

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are the manufacture and sales of pharmaceutical products and the provision of charter hiring of vessels.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

As detailed in note 34, the Company has raised HK\$180 million in April 2003 by way of a subscription of 900,000,000 new shares in the Company. These proceeds were used for the acquisition of additional investments in the pharmaceutical sector and to reduce the Group's borrowings.

The financial statements have been prepared on a going concern basis because the directors, after giving careful consideration to the future liquidity of the Group in light of the above and the Group's net current liabilities of HK\$74,100,000 as at 31st March, 2003 are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

3. ADOPTION OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time the following new or revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants:

| | |
|-------------------|--------------------------------------|
| SSAP 1 (Revised) | Presentation of financial statements |
| SSAP 11 (Revised) | Foreign currency translation |
| SSAP 15 (Revised) | Cash flow statements |
| SSAP 33 | Discontinuing operations |
| SSAP 34 | Employee benefits |

The adoption of these new or revised SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement as well as additional disclosures. These changes have not had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

3. ADOPTION OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

Under SSAP 15 (Revised), cash flows are classified under three headings– operating, investing and financing, rather than the previous five headings. Interest received and interest paid which were previously presented under a separate heading, are classified as investing cash flows and financing cash flows respectively.

Under SSAP 33, financial statement amounts relating to a discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. In the current period, the Group's provision of travel related services and the operation of a restaurant have been identified as discontinuing operations, details of which are disclosed in note 11.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and vessels. The principal accounting policies adopted which are in accordance with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

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

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of a subsidiary is presented separately on the balance sheet.

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

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

Revenue recognition

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

Service income is recognised when the services are provided.

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

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

Leases

A lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of inception of the leases. The outstanding principal portion of the leasing commitment is shown as an obligation of the Group. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, is charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the period of the respective leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on annual professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance in the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms of more than 20 years.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation and any identified impairment loss at the balance sheet date.

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

Vessels are stated in the balance sheet at their revalued amount, being the fair value less any subsequent depreciation and amortisation and any identified impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Any surplus arising on revaluation of vessels is credited to the asset revaluation reserve, except to the extent that the surplus reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that particular asset. On the subsequent disposal or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

In previous year, land and buildings were stated at valuation. During the year, the directors have considered that land and buildings stated at cost less depreciation and amortisation and any identified impairment loss would provide a better and more appropriate measurement of the economic value of the land and buildings used by the Group. Accordingly, the directors have decided to state all the Group's land and buildings at cost less depreciation and amortisation and any identified impairment loss. The adoption of this new accounting policy had no impact on the Group's net assets as at 31st March, 2001 and 31st March, 2002 and on the results for the current or prior periods.

The cost of land use rights is amortised over the period of the right, including the renewable period, using the straight line method.

The cost of buildings is depreciated over 25 years using the straight line method.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects including borrowing costs capitalised. Construction in progress is not depreciated until completion of construction and the asset is put into use. The cost of completed construction works is transferred to the appropriate category of property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

| | |
|--|---------------------------------------|
| Vessels | 8 $\frac{1}{3}$ % |
| Containers | 8 $\frac{1}{3}$ %– 33 $\frac{1}{3}$ % |
| Furniture, fixtures and office equipment | 20%– 25% |
| Leasehold improvements | 20%– 50% |
| Motor vehicles | 12 $\frac{1}{2}$ %– 30% |
| Plant and machinery | 6 $\frac{2}{3}$ %– 30% |

Assets held under finance leases are depreciated on the same basis as assets owned by the Group or over the period of the leases, if shorter.

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, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, in which case the reversal of the impairment loss is treated as a revaluation increase.

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 expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

When no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

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

In previous years, the income statement of overseas operations was translated using the exchange rate prevailing on the balance sheet date. Upon adoption of the revised SSAP 11, the income statement of overseas operations must be translated at the average exchange rates for the period. This change has not had any significant impact on the results for the current or prior period. Accordingly, no prior period adjustment was required.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's main business segments comprise the manufacture and sales of pharmaceutical products and the provision of transportation related services. These are the basis on which the Group reports its primary segment information.

