193,748 |
| 8% unsecured HK$10 million loan | PNG (Notes a, b) | 9 July 2011 | 7.70% | **11,359** | 10,559 |
| 8% unsecured HK$15 million loan | PNG (Notes a, b) | 10 August 2013 | 7.43% | **15,766** | — |
| 8% unsecured HK$60 million loan | China Agri-Products (Note b) | 30 September 2012 | 7.80% | **61,052** | — |
| 8% unsecured HK$15 million loan | China Agri-Products (Note b) | 30 September 2012 | 7.85% | **15,072** | — |
| | | | | **296,997** | 204,307 |

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current assets | **285,638** | 204,307 |
| Current assets | **11,359** | — |
| | **296,997** | 204,307 |

Notes:

(a) PNG is an associate of the Group.

(b) Mr. Chan Chun Hong, Thomas, a director of the Company, is also the chairman of China Agri-Products and PNG, companies listed on the Stock Exchange.

At the end of the reporting period, the loans receivable are neither past due nor impaired. The credit quality of these loans is considered good as the directors assessed that PNG and China Agri-Products could generate sufficient funds from their normal course of business for repayment of the loans upon maturity. There is no significant change in the credit quality during the year.

## 23. INVENTORIES

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Raw materials and consumables | **31,403** | 20,355 |
| Work-in-progress | **3,275** | 5,103 |
| Finished goods | **60,750** | 50,647 |
| | **95,428** | 76,105 |
| Less: Inventories classified as assets held for sale (note 28) | **—** | (5,000) |
| | **95,428** | 71,105 |

## 24. TRADE AND OTHER RECEIVABLES

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Trade receivables | **68,561** | 61,777 |
| Less: accumulated impairment | **(3,260)** | (16,690) |
| | **65,301** | 45,087 |
| Less: Amounts classified as assets held for sale (note 28) | **—** | (3,315) |
| | **65,301** | 41,772 |
| Deposits, prepayments and other receivables | **55,052** | 31,343 |
| Less: accumulated impairment | **(15,000)** | (3,000) |
| | **40,052** | 28,343 |
| Less: Amounts classified as assets held for sale (note 28) | **—** | (1,152) |
| | **40,052** | 27,191 |
| Total trade and other receivables | **105,353** | 68,963 |

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

The Group allows an average credit period of 60 days to 120 days to its trade customers. The following is an aged analysis of trade receivables (net of impairment loss) presented based on the invoice date at the end of the reporting period. The analysis includes those classified as part of a disposal group held for sale.

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| 0–30 days | 38,385 | 19,472 |
| 31–60 days | 10,249 | 12,148 |
| 61–120 days | 15,586 | 9,993 |
| Over 120 days | 1,081 | 3,474 |
| | 65,301 | 45,087 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 88% (2010: 80%) of the trade receivables that are neither past due nor impaired are with good credit quality.

Included in the Group's trade receivable balances are debtors with an aggregate carrying amount of HK$7,670,000 (2010: HK$9,135,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the directors assessed that the balances will be recovered based on their settlement records. The Group does not hold any collateral over these balances.

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| 0–30 days | 6,495 | 5,667 |
| 31–60 days | 932 | 1,907 |
| 61–120 days | 157 | 288 |
| 121–180 days | 86 | 1,273 |
| | 7,670 | 9,135 |

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

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

Movement in the allowance for doubtful debts

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Balance at the beginning of the year | **19,690** | 19,792 |
| Exchange realignment | **8** | 4 |
| Recognition (reversal) of impairment losses on trade and other receivables | **20,831** | (106) |
| Amounts written off as uncollectible | **(22,269)** | — |
| Balance at the end of the year | **18,260** | 19,690 |

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$3,260,000 (2010: approximately HK$16,690,000) that are considered irrecoverable by the management after consideration of the credit quality of those individual customers based on their settlement records, the amounts subsequently received after year end and the aging of these receivables. The Group does not hold any collateral over these balances.

Included in the allowance for doubtful debts are individually impaired other receivables with an aggregate balance of HK$15,000,000 (2010: HK$3,000,000). At 31 March 2011, the amount represents full impairment of outstanding advances to a former subsidiary which are considered irrecoverable by the management as the amount was advanced before the subsidiary was disposed of in the current year and has not been subsequently settled after the end of the reporting period. The Group does not hold any collateral over these balances.

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

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| HK$ | **358** | 74 |
| SGD | **94** | 879 |
| USD | **3** | 58 |

## 25. AMOUNTS DUE FROM ASSOCIATES

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Trade receivables due from associates | **2,933** | 1,668 |

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

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

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| 0–30 days | **1,762** | 1,322 |
| 31–60 days | **638** | 200 |
| 61–120 days | **533** | 146 |
| | **2,933** | 1,668 |

As at 31 March 2011 and 2010, substantially all of the trade receivables are neither past due nor impaired. The Group has not provided for impairment loss as the directors assessed that the balances will be recovered based on their settlement records. The Group does not hold any collateral over these balances.