In previous years, the Group was also involved in the provision of travel related services and operation of a restaurant. These operations were discontinued in July 2002 upon disposal of the relevant subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Business segments for the year are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Turnover | | |
| Continuing operations | | |
| – manufacture and sales of pharmaceutical products | 61,212 | – |
| – transportation related services | 905 | 1,251 |
| | <u>62,117</u> | <u>1,251</u> |
| Discontinuing operations | | |
| – travel related services | 4,063 | 14,268 |
| – operation of a restaurant | 3,406 | 13,258 |
| | <u>69,586</u> | <u>28,777</u> |
| Results | | |
| Continuing operations | | |
| – manufacture and sales of pharmaceutical products | 18,625 | – |
| – transportation related services | (62,990) | (80,899) |
| | <u>(44,365)</u> | <u>(80,899)</u> |
| Discontinuing operations | | |
| – travel related services | (269) | (2,518) |
| – operation of a restaurant | (685) | (2,271) |
| | <u>(45,319)</u> | <u>(85,688)</u> |
| Allowance for advances to associates | – | (34,871) |
| Central administrative expenses | (9,866) | (13,100) |
| Loss from operations | (55,185) | (133,659) |
| Finance costs | (3,827) | (2,971) |
| Gain on disposal of subsidiaries | 6,562 | 5 |
| Gain on disposal of discontinuing operations | 2,116 | – |
| Loss before taxation | (50,334) | (136,625) |
| Taxation | – | 256 |
| Loss before minority interests | (50,334) | (136,369) |
| Minority interests | (10,366) | – |
| Net loss attributable to shareholders | <u>(60,700)</u> | <u>(136,369)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| ASSETS | | |
| Segment assets | | |
| Continuing operations | | |
| – manufacture and sales of pharmaceutical products | 192,261 | – |
| – transportation related services | 11,468 | 75,861 |
| | <u>203,729</u> | <u>75,861</u> |
| Discontinuing operations | | |
| – travel related services | – | 1,487 |
| – operation of a restaurant | – | 975 |
| | <u>203,729</u> | <u>78,823</u> |
| Unallocated corporate assets | 2,107 | 26,977 |
| | <u>205,836</u> | <u>105,300</u> |
| LIABILITIES | | |
| Segment liabilities | | |
| Continuing operations | | |
| – manufacture and sales of pharmaceutical products | 15,607 | – |
| – transportation related services | 905 | 7,562 |
| | <u>16,512</u> | <u>7,562</u> |
| Discontinuing operations | | |
| – travel related services | – | 1,159 |
| – operation of a restaurant | – | 2,309 |
| | <u>16,512</u> | <u>11,030</u> |
| Unallocated corporate liabilities | 113,001 | 49,345 |
| | <u>129,513</u> | <u>60,375</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| OTHER INFORMATION | | |
| Capital additions | | |
| – manufacture and sales of pharmaceutical products | 142,278 | – |
| – operation of a restaurant | – | 26 |
| – unallocated | 1,164 | 13 |
| | <u>143,442</u> | <u>39</u> |
| Depreciation and amortisation | | |
| – manufacture and sales of pharmaceutical products | 5,788 | – |
| – transportation related services | 5,928 | 15,493 |
| – travel related services | – | 16 |
| – operation of a restaurant | – | 40 |
| – unallocated | 511 | 1,100 |
| | <u>12,227</u> | <u>16,649</u> |
| Impairment loss and revaluation deficit | | |
| – transportation related services | 55,244 | 54,322 |
| – travel related services | – | 530 |
| – operation of a restaurant | – | 1,671 |
| – unallocated | – | 1,436 |
| | <u>55,244</u> | <u>57,959</u> |
| Allowance for bad and doubtful debts | | |
| – manufacture and sales of pharmaceutical products | 2,946 | – |
| – transportation related services | 16 | 3,440 |
| – travel related services | – | 1,157 |
| – operation of a restaurant | – | 75 |
| – unallocated | 19 | 78 |
| | <u>2,981</u> | <u>4,750</u> |
| Allowance for advances to associates | | |
| – unallocated | – | 34,871 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are principally carried out in Mainland China (the "PRC") and Hong Kong. The following table provides an analysis of the Group's geographical segment information.

| | Turnover | |
|-----------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| PRC | 62,117 | 1,251 |
| Hong Kong | 7,469 | 27,526 |
| | <u>69,586</u> | <u>28,777</u> |

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

| | Carrying amount of segment assets | | Capital additions | |
|-----------|--------------------------------------|------------------|-------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| PRC | 134,051 | 74,523 | 142,278 | - |
| Hong Kong | 71,785 | 30,777 | 1,164 | 39 |
| | <u>205,836</u> | <u>105,300</u> | <u>143,442</u> | <u>39</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

6. IMPAIRMENT LOSS AND REVALUATION DEFICIT

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Impairment loss and revaluation deficit comprise: | | |
| Impairment loss in respect of | | |
| – goodwill attributable to subsidiaries acquired in prior years | – | (2,698) |
| – containers | – | (27,734) |
| – others | – | (1,241) |
| | <u>–</u> | <u>(31,673)</u> |
| Deficit arising on revaluation of | | |
| – investment properties | (16,500) | (588) |
| – vessels | (38,744) | (25,665) |
| – land and buildings | – | (33) |
| | <u>(55,244)</u> | <u>(26,286)</u> |
| | <u>(55,244)</u> | <u>(57,959)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

7. LOSS FROM OPERATIONS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Loss from operations has been arrived at after charging: | | |
| Directors' remuneration (note 8) | 2,507 | 1,585 |
| Other staff's retirement benefits scheme contributions | 536 | 484 |
| Other staff costs | 6,278 | 11,274 |
| | <u>9,321</u> | <u>13,343</u> |
| Allowance for bad and doubtful debts | 2,981 | 4,750 |
| Amortisation of goodwill included in administrative expenses | 2,409 | – |
| Auditors' remuneration | 330 | 680 |
| Depreciation and amortisation of property, plant and equipment | | |
| – owned by the Group | 9,818 | 15,589 |
| – held under finance leases | – | 1,060 |
| Loss on disposal of property, plant and equipment | | |
| other than vessels and containers | 97 | 910 |
| Operating lease rentals in respect of land and buildings | 1,082 | 1,865 |
| Research and development costs | 22 | – |
| and after crediting: | | |
| Derecognition of provisions | – | 2,050 |
| Gross rental income from investment properties before | | |
| deduction of negligible outgoings | 905 | 894 |
| Interest income | 87 | 68 |
| Vessel charterhire income | – | 357 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

8. DIRECTORS' EMOLUMENTS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Fees for | | |
| – executive directors | 313 | 120 |
| – independent non-executive directors | 300 | 240 |
| | <u>613</u> | <u>360</u> |
| Other emoluments for independent non-executive directors | – | – |
| Other emoluments for executive directors | | |
| – salaries and other benefits | 1,862 | 1,217 |
| – retirement benefits scheme contributions | 32 | 8 |
| | <u>1,894</u> | <u>1,225</u> |
| Total directors' remuneration | <u>2,507</u> | <u>1,585</u> |

The emoluments of the directors were within the following bands:

| | Number of directors | |
|------------------------------|---------------------|------|
| | 2003 | 2002 |
| Up to HK\$1,000,000 | 11 | 9 |
| HK\$1,000,001– HK\$1,500,000 | 1 | 1 |

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors and employees, as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals for the year included three (2002: one) executive directors of the Company, whose emoluments are included in note 8 above. The aggregate emoluments of the remaining two (2002: four) highest paid individuals are as follows:

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits | 492 | 1,731 |
| Retirement benefits scheme contributions | 18 | 54 |
| | <u>510</u> | <u>1,785</u> |

None of the emoluments of the employees was in excess of HK\$1 million.

10. FINANCE COSTS

| | 2003 HK\$'000 | 2002 HK\$'000 |
|--|------------------|------------------|
| Interest on | | |
| – bank and other borrowings wholly repayable within five years | (1,959) | (2,425) |
| – bonds | (1,680) | – |
| – finance leases | (188) | (546) |
| | <u>(3,827)</u> | <u>(2,971)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

11. DISCONTINUING OPERATIONS

Due to the continuing disappointing performance of the business of travel related services and the operation of a restaurant, the subsidiaries operating these businesses were disposed of on 27th July, 2002 and 18th July, 2002 respectively, resulting in a gain on disposal of discontinuing operations of HK\$2,116,000.

The results of the discontinuing operations for the period from 1st April, 2002 to the respective dates of disposal and for prior year, which have been included in the consolidated income statement were as follows:

| | Travel related services | | Operation of a restaurant | |
|--------------------------|---|---|---|---|
| | 1.4.2002 to 27.7.2002 HK\$'000 | 1.4.2001 to 31.3.2002 HK\$'000 | 1.4.2002 to 18.7.2002 HK\$'000 | 1.4.2001 to 31.3.2002 HK\$'000 |
| Turnover | 4,063 | 14,268 | 3,406 | 13,258 |
| Other operating income | 46 | 251 | - | 8 |
| Operating costs | <u>(4,378)</u> | <u>(17,037)</u> | <u>(4,091)</u> | <u>(15,537)</u> |
| Loss for the period/year | <u>(269)</u> | <u>(2,518)</u> | <u>(685)</u> | <u>(2,271)</u> |

During the year, the net cash flow attributable to the operating activities of the discontinuing operations were as follows:

| | Travel related services | | Operation of a restaurant | |
|---------------------------------------|---|---|---|---|
| | 1.4.2002 to 27.7.2002 HK\$'000 | 1.4.2001 to 31.3.2002 HK\$'000 | 1.4.2002 to 18.7.2002 HK\$'000 | 1.4.2001 to 31.3.2002 HK\$'000 |
| Net cash used in operating activities | <u>(535)</u> | <u>(468)</u> | <u>(278)</u> | <u>(137)</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

11. DISCONTINUING OPERATIONS (continued)

As at the respective dates of disposal and 31st March, 2002, the carrying amounts of the total assets and total liabilities of the discontinuing operations disposed of were as follows:

| | Travel related services | | Operation of a restaurant | |
|--------------------------|----------------------------|-----------------------|------------------------------|-----------------------|
| | 27.7.2002 HK\$'000 | 31.3.2002 HK\$'000 | 18.7.2002 HK\$'000 | 31.3.2002 HK\$'000 |
| Total assets | 928 | 1,487 | 606 | 975 |
| Total liabilities | (768) | (1,159) | (2,574) | (2,326) |
| Net assets (liabilities) | 160 | 328 | (1,968) | (1,351) |

12. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the PRC subsidiary is entitled to exemption from PRC income tax for two years commencing from its first profit-making year of operation and thereafter it will be entitled to a 50% relief from PRC income tax for the following three years. During the year, the PRC subsidiary was in its second profit-making year of operation.

The credit in 2002 represented the movement of deferred taxation for that year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$60,700,000 (2002: HK\$136,369,000) and the weighted average number of 122,792,188 (2002: 60,346,872) shares in issue during the year after taking into effect of the share consolidation as stated in note 34(a).

No diluted loss per share is presented for the year as the exercise of the potential shares outstanding would result in a decrease in the loss per share.