## 26. INVESTMENTS HELD-FOR-TRADING

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Listed equity securities at fair value: | | |
| in Hong Kong | **111,181** | 25,449 |
| Listed debt securities at fair value: | | |
| in Singapore | **15,284** | — |
| | **126,465** | 25,449 |

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

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| USD | **15,284** | — |

## 27. BANK BALANCES AND CASH

Bank balances and cash comprises bank balances at prevailing market interest rate and cash held by the Group, and short-term bank deposits that are interest-bearing at fixed interest rate and have an original maturity of three months or less. The bank deposits carry effective interest rates ranging from 0.001% to 0.02% (2010: 0.001% to 0.01%) per annum.

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| RMB | 249 | 127 |
| HK$ | 2,963 | 3,338 |
| SGD | 351 | 317 |
| USD | 1,281 | 243 |
| EUR | 21 | — |
| AUD | 5 | — |

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

On 10 December 2009, the Group entered into a sale and purchase agreement with Hunan Fangsheng Pharmaceutical Co Limited ("Hunan Fangsheng"), an independent third party, to dispose of its entire 64.2% equity interests in Hunan Xiangya at a cash consideration of HK$37,350,000. Hunan Xiangya is engaged in the production and sale of Western pharmaceutical products in the PRC. The transaction was approved by shareholders at a special general meeting of the Company on 18 January 2010. The assets and liabilities of Hunan Xiangya, which are expected to be sold within twelve months, were classified as assets held for sale and liabilities associated with assets held for sale in the consolidated statement of financial position as at 31 March 2010. No impairment loss was recognised on initial classification of the disposal as held for sale.

The disposal was completed in April 2010 and since then Hunan Xiangya ceased to be a subsidiary of the Group (note 36). As at 31 March 2010, the Group received HK$5,000,000 from Hunan Fangsheng as deposit for the disposal of Hunan Xiangya.

## 28. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE *(continued)*

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

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

## 29. TRADE AND OTHER PAYABLES

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Trade payables | 38,551 | 27,963 |
| Other payables | 35,746 | 42,226 |
| | 74,297 | 70,189 |
| Less: Amounts classified as liabilities associated with assets classified as held for sale (note 28) | – | (7,528) |
| | 74,297 | 62,661 |

## 29. TRADE AND OTHER PAYABLES *(continued)*

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| 0–30 days | 25,508 | 16,589 |
| 31–60 days | 11,857 | 8,681 |
| 61–120 days | 457 | 1,754 |
| Over 120 days | 729 | 939 |
| | 38,551 | 27,963 |

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

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| RMB | 4,019 | 3,886 |
| USD | 443 | 605 |
| HK$ | 1,891 | 1,815 |
| AUD | — | 10 |

## 30. BANK BORROWINGS

| | 31.3.2011 HK$'000 | 31.3.2010 HK$'000 (restated) | 1.4.2009 HK$'000 (restated) |
|---|---|---|---|
| Secured | 106,767 | 47,221 | 62,460 |
| Unsecured | 12,000 | 1,403 | 924 |
| | 118,767 | 48,624 | 63,384 |
| Less: Amounts classified as liabilities associated with assets held for sale (note 28) | — | (171) | — |
| | 118,767 | 48,453 | 63,384 |
| The above bank borrowings are repayable as follows: | | | |
| On demand or within one year | 33,329 | 48,453 | 63,252 |
| More than one year, but not exceeding two years | 14,327 | — | 132 |
| More than two years, but not exceeding five years | 31,480 | — | — |
| More than five years | 39,631 | — | — |
| | 118,767 | 48,453 | 63,384 |
| Less: Amount due within one year shown under current liabilities (Note) | (33,329) | (48,453) | (63,252) |
| Amount due after one year | 85,438 | — | 132 |

Note: The amount included bank loans of HK$19,001,000 (31.3.2010: HK$48,453,000; 1.4.2009: HK$61,674,000) that contain a repayment on demand clause.

Details of assets that have been pledged as collateral to secure borrowings are disclosed in note 39.

During the year, the Group obtained new bank loans in an amount of approximately HK$56.8 million (2010: HK$3.3 million). These loans carry interest at 1.50% to 2.08% (2010: 1.58% to 7.25%) per annum. The proceeds were used to finance the acquisition of property, plant and equipment and for general working capital purpose of the Group.

## 30. BANK BORROWINGS *(continued)*

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

| | Maturity date | Effective interest rate per annum | | Carrying amount | |
|---|---|---|---|---|---|
| | | **2011** | 2010 | **2011 HK$'000** | 2010 HK$'000 |
| Fixed-rate borrowing: | | | | | |
| 6.37% secured RMB loan (1) | April 2010 | **–** | 6.37% | **–** | 171 |
| Variable-rate borrowings: | | | | | |
| 3-month HIBOR plus 1.45% secured HK$ loan (2) | July 2014 | **1.63%** | 1.58% | **21,500** | 25,050 |
| 3-month HIBOR plus 1.45% secured HK$ loan (3) | July 2013 | **1.65%** | 1.58% | **15,000** | 21,000 |
| 3-month HIBOR plus 1.28% unsecured HK$ loan (4) Δ | October 2015 | **1.51%** | – | **12,000** | – |
| 3-month HIBOR plus 1.3% secured HK$ loan (5) # | July 2021 | **2.02%** | – | **7,002** | – |
| 3-month HIBOR plus 1.45% secured HK$ loan (6) Δ | March 2023 | **1.70%** | – | **8,960** | – |
| 3-month HIBOR plus 1.45% secured HK$ loan (7) Δ | June 2023 | **1.70%** | – | **14,700** | – |
| 3-month HIBOR plus 1.3% secured HK$ loan (8) # | October 2024 | **1.50%** | – | **19,250** | – |
| 3-month HIBOR plus 1.28% secured HK$ loan (9) Δ | November 2025 | **1.46%** | – | **20,355** | – |
| 3-month HIBOR plus 1.45% secured HK$ loan (10) | May 2010 | **–** | 1.58% | **–** | 1,000 |
| Bank's cost of funds plus 3.0% SGD unsecured loan (11) | July 2010 | **–** | 3.92% | **–** | 1,403 |
| | | | | **118,767** | 48,624 |