14. INVESTMENT PROPERTIES

| | HK\$'000 |
|--|-----------------|
| THE GROUP | |
| At 1st April, 2001 | 13,518 |
| Deficit arising on revaluation | <u>(588)</u> |
| At 31st March, 2002 | 12,930 |
| Transferred from property, plant and equipment | 9,070 |
| Deficit arising on revaluation | <u>(16,500)</u> |
| At 31st March, 2003 | <u>5,500</u> |

The Group's investment properties which are situated in Macau are held under a medium-term lease and are held for use under operating leases. These property interests were revalued at 31st March, 2003 by BMI Appraisals Limited, an independent firm of valuers, on an open market value basis. The deficit arising on revaluation has been charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

15. PROPERTY, PLANT AND EQUIPMENT

| | Vessels | Land and buildings | Containers | Furniture, fixtures and office equipment | Leasehold improvements | Motor vehicles | Plant and machinery | Tractors and trailers | Construction in progress | Total |
|---|----------|--------------------|------------|--|------------------------|----------------|---------------------|-----------------------|--------------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| THE GROUP | | | | | | | | | | |
| COST OR VALUATION | | | | | | | | | | |
| At 1st April, 2002 | 51,930 | 9,070 | 46,525 | 7,453 | 3,546 | 3,603 | 879 | 1,594 | - | 124,600 |
| Acquired on acquisition of subsidiaries | - | 13,977 | - | 297 | - | 1,080 | 31,844 | - | 7,021 | 54,219 |
| Additions | - | - | - | 287 | 992 | 613 | 421 | - | 14,645 | 16,958 |
| Transferred to investment properties | - | (9,070) | - | - | - | - | - | - | - | (9,070) |
| Eliminated on disposal of subsidiaries | (1,930) | - | - | (2,349) | (3,460) | (3,603) | (879) | (1,594) | - | (13,815) |
| Disposals | - | - | - | (4,027) | (85) | - | - | - | - | (4,112) |
| Transfers | - | 7,110 | - | - | - | - | 13,633 | - | (20,743) | - |
| Deficit arising on revaluation | (44,300) | - | - | - | - | - | - | - | - | (44,300) |
| At 31st March, 2003 | 5,700 | 21,087 | 46,525 | 1,661 | 993 | 1,693 | 45,898 | - | 923 | 124,480 |
| Comprising: | | | | | | | | | | |
| At cost | - | 21,087 | 46,525 | 1,661 | 993 | 1,693 | 45,898 | - | 923 | 118,780 |
| At valuation - 2003 | 5,700 | - | - | - | - | - | - | - | - | 5,700 |
| | 5,700 | 21,087 | 46,525 | 1,661 | 993 | 1,693 | 45,898 | - | 923 | 124,480 |
| DEPRECIATION, AMORTISATION AND IMPAIRMENT | | | | | | | | | | |
| At 1st April, 2002 | - | - | 46,525 | 6,976 | 2,800 | 2,523 | 865 | 1,594 | - | 61,283 |
| Provided for the year | 5,579 | 655 | - | 141 | 602 | 523 | 2,318 | - | - | 9,818 |
| Eliminated on disposal of subsidiaries | (23) | - | - | (1,968) | (2,969) | (2,683) | (865) | (1,594) | - | (10,102) |
| Eliminated on disposals | - | - | - | (3,996) | (19) | - | - | - | - | (4,015) |
| Eliminated on revaluation | (5,556) | - | - | - | - | - | - | - | - | (5,556) |
| At 31st March, 2003 | - | 655 | 46,525 | 1,153 | 414 | 363 | 2,318 | - | - | 51,428 |
| NET BOOK VALUES | | | | | | | | | | |
| At 31st March, 2003 | 5,700 | 20,432 | - | 508 | 579 | 1,330 | 43,580 | - | 923 | 73,052 |
| At 31st March, 2002 | 51,930 | 9,070 | - | 477 | 746 | 1,080 | 14 | - | - | 63,317 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's vessels are held for use under operating leases and were revalued at 31st March, 2003 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of valuers, at fair value on the basis of recovery from the disposal of the vessels. The deficit arising on revaluation has been charged to the income statement.

| | THE GROUP | |
|---|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| The net book value of the Group's property interests comprises: | | |
| Properties held under medium-term leases in | | |
| – Macau | – | 9,070 |
| – PRC | 20,432 | – |
| | <u>20,432</u> | <u>9,070</u> |

No interest was capitalised by the Group under construction in progress during the year.