## 30. BANK BORROWINGS *(continued)*

(1) Repayable half-yearly in 5 years commencing on October 2005 to April 2010.
(2) Repayable in thirty-three instalments commencing on April 2006 to July 2014.
(3) Repayable in twenty instalments commencing on June 2008 to July 2013.
(4) Repayable in quarterly instalments commencing on July 2011 to October 2015
(5) Repayable in monthly instalments commencing on November 2010 to July 2021.
(6) Repayable in quarterly instalments commencing on March 2011 to March 2023.
(7) Repayable in quarterly instalments commencing on March 2011 to June 2023.
(8) Repayable in quarterly instalments commencing on January 2011 to October 2024.
(9) Repayable in quarterly instalments commencing on February 2011 to November 2025.
(10) Repayable in eight instalments commencing on February 2006 to May 2010.
(11) Repayable in four instalments commencing on August 2009 to July 2010.
Δ New bank loans obtained during the year.
# Bank loans acquired on acquisition of subsidiaries during the year.

## 31. DEFERRED FRANCHISE INCOME

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| At the beginning of the year | **18** | 98 |
| Additions during the year | **90** | 90 |
| Recognised during the year | **(90)** | (170) |
| At the end of the year | **18** | 18 |
| Less: Amount due within one year shown under current liabilities | **(18)** | (18) |
| | **–** | – |

## 32. DEFERRED TAXATION

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

| | Accelerated tax depreciation HK$'000 | Allowance for bad and doubtful debt HK$'000 | Revaluation of investment properties HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2009 | 1,297 | (1,565) | — | (268) |
| (Credit) charge to profit or loss | (3,041) | 261 | — | (2,780) |
| Exchange adjustment | 5 | — | — | 5 |
| At 31 March 2010 and 1 April 2010 | (1,739) | (1,304) | — | (3,043) |
| Charge to profit or loss | 1,041 | 788 | 8,506 | 10,335 |
| Charge to other comprehensive income | — | — | 4,622 | 4,622 |
| Acquisition of subsidiaries | 297 | — | 834 | 1,131 |
| Exchange adjustment | (26) | — | — | (26) |
| At 31 March 2011 | (427) | (516) | 13,962 | 13,019 |

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

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Deferred tax assets | **(3,514)** | (3,291) |
| Deferred tax liabilities | **16,533** | 248 |
| | **13,019** | (3,043) |

At the end of the reporting period, the Group had unused tax losses of approximately HK$122,472,000 (2010: approximately HK$124,039,000) available to offset against future profits, of which HK$120,447,000 (2010: HK$120,578,000) has not yet been agreed by the Hong Kong Inland Revenue Department. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$131,000 (2010: approximately HK$298,000) in respect of accelerated accounting depreciation and allowance for bad and doubtful debts. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 33. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| At 31 March 2010 and 31 March 2011 | 60,000,000,000 | 600,000 |
| Issued and fully paid: | | |
| At 1 April 2009 | 2,010,351,688 | 20,104 |
| Issue of shares (Note a) | 402,000,000 | 4,020 |
| Issue in consideration for the acquisition of the issued share capital of PNG (Note b) | 3,659,587,500 | 36,595 |
| At 31 March 2010 and 1 April 2010 | 6,071,939,188 | 60,719 |
| Issue of shares (Note c) | 1,200,000,000 | 12,000 |
| Consolidation of shares (Note d) | (6,981,061,621) | — |
| Adjustment to nominal value (Note d) | — | (69,811) |
| Rights issue and bonus issue of shares (Note e) | 1,745,265,402 | 17,453 |
| At 31 March 2011 | 2,036,142,969 | 20,361 |

Notes:

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

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

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

(b) On 18 November 2009, the Company allotted and issued 3,659,587,500 new shares of the Company ("new WYT Shares") as consideration to acquire 1,463,835,000 ordinary shares of PNG ("PNG Shares") from certain independent shareholders of PNG, on the basis of five new WYT Shares for every two PNG Shares.

The new WYT Shares were issued to the independent shareholders of PNG under the specific mandate granted to the directors of the Company in a special general meeting on 2 October 2009.

## 33. SHARE CAPITAL *(continued)*

Notes: (continued)

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

These shares were issued under the general mandate granted to the directors of the Company at a special general meeting of the Company held on 2 February 2010. The net proceeds of approximately HK$61.5 million from the placing agreement will be used for repayment of interest bearing debts, expansion of the Group's Chinese and Western health food and pharmaceutical business and as general working capital of the Group.

(d) On 5 August 2010, the Company proposed a capital reorganisation ("Capital Reorganisation") in which every 25 shares of par value of HK$0.01 each in the issued share capital of the Company will be consolidated into one consolidated share ("Consolidated Share") of par value of HK$0.25 each, and afterwards the issued share capital of the Company will be reduced from HK$0.25 each per Consolidated Share in issue to HK$0.01 each. The reduction of issued share capital to the extent of HK$0.24 per Consolidated Share will be applied to offset the accumulated losses of the Group.

The Capital Reorganisation was approved by independent shareholders at a special general meeting of the Company and completed on 21 September 2010.

(e) On 5 August 2010, the Company proposed a rights issue ("Rights Issue") on the basis of five rights shares for every one Consolidated Share in issue, subject to the completion of the Capital Reorganisation, at the subscription price of HK$0.207 per rights share.

Subject to the satisfaction of the conditions of the Rights Issue, bonus shares will be issued to the holders of the rights shares on the basis of one bonus share for every five rights shares taken up under the Rights Issue ("Bonus Issue").

The Rights Issue and Bonus Issue were approved by independent shareholders at a special general meeting of the Company. On 25 October 2010, a total of 1,745,265,402 shares comprising 1,454,387,835 rights shares and 290,877,567 bonus shares were allotted to the qualifying shareholders on a fully underwritten basis. The net proceeds of the Rights Issue of approximately HK$293.7 million are used for expansion of the Group's Chinese and Western health food and pharmaceutical business, the acquisition of subsidiaries from a subsidiary of Wang On (note 35) and as general working capital of the Group.

All the ordinary shares issued for the years ended 31 March 2011 and 2010 rank pari passu with the then existing ordinary shares in all respects.

## 34. 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 18 September 2013, the board of directors of the Company may grant options to directors and eligible employees of the Company or its subsidiaries to subscribe for shares in the Company at a consideration equal to the higher of the closing price of the shares of the Company on the Stock Exchange at the date of offer of grant and the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the options.

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

### 2004 Scheme *(continued)*

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

The maximum number of shares of the Company in respect of which options may be granted, when aggregated with any other share option scheme of the Company, shall not exceed 30% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the 2004 Scheme. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 Scheme shall not exceed 10% of the shares in issue 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 movements of the Company's share options granted under the 2004 Scheme during the year ended 31 March 2011:

| | | | | Number of options | | | | |
|---|---|---|---|---|---|---|---|---|
| **Date of grant** | **Exercise price per share** HK$ | **Adjusted exercise price per share** HK$ (Note) | **Exercisable period** | **Outstanding at 1.4.2010** | **Granted during the year** (Note a) | **Lapsed during the year** | **Adjusted during the year** (Note) | **Outstanding at 31.3.2011** |
| Director | | | | | | | | |
| Tang Mui Fun | | | | | | | | |
| 3.1.2007 | 0.415 | 3.4488 | 2.1.2008 to 1.1.2012 | 650,000 | – | – | (571,786) | **78,214** |
| 2.1.2008 | 0.226 | 1.8782 | 2.1.2009 to 1.1.2013 | 650,000 | – | – | (571,786) | **78,214** |
| 8.1.2009 | 0.145 | 1.2050 | 8.1.2010 to 7.1.2019 | 650,000 | – | – | (571,786) | **78,214** |
| | | | | 1,950,000 | – | – | (1,715,358) | **234,642** |
| Employees | | | | | | | | |
| 3.1.2007 | 0.415 | 3.4488 | 2.1.2008 to 1.1.2012 | 2,750,000 | – | (120,000) | (2,313,530) | **316,470** |
| 2.1.2008 | 0.226 | 1.8782 | 2.1.2009 to 1.1.2013 | 4,290,000 | – | (350,000) | (3,465,897) | **474,103** |
| 8.1.2009 | 0.145 | 1.2050 | 8.1.2010 to 7.1.2019 | 5,750,000 | – | (350,000) | (4,750,214) | **649,786** |
| 12.5.2010 | 0.052 | 0.4321 | 12.5.2011 to 11.5.2020 | – | 8,450,000 | – | (7,433,207) | **1,016,793** |
| | | | | 12,790,000 | 8,450,000 | (820,000) | (17,962,848) | **2,457,152** |
| | | | | 14,740,000 | 8,450,000 | (820,000) | (19,678,206) | **2,691,794** |
| Exercisable at the end of the year | | | | 8,284,000 | | | | **1,383,801** |
| Weighted average exercise price | | | | HK$0.234 | HK$0.052 | HK$0.127 | N/A | **HK$0.166** |

Note (a): The number of share options granted during the year ended 31 March 2011 excludes 1,000,000 units of share option which have not been accepted by the director of the Company.