If the Group's vessels had not been revalued, they would have been included on a historical cost basis at the following amounts:

| | Vessels HK\$'000 |
|---|---------------------|
| THE GROUP | |
| Cost | 82,020 |
| Accumulated depreciation and amortisation | <u>28,680</u> |
| Net book value at 31st March, 2003 | <u>53,340</u> |
| Net book value at 31st March, 2002 | <u>76,640</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

15. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Leasehold improvements HK\$'000 | Office equipment HK\$'000 | Total HK\$'000 |
|-----------------------------|---------------------------------------|---------------------------------|-------------------|
| THE COMPANY | | | |
| COST | | | |
| At 1st April, 2002 | 85 | 4,027 | 4,112 |
| Disposals | (85) | (4,027) | (4,112) |
| At 31st March, 2003 | — | — | — |
| DEPRECIATION AND IMPAIRMENT | | | |
| At 1st April, 2002 | 19 | 3,996 | 4,015 |
| Eliminated on disposals | (19) | (3,996) | (4,015) |
| At 31st March, 2003 | — | — | — |
| NET BOOK VALUES | | | |
| At 31st March, 2003 | — | — | — |
| At 31st March, 2002 | 66 | 31 | 97 |

At the balance sheet date, the Group has pledged certain of its property, plant and equipment with an aggregate net book value of HK\$5,700,000 (2002: HK\$50,000,000) to secure the credit facilities granted to the Group.

16. GOODWILL

| | HK\$'000 |
|---|----------|
| THE GROUP | |
| COST | |
| Arising on acquisition of subsidiaries during the year and balance at 31st March, 2003 | 72,265 |
| AMORTISATION | |
| Amortised for the year and balance at 31st March, 2003 | 2,409 |
| CARRYING VALUE | 69,856 |

The goodwill is amortised on a straight line basis over its estimated useful life of 20 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

17. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|--------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Unlisted shares, at cost | 286,730 | 180,230 |
| Less: Impairment loss | (180,230) | (155,428) |
| | <u>106,500</u> | <u>24,802</u> |

The Group reviewed the cost of investments in subsidiaries and identified that the investments in certain subsidiaries would not be recoverable as the business performance of those subsidiaries were worse than the management expected. Accordingly, the costs of investments in each of those subsidiaries with such indication of impairment are reduced to either zero or to a negligible amount at the balance sheet date.

Details of the Company's principal subsidiaries at 31st March, 2003 are set out in note 35.

18. INVENTORIES

| | THE GROUP | |
|-------------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| At cost: | | |
| Raw materials | 1,242 | - |
| Packaging materials and consumables | 4,266 | - |
| Finished goods | 5,288 | - |
| | <u>10,796</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

19. TRADE AND OTHER RECEIVABLES

| | THE GROUP | |
|-------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Trade receivables | 25,398 | 796 |
| Other receivables | 2,442 | 876 |
| | <u>27,840</u> | <u>1,672</u> |

Payment terms with customers are mainly on credit. Invoices are normally payable within 90 days to 180 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the balance sheet date:

| Age | THE GROUP | |
|--|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| 0 to 90 days | 24,234 | 768 |
| 91 to 180 days | 2,881 | 28 |
| 181 to 365 days | 1,157 | - |
| Over 365 days | 71 | - |
| | <u>28,343</u> | <u>796</u> |
| Less: Allowance for bad and doubtful debts | (2,945) | - |
| | <u>25,398</u> | <u>796</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

20. TRADE AND OTHER PAYABLES

| | THE GROUP | |
|----------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Trade payables | 7,410 | 6,791 |
| Other payables | 17,914 | 12,775 |
| | <u>25,324</u> | <u>19,566</u> |

The following is an aged analysis of trade payables at the balance sheet date:

| Age | THE GROUP | |
|-----------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| 0 to 90 days | 3,575 | 1,964 |
| 91 to 180 days | 2,360 | 4,827 |
| 180 to 365 days | 9 | - |
| Over 365 days | 1,466 | - |
| | <u>7,410</u> | <u>6,791</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

21. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|------------------|---|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Amount payable under finance leases | | | | |
| – within one year | 1,017 | 3,024 | 994 | 2,758 |
| – between one to two years | – | 811 | – | 795 |
| | <u>1,017</u> | <u>3,835</u> | <u>994</u> | <u>3,553</u> |
| Less: Future finance charges | 23 | 282 | – | – |
| Present value of lease obligations | <u>994</u> | <u>3,553</u> | <u>994</u> | <u>3,553</u> |
| Less: Amount due within one year shown under current liabilities | | | <u>994</u> | <u>2,758</u> |
| Amount due after one year | | | <u>–</u> | <u>795</u> |

22. BONDS

The bonds were issued in July 2002 as part of the consideration in connection with the acquisition of subsidiaries as detailed in note 26. These bonds are unsecured and carry interest at the prime rate minus 1% per annum. In April 2003, the Company redeemed the bonds in total.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

23. SHARE CAPITAL

| | Number of ordinary shares | Amount HK\$'000 |
|---|------------------------------|--------------------|
| Authorised: | | |
| At 1st April, 2001, ordinary shares of HK\$0.10 each | 10,000,000,000 | 1,000,000 |
| – reduction of capital from HK\$0.10 each to HK\$0.01 each | <u>90,000,000,000</u> | <u>–</u> |
| At 31st March, 2002 and 31st March, 2003, ordinary shares of HK\$0.01 each | <u>100,000,000,000</u> | <u>1,000,000</u> |
| Issued and fully paid: | | |
| At 1st April, 2001, ordinary shares of HK\$0.10 each | 1,768,212,559 | 176,821 |
| – exercise of warrants | 5,142 | 1 |
| – reduction of capital from HK\$0.10 each to HK\$0.01 each | – | (159,140) |
| – subscription of shares | <u>1,100,000,000</u> | <u>11,000</u> |
| At 31st March, 2002, ordinary shares of HK\$0.01 each | 2,868,217,701 | 28,682 |
| Issue of new shares for acquisition | <u>1,225,000,000</u> | <u>12,250</u> |
| At 31st March, 2003, ordinary share of HK\$0.01 each | <u>4,093,217,701</u> | <u>40,932</u> |