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

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

| Date of grant | Exercise price per share HK$ | Adjusted exercise price per share HK$ (Note) | Exercisable period | Number of options: Outstanding at 1.4.2009 | Lapsed during the year | Outstanding at 31.3.2010 |
|---|---|---|---|---|---|---|
| Director | | | | | | |
| Tang Mui Fun | | | | | | |
| 3.1.2007 | 0.415 | 3.4488 | 2.1.2008 to 1.1.2012 | 650,000 | – | **650,000** |
| 2.1.2008 | 0.226 | 1.8782 | 2.1.2009 to 1.1.2013 | 650,000 | – | **650,000** |
| 8.1.2009 | 0.145 | 1.2050 | 8.1.2010 to 7.1.2019 | 650,000 | – | **650,000** |
| | | | | 1,950,000 | – | **1,950,000** |
| Employees | | | | | | |
| 3.1.2007 | 0.415 | 3.4488 | 2.1.2008 to 1.1.2012 | 3,070,000 | (320,000) | **2,750,000** |
| 2.1.2008 | 0.226 | 1.8782 | 2.1.2009 to 1.1.2013 | 5,450,000 | (1,160,000) | **4,290,000** |
| 8.1.2009 | 0.145 | 1.2050 | 8.1.2010 to 7.1.2019 | 7,110,000 | (1,360,000) | **5,750,000** |
| | | | | 15,630,000 | (2,840,000) | **12,790,000** |
| | | | | 17,580,000 | (2,840,000) | **14,740,000** |
| Exercisable at the end of the year | | | | 4,062,000 | | **8,284,000** |
| Weighted average exercise price | | | | HK$0.230 | HK$0.209 | **HK$0.234** |

Note: The exercise price and number of share options was adjusted as a result of the Capital Reorganisation and Rights Issue and Bonus Issue of the Company during the year (note 33(d) and 33(e)).

For the year ended 31 March 2011 and 31 March 2010, no share options were exercised.

The options granted under the 2004 Scheme vest as follows:

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

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

During the year ended 31 March 2011, 8,450,000 units of share options were granted to employees on 12 May 2010, where the share price of the Company at the date immediately before the date of grant was HK$0.052. The estimated fair value of the options granted during the year is approximately HK$334,000.

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

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

| | 2011 |
|---|---|
| **Grant date** | **12 May 2010** |
| **Share price** | **HK$0.052** |
| **Exercise price** | **HK$0.052** |
| **Expected volatility** | **92.915%** |
| **Risk-free rate** | **2.718%** |
| **Expected dividend yield** | **0%** |
| **Sub optimal early exercise factor** | **2.2 times** |
| **Expected life** | **10 years** |

Expected volatility for the share options granted during year ended 31 March 2011 was determined by using the historical volatility of the closing price of the shares of the Company over the previous ten years. Based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations, a 10-year expected life was applied in the model.

The Group recognised the total expense of approximately HK$373,000 (2010: HK$603,000) for the year ended 31 March 2011 in relation to share options granted by the Company.

## 35. ACQUISITION OF ASSETS THROUGH PURCHASE OF SUBSIDIARIES

On 6 August 2010, Guidepost Investments Limited ("Guidepost"), a wholly-owned subsidiary of the Company, and East Run Investments Limited ("East Run"), a wholly-owned subsidiary of Wang On entered into a sale and purchase agreement ("the Agreement") pursuant to which, Guidepost agreed to acquire and East Run agreed to dispose of, the entire issued share capital and the shareholder loans of Smart First Investment Limited ("Smart First"), Info World Investment Limited ("Info World"), Grand Quality Development Limited ("Grand Quality"), Star Sense Limited ("Star Sense") and Full Gainer Investment Limited ("Full Gainer"), all of which are wholly-owned subsidiaries of East Run, for a cash consideration of approximately HK$117,767,000.

Each of Smart First, Info World, Grand Quality, Star Sense and Full Gainer holds commercial properties in various locations in Hong Kong. At the date of acquisition, the properties are managed under leases to a subsidiary and an associate of the Group for the retailing of Chinese pharmaceutical products in return for a fixed monthly rental income. The acquisition allows the Group to save the rental expenses for its retail shops and to increase its rental income from investment properties.

## 35. ACQUISITION OF ASSETS THROUGH PURCHASE OF SUBSIDIARIES *(continued)*

The acquisition was approved by independent shareholders at a special general meeting of the Company and completed on 28 October 2010. This acquisition has been accounted for as acquisition of assets. The fair values of the identifiable assets and liabilities acquired are not significantly different from their respective carrying amounts determined in accordance with HKFRSs immediately before the combination. The net assets acquired in the transaction are as follows:

| | Amount recognised at the date of acquisition | | | | | |
|---|---|---|---|---|---|---|
| | **Smart First** | **Info World** | **Grand Quality** | **Star Sense** | **Full Gainer** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Net assets acquired: | | | | | | |
| Property, plant and equipment | 25,500 | — | 39,400 | 19,400 | 37,900 | 122,200 |
| Investment property | — | 22,000 | — | — | — | 22,000 |
| Trade and other receivables | 3 | 1,135 | 5 | 6 | 5 | 1,154 |
| Bank balances and cash | 246 | 371 | 840 | 139 | 56 | 1,652 |
| Other payables and accruals | (174) | (158) | (303) | (189) | (203) | (1,027) |
| Tax payable | — | (48) | — | (31) | (147) | (226) |
| Bank borrowings | — | — | — | (7,255) | (19,600) | (26,855) |
| Deferred tax liabilities | — | (1,131) | — | — | — | (1,131) |
| Total consideration satisfied by cash | 25,575 | 22,169 | 39,942 | 12,070 | 18,011 | 117,767 |
| Net cash outflow arising on acquisition: | | | | | | |
| Cash consideration paid | (25,575) | (22,169) | (39,942) | (12,070) | (18,011) | (117,767) |
| Bank balances and cash acquired | 246 | 371 | 840 | 139 | 56 | 1,652 |
| | (25,329) | (21,798) | (39,102) | (11,931) | (17,955) | (116,115) |

The fair value of property, plant and equipment and investment property at the date of acquisition have been arrived at on the basis of a valuation carried out by Vigers Appraisal & Consulting Limited, independent qualified Professional valuers not connected with the Group. Vigers Appraisal & Consulting Limited are members of the Institute of Valuers. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same locations and conditions.

The fair value of trade and other receivables at the date of acquisition approximates to their gross contractual amounts.

## 35. ACQUISITION OF ASSETS THROUGH PURCHASE OF SUBSIDIARIES *(continued)*

On 31 July 2009, the Group acquired an additional 50% equity interest in Lucky Planning Limited ("Lucky Planning") for a cash consideration of HK$350,000. Lucky Planning then became a non-wholly-owned subsidiary of the Group. This acquisition had been accounted for using the purchase method. The amount of goodwill arising from the acquisition was HK$237,000.

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

| | HK$'000 |
|---|---|
| Net assets acquired: | |
| Trade and other receivables | 193 |
| Bank balances and cash | 48 |
| Trade and other payables | (15) |
| | 226 |
| Less: Carrying amount of interests in associates | (113) |
| | 113 |
| Goodwill | 237 |
| Consideration satisfied by cash | 350 |
| Net cash outflow arising on acquisition: | |
| Cash consideration paid | (350) |
| Cash and cash equivalents acquired | 48 |
| | (302) |

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.

Lucky Planning contributed nil to the Group's revenue and a loss of approximately HK$1,000 to the Group's profit before taxation for the period between the date of acquisition and 31 March 2010.

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

## 36. DISPOSAL OF A SUBSIDIARY

On 19 April 2010, the Group disposed of its entire equity interest in Hunan Xiangya to Hunan Fangsheng for a cash consideration of HK$37,350,000.

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

| | HK$'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 23,118 |
| Prepaid lease payments | 1,087 |
| Other intangible assets | 2,157 |
| Inventories | 3,244 |
| Trade and other receivables | 6,683 |
| Tax payable | (52) |
| Bank balances and cash | 3,694 |
| Trade and other payables | (8,964) |
| Bank borrowings | (171) |
| Advances from non-controlling shareholders | (3,314) |
| Amounts due to group companies | (15,649) |
| | 11,833 |
| Release of translation reserve | (486) |
| Waiver of amounts due from Hunan Xiangya | 1,016 |
| Non-controlling interest | (4,168) |
| Gain on disposal | 29,155 |
| Total consideration | 37,350 |
| Satisfied by: | |
| Cash | 26,589 |
| Deposit received | 5,000 |
| Deferred consideration receivable, included in other receivables | 5,761 |
| | 37,350 |

## 36. DISPOSAL OF A SUBSIDIARY *(continued)*

| | HK$'000 |
|---|---|
| Net cash inflow arising on disposal: | |
| Cash consideration | 26,589 |
| Bank balances and cash disposed of | (3,694) |
| | 22,895 |

The Group was charged taxes of approximately HK$1,668,000 in relation to the disposal.

The deferred consideration is due in April 2011 in accordance with terms of the disposal agreement. As at 31 March 2011, no impairment loss has been recognised by the Group as the management of the Group has been negotiating with the buyer for settlement and considers the amount recoverable based on past settlement records.

Other than as disclosed above, the impact of the disposal of Hunan Xiangya on the Group's results and cash flows in the year ended 31 March 2011 was insignificant.

## 37. MAJOR NON-CASH TRANSACTIONS

(a) As detailed in note 33(b), the Group acquired 1,463,835,000 ordinary shares of PNG by issuing 3,659,587,500 shares of the Company during the year ended 31 March 2010.

(b) The Group advanced a loan of HK$190,000,000 to PNG upon the redemption of the outstanding unlisted convertible note due from PNG of HK$190,000,000 during the year ended 31 March 2010.

## 38. RETIREMENT BENEFIT PLANS

The Group participates in a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the Occupational Retirement Scheme Ordinance Scheme prior to the establishment of the MPF Scheme were switched to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes the lower of HK$1,000 or 5% of relevant monthly payroll costs to the MPF Scheme (save for a director of the Company to whom the Group contributes HK$3,000 per month), 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$6,020,000 (2010: HK$5,983,000) charged to profit or loss represents contributions paid and payable to these schemes by the Group in respect of the current accounting year. As at 31 March 2011, contributions of approximately HK$310,000 (2010: HK$296,000) due in respect of the reporting period had not been paid over to the schemes.