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 24th July, 2002, the Company issued 1,225,000,000 shares of HK\$0.01 each at a price of HK\$0.037 per share to independent third parties as part of the consideration for the acquisition of 51% equity interest of a group of companies engaged in the manufacture and sales of intravenous fluids. These shares issued rank pari passu with the then existing shares in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

24. SHARE OPTIONS

a. Existing share option scheme

The Company's share option scheme adopted on 30th September, 1997 was originally due to expire on 29th September, 2007 (the "Existing Scheme"). As a result of certain changes to the Rules Governing the Listing of Securities on the Stock Exchange, the directors proposed for and the shareholders in a special general meeting on 14th January, 2002 approved the early termination of the Existing Scheme and the adoption of a new share option scheme (the "New Scheme"). Details of the New Scheme are set out in the section headed "New share option scheme" below.

Under the terms of the Existing Scheme which was set up for the primary purpose of recognising the significant contribution of and providing incentives to executive directors or full-time employees or executives of the Company or any subsidiary of the Company (collectively referred to as the "Eligible Persons"), the board of directors of the Company may for a notional consideration grant options to Eligible Persons to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the Company's shares, whichever is higher. Options granted under the Existing Scheme must be taken up no later than 30 days after the date of grant and are deemed to be accepted by the Eligible Persons when the duplicate offer document is signed by the Eligible Persons together with the payment of HK\$1 per option (the "Acceptance Conditions"). Options granted and accepted in accordance with the Acceptance Conditions may be exercised at any time from the date when the Acceptance Conditions are complied with by the Eligible Persons ("Date of Acceptance") to the tenth anniversary of the Date of Acceptance.

At 31st March, 2003, the number of shares in respect of which options had been granted under the Existing Scheme was nil. The maximum number of shares in respect of which options may be granted under the Existing Scheme cannot exceed 10% of the shares of the Company in issue from time to time (excluding the aggregate number of shares which have been duly allotted and issued pursuant to the Existing Scheme). The maximum number of shares in respect of which options may be granted to any Eligible Persons is not permitted to exceed 25% of the maximum aggregate number of shares of the Company for the time being issued and issuable under the Existing Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

24. SHARE OPTIONS (continued)

a. Existing share option scheme (continued)

Details of the movements in the Company's share options granted to Eligible Persons under the Existing Scheme during current and prior years are as follows:

| Type of participants | Date of grant | Exercisable period | Exercise price per share HK\$ | Number of share options | | | | |
|----------------------------|---------------------|---|----------------------------------|-------------------------|------------------------|--------------------------|---------------------------|--------------------------|
| | | | | Outstanding at 1.4.2001 | Lapsed during the year | Outstanding at 31.3.2002 | Cancelled during the year | Outstanding at 31.3.2003 |
| <i>Former directors</i> | | | | | | | | |
| Lam Tak Shing | 29th February, 2000 | 29th February, 2000 - 28th February, 2010 | 0.163 | 29,030,676 | - | 29,030,676 | 29,030,676 | - |
| | 27th April, 2000 | 27th April, 2000 - 26th April, 2010 | 0.122 | 5,000,000 | - | 5,000,000 | 5,000,000 | - |
| Keung Mei Wah, Jennifer | 10th August, 2000 | 10th August, 2000 - 9th August, 2010 | 0.107 | 15,000,000 | 15,000,000 | - | - | - |
| | 4th November, 2000 | 4th November, 2000 - 3rd November, 2010 | 0.100 | 5,000,000 | 5,000,000 | - | - | - |
| <i>Employees</i> | | | | | | | | |
| | 29th February, 2000 | 29th February, 2000 - 28th February, 2010 | 0.163 | 322,084 | 311,042 | 11,042 | 11,042 | - |
| | 27th April, 2000 | 27th April, 2000 - 26th April, 2010 | 0.122 | 9,000,000 | - | 9,000,000 | 9,000,000 | - |
| | 4th November, 2000 | 4th November, 2000 - 3rd November, 2010 | 0.100 | 20,200,000 | 1,000,000 | 19,200,000 | 19,200,000 | - |
| | | | | <u>83,552,760</u> | <u>21,311,042</u> | <u>62,241,718</u> | <u>62,241,718</u> | <u>-</u> |

All the above share options were surrendered at a price of HK\$0.01 per share during the unconditional cash offer made by the substantial shareholder Unichina Enterprises Limited. The share options were cancelled in April 2002.