## 39. PLEDGE OF ASSETS

| | 2011<br>HK$'000 | 2010<br>HK$'000<br>(restated) |
|---|---|---|
| Buildings (Note) | 120,824 | 99,040 |
| Investment properties | 206,100 | — |
| | 326,924 | 99,040 |

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

## 40. CAPITAL COMMITMENTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of | | |
| — property, plant and equipment | 126 | 603 |
| — investment property | 31,752 | — |
| | 31,878 | 603 |

## 41. OPERATING LEASES

The Group as lessee:

The Group made minimum lease payments of approximately HK$66,599,000 (2010: HK$60,427,000) under operating leases during the year in respect of its office properties and retail shops.

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Within one year | 50,100 | 58,937 |
| In the second to fifth year inclusive | 88,040 | 74,653 |
| Over five years | 13,160 | 26,320 |
| | 151,300 | 159,910 |

Leases are negotiated for a term ranging from one to ten years. Certain leases have contingent rental payable which are based on turnover of the relevant retail shops. The contingent rent paid for the year is approximately HK$13,375,000 (2010: HK$7,038,000).

## 41. OPERATING LEASES *(continued)*

The Group as lessor:

Property rental income and sub-lease income earned during the year was approximately HK$5,304,000 (2010: Nil) and HK$2,724,000 (2010: approximately HK$3,061,000), respectively. The properties are expected to generate rental yields of 3.5% on an ongoing basis.

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

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Within one year | **9,323** | 1,680 |
| In the second to fifth year inclusive | **9,892** | 2,100 |
| | **19,215** | 3,780 |

## 42. EVENTS AFTER THE REPORTING PERIOD

On 11 March 2011, the Group entered into a provisional agreement with an independent third party for the purchase of an investment property in North Point, Hong Kong for a cash consideration of HK$35,280,000. As at 31 March 2011, deposit of HK$3,528,000 has been paid to the vendor. The acquisition has not been completed by the date the consolidated financial statements are authorised for issue.

On 2 June 2011, the Group entered into a provisional agreement with an independent third party for the purchase of an investment property in Lai Chi Kok Road, Kowloon, Hong Kong for a cash consideration of HK$26,000,000. The acquisition has not been completed by the date the consolidated financial statements are authorised for issue.

## 43. RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties. Besides, transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The significant transactions with these companies during the year, and balances with them at the end of the reporting period, are as follows:

| Nature of related party | Transactions | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| (i) Wang On Group Limited and its subsidiaries ("Wang On Group") (note) # | Rental received by the Group | **1,680** | 1,740 |
| | Rental paid by the Group | **2,337** | 4,080 |
| | Management fee paid by the Group | **996** | 996 |
| | Loan interest paid by the Group | **—** | 712 |
| | Sales of pharmaceutical products by the Group | **5,177** | 602 |
| (ii) China Agri-Products# | Rental received by the Group | **360** | 225 |
| | Sales of Chinese pharmaceutical products by the Group | **5,980** | 3,412 |
| | Effective interest income on loans received by the Group | **1,125** | — |
| (iii) Associates | Sales of Chinese pharmaceutical products by the Group | **16,224** | 15,503 |
| | Effective interest income on an unlisted note received by the Group | **—** | 6,150 |
| | Rental received by the Group | **782** | 476 |
| | Effective interest income on loans received by the Group | **16,766** | 6,348 |
| | Management and promotion fees received by the Group | **1,203** | 1,173 |

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

Note: As at 31 March 2011, Rich Time, a subsidiary of Wang On Group, held 9.15% (2010: 8.68%) shareholding in the Company and was a shareholder of the Company.

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

### Compensation of key management personnel

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Short-term benefits | **4,361** | 3,676 |
| Post-employment benefits | **60** | 60 |
| Share-based payment | **41** | 64 |
| | **4,462** | 3,800 |

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

Details of the balances with related parties as at the end of the reporting period are set out in the consolidated statement of financial position and notes 22 and 25.

## 44. LOSS OF THE COMPANY FOR THE YEAR

The loss of the Company for the year ended 31 March 2011 is HK$86,350,000 (2010: HK$1,140,000).

## 45. PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2011 and 2010 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Paid up issued/ registered ordinary share capital | Proportion of issued share/registered capital held by the Company Directly | | Indirectly | | Principal activity |
|---|---|---|---|---|---|---|---|
| | | | 2011 | 2010 | 2011 | 2010 | |
| Asia Brighter Investment Limited | Hong Kong | HK$1 Ordinary share | – | – | 100% | 100% | Property investment |
| Billion Good Investment Limited | Hong Kong | HK$2 Ordinary share | – | – | 99.79% | 99.79% | Property holding |
| CNT Health Food Pte Limited | Singapore | Singapore $1,694,737 Ordinary share | – | – | 95% | 95% | Production and sale of bottled birds' nest drinks and herbal essence products |
| China Field Enterprises Limited | Hong Kong | HK$25,000 Ordinary share | – | – | 81% | 81% | Investment holding |
| Full Gainer Δ | Hong Kong | HK$1 Ordinary share | – | – | 100% | – | Property investment |
| Grand Quality Δ | Hong Kong | HK$2 Ordinary share | – | – | 100% | – | Property investment |
| Info World Δ | Hong Kong | HK$1 Ordinary share | – | – | 100% | – | Property investment |
| Hunan Xiangya # | PRC | RMB29,225,000 Registered capital | – | – | – | 52% | Production and sale of Western pharmaceutical products |
| Luxembourg Medicine Company Limited | Hong Kong | HK$434,747 Ordinary share | – | – | 99.79% | 99.79% | Production and sale of Western pharmaceutical and health food products |
| Richest Ever Limited | Hong Kong | HK$2 Ordinary share | – | – | 99.79% | 99.79% | Trading of Chinese pharmaceutical and health food products |
| Smart First Δ | Hong Kong | HK$1 Ordinary share | – | – | 100% | – | Property investment |
| Star Sense Δ | Hong Kong | HK$1 Ordinary share | – | – | 100% | – | Property investment |
| Union Target Limited ^ | Hong Kong | HK$1 Ordinary share | – | – | 100% | – | Property investment |
| Total Smart Investments Limited | British Virgin Islands | USD1 Ordinary share | 100% | 100% | – | – | Investment holding |
| Wai Yuen Tong (Retail) Limited | Hong Kong | HK$2 Ordinary share | – | – | 99.79% | 99.79% | Retail and sale of Chinese pharmaceutical and health food products |
| Wai Yuen Tong Medicine Company Limited ("WYT Medicine Company") | Hong Kong | HK$217,374 Ordinary share HK$17,373,750 non-voting deferred * | – | – | 99.79% | 99.79% | Production and sale of Chinese pharmaceutical and health food products |
| 深圳市延養堂醫藥有限公司 | PRC | RMB7,000,000 Paid-up capital | – | – | 99.79% | 99.79% | Retail and sale of Chinese pharmaceutical and health food products |

## 45. PRINCIPAL SUBSIDIARIES *(continued)*

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

Δ The subsidiaries are acquired by the Group during the current year (note 35).

\# Sino-foreign equity joint venture established in the PRC. The Group disposed of the entire equity interest of Hunan Xiangya during the current year (note 36).

^ The subsidiary was set up by the Group during the current year.

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

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

## 46. PARTICULARS OF ASSOCIATES

Details of the Group's principal associates at 31 March 2011 and 2010 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 |
|---|---|---|---|---|---|---|
| | | | | **2011** | 2010 | |
| Creation Sino Limited | Incorporated | Hong Kong | Ordinary | **49.90%** | 49.90% | Retailing of Chinese pharmaceutical and health food products |
| Fortune Way Trading Limited | Incorporated | Hong Kong | Ordinary | **49.90%** | 49.90% | Retailing of Chinese pharmaceutical and health food products |
| PNG * | Incorporated | Cayman Islands | Ordinary | **49.59%** | 49.00% | Investment holding |
| Winning Forever Limited | Incorporated | Hong Kong | Ordinary | **49.90%** | 49.90% | Retailing of Chinese pharmaceutical and health food products |

* Listed on the Stock Exchange. The principal activities of its subsidiaries are sale of fresh pork meat and related produce, property development in the PRC, and forestry and logging operations in Papua New Guinea.

## 47. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Assets | | |
| Investment in a subsidiary | — | — |
| Other receivables | 5,720 | 5,667 |
| Amounts due from subsidiaries | 1,677,372 | 1,491,094 |
| Investments held-for-trading | 12,829 | 10,325 |
| Bank balances and cash | 44,716 | 15,169 |
| | 1,740,637 | 1,522,255 |
| Liabilities | | |
| Other payables and accruals | 2,318 | 3,693 |
| Amounts due to subsidiaries | 206,848 | 256,270 |
| | 209,166 | 259,963 |
| Net assets | 1,531,471 | 1,262,292 |

# FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 March 2011

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Revenue | 381,266 | 477,021 | 496,151 | 529,305 | **639,512** |
| Profit (loss) before taxation | 10,905 | 85,786 | (345,764) | 47,907 | **125,561** |
| Income tax expense | (982) | (2,404) | (178) | (2,876) | **(20,666)** |
| Profit (loss) for the year | 9,923 | 83,382 | (345,942) | 45,031 | **104,895** |
| Attributable to: | | | | | |
| Owners of the Company | 9,895 | 83,767 | (345,906) | 45,797 | **99,133** |
| Non-controlling interests | 28 | (385) | (36) | (766) | **5,762** |
| | 9,923 | 83,382 | (345,942) | 45,031 | **104,895** |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Total assets | 792,911 | 1,158,947 | 753,120 | 1,236,901 | **1,801,236** |
| Total liabilities | (135,213) | (263,680) | (153,571) | (131,832) | **(213,079)** |
| | 657,698 | 895,267 | 599,549 | 1,105,069 | **1,588,157** |
| Equity attributable to owners of the Company | 657,591 | 889,001 | 592,736 | 1,098,988 | **1,580,421** |
| Non-controlling interests | 107 | 6,266 | 6,813 | 6,081 | **7,736** |
| | 657,698 | 895,267 | 599,549 | 1,105,069 | **1,588,157** |