Upon the adoption of the New Scheme, no further options can be granted under the Existing Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

24. SHARE OPTIONS (continued)

b. New share option scheme

Pursuant to an ordinary resolution passed on 14th January, 2002, the Company's New Scheme was adopted for the purposes of the recognition of the significant contribution of and for the provision of incentives to any directors, employees (whether full-time or part-time), consultants, customers, suppliers, agents, partners or advisors of or contractors to the Group or affiliates ("New Eligible Persons") and will expire on 13th January, 2012. Under the terms of the New Scheme, the board of directors of the Company may for a notional consideration of HK\$1 grant options to the New Eligible Persons to subscribe for shares in the Company at a price no less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option (which must be a trading day); (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the option; and (iii) the nominal value of the Company's shares. Options granted under the New Scheme must be taken up within 21 business days from the date on which the offer is made by returning a written acceptance of the offer signed by the New Eligible Persons together with the payment of HK\$1 per option (the "Acceptance Conditions"). Options granted and accepted may be exercised at any time for 10 years commencing on the date on which an option is accepted in accordance with the Acceptance Conditions under the New Scheme (the "Option Period"). Options granted under the New Scheme will be exercisable in the Option Period notwithstanding that the scheme period of the New Scheme may have expired. The New Scheme does not prescribe any minimum period for which an option must be held before it can be exercised and has not specified that the exercise of an option is subject to any performance target.

The maximum number of shares which may be granted under the New Scheme cannot exceed 10% (the "Limit") of the issued share capital of the Company at the date of adoption of the New Scheme, excluding any options lapsed in accordance with the terms of the New Scheme and any other share option schemes. On 14th January, 2002, the date of adoption of the New Scheme, the Company's shares in issue was 1,768,217,701 shares of HK\$0.01 each and accordingly the Limit upon which the maximum number of shares may be granted under the New Scheme cannot exceed 176,821,770 shares. However, the Company may seek approval by its shareholders in general meeting to renew the Limit from time to time. Option will not be granted to any New Eligible Persons if the exercise in full of all options, including any unexercised options and shares already issued under all previous option granted, would in the 12-month period up to and including the date of such further grant enable that relevant New Eligible Person to have shares exceeding 1% of the issued shares of the Company for the time being unless separate approval by the shareholders in general meeting is obtained.

No options have been granted by the Company under the New Scheme since its adoption.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

25. RESERVES

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Deficit HK\$'000 | Total HK\$'000 |
|---|------------------------------|------------------------------------|---------------------|-------------------|
| THE COMPANY | | | | |
| At 1st April, 2001 | 59,235 | 180,030 | (298,190) | (58,925) |
| Effect of capital reduction | (59,235) | – | 218,375 | 159,140 |
| Premium arising on issue of shares | 16,500 | – | – | 16,500 |
| Expenses incurred in connection with the issue of shares | (641) | – | – | (641) |
| Net loss for the year | <u>–</u> | <u>–</u> | <u>(130,739)</u> | <u>(130,739)</u> |
| At 31st March, 2002 | 15,859 | 180,030 | (210,554) | (14,665) |
| Premium arising on issue of shares | 33,075 | – | – | 33,075 |
| Net loss for the year | <u>–</u> | <u>–</u> | <u>(35,363)</u> | <u>(35,363)</u> |
| At 31st March, 2003 | <u>48,934</u> | <u>180,030</u> | <u>(245,917)</u> | <u>(16,953)</u> |

The contributed surplus of the Company represents the excess of the consolidated net assets of the subsidiaries at the date on which they were acquired by the Company, over the nominal amount of the shares issued by the Company as consideration for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares on the Stock Exchange in 1997.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

At the balance sheet date, the Company had no reserves available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

25. RESERVES (continued)

THE GROUP

Details of the movements of the Group's reserves are set out in the consolidated statement of changes in equity on page 23.

The special reserve of the Group represents the excess of the nominal amount of the shares of the subsidiaries at the date of the group reorganisation over the nominal amount of the shares issued by the Company as consideration for the acquisition of the subsidiaries.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiary is required to maintain three statutory reserves, being a statutory surplus reserve fund, an enterprise expansion fund and a staff welfare fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiary while the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiary by means of capitalisation issue.

The amount transferred to the staff welfare fund in the statutory financial statements of the PRC subsidiary has been adjusted as an operating expense as in the opinion of the directors, this fund will be used to pay incentive bonus and other benefits to the PRC subsidiary's employees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

26. PURCHASE OF SUBSIDIARIES

On 31st July, 2002, the Group acquired 51% of the issued share capital of Value Brilliant Investments Limited ("Value Brilliant") for a total consideration of HK\$106,500,000 which was satisfied partially by the issue of 1,225,000,000 Company's share at a price of HK\$0.037 each and partially by the issue of bonds with an aggregate principal amount of HK\$61,175,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$72,265,000.

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Net assets acquired: | | |
| Property, plant and equipment | 54,219 | – |
| Deposits made on acquisition of property, plant and equipment | 3,480 | – |
| Inventories | 7,067 | – |
| Trade and other receivables | 19,223 | – |
| Bank balances and cash | 9,716 | – |
| Trade and other payables | (4,961) | – |
| Amount due to a minority owner of a subsidiary | (1,562) | – |
| Short-term bank loans | (16,522) | – |
| Minority interests | (36,425) | – |
| | <hr/> | <hr/> |
| Net assets | 34,235 | – |
| Goodwill arising on acquisition | 72,265 | – |
| | <hr/> | <hr/> |
| | 106,500 | – |
| | <hr/> <hr/> | <hr/> <hr/> |
| Satisfied by: | | |
| Issue of the Company's new shares | 45,325 | – |
| Issue of bonds by the Company | 61,175 | – |
| | <hr/> | <hr/> |
| | 106,500 | – |
| | <hr/> <hr/> | <hr/> <hr/> |
| Net inflow of cash and cash equivalents in connection with the purchase of subsidiaries: | | |
| Bank balances and cash acquired | 9,716 | – |
| | <hr/> <hr/> | <hr/> <hr/> |

The subsidiaries acquired during the year contributed HK\$61,212,000 to the Group's turnover, and a profit of HK\$20,107,000 to net off the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

27. DISPOSAL OF SUBSIDIARIES

| | 2003 HK\$'000 | 2002 HK\$'000 |
|---|------------------|------------------|
| Net liabilities disposed of: | | |
| Property, plant and equipment | 3,713 | - |
| Trade and other receivables | 1,372 | - |
| Bank balances and cash | 396 | - |
| Trade and other payables | (8,484) | - |
| Trade payables to associates | (10) | (5) |
| Taxation | (2,827) | - |
| | <hr/> | <hr/> |
| Net liabilities | (5,840) | (5) |
| Asset revaluation reserve realised on disposal | (18) | - |
| Gain of disposal of discontinuing operations | 2,116 | - |
| Gain on disposal of subsidiaries | 6,562 | 5 |
| | <hr/> | <hr/> |
| Total consideration | 2,820 | - |
| | <hr/> <hr/> | <hr/> <hr/> |
| Satisfied by: | | |
| Cash consideration received | 2,820 | - |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysis of net outflow of cash and cash equivalents in connection with the disposal of subsidiaries | | |
| Cash consideration received | 2,820 | - |
| Bank balances and cash disposed of | (396) | - |
| | <hr/> | <hr/> |
| Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries | 2,424 | - |
| | <hr/> <hr/> | <hr/> <hr/> |

The subsidiaries disposed during the year contributed HK\$7,469,000 to the Group's turnover and HK\$2,088,000 to the Group's loss from operations.

28. MAJOR NON-CASH TRANSACTION

During the year, the acquisition of subsidiaries were satisfied by the issue of new shares and bonds (see note 26).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

29. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group and the Company have unrecognised deferred tax asset of HK\$5,813,000 (2002: HK\$4,785,000) and HK\$5,277,000 (2002: HK\$4,178,000) respectively which represent the tax effect of timing differences arising as a result of tax losses available to set off against future assessable profits. These deferred tax assets have not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

30. OPERATING LEASE ARRANGEMENTS

As lessee

While the Company had no outstanding operating lease commitments at the balance sheet date, certain of its subsidiaries were committed to make the following future minimum lease payments for land and buildings rented under non-cancellable operating leases which fall due as follows:

| | THE GROUP | |
|---------------------------------------|------------|--------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Within one year | 540 | 1,763 |
| In the second to fifth year inclusive | 164 | 683 |
| | <u>704</u> | <u>2,446</u> |

As lessor

At the balance sheet date, the Group had contracted with certain of the tenants for the next three years for the following future minimum lease payments in respect of investment properties let:

| | THE GROUP | |
|---------------------------------------|------------|------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Within one year | 137 | 86 |
| In the second to fifth year inclusive | 194 | 65 |
| | <u>331</u> | <u>151</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

31. CAPITAL COMMITMENTS

| | THE GROUP | |
|--|-----------|----------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment | 353 | - |

The Company had no capital commitments at the balance sheet date.

32. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given corporate guarantees to the extent of HK\$31,000,000 to certain financial institutions in respect of credit facilities granted to its subsidiaries.

33. RETIREMENT BENEFITS SCHEME

The Group's qualifying employees in Hong Kong participate the Mandatory Provident Fund (the "MPF") in Hong Kong. The assets of the MPF are held separately from those of the Group in funds under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF schemes.

The employees of the PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

34. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to 31st March, 2003:

- (a) Pursuant to a special resolution passed by the Company's shareholders in the special general meeting held on 7th April, 2003, the following capital reorganisation became effective on 8th April, 2003:
 - (i) a share consolidation on the basis that every 30 issued and unissued existing shares of HK\$0.01 each was consolidated into one consolidated share of HK\$0.30 each;
 - (ii) the nominal value of each of the consolidated shares then in issue was reduced from HK\$0.30 to HK\$0.05 each by cancelling the paid-up capital to the extent of HK\$0.25 on each issued consolidated share;
 - (iii) the subdivision of each authorised but unissued consolidated share of HK\$0.30 each into six new shares of HK\$0.05 each;
 - (iv) the share premium account of approximately HK\$48.9 million of the Company was cancelled;
 - (v) the authorised share capital of the Company was reduced from HK\$1,000,000,000 to HK\$500,000,000 divided into 10,000,000,000 new shares of HK\$0.05 each; and
 - (vi) the total credit arising from the capital reduction and the share premium cancellation was credited to the contributed surplus account of the Company, which was applied to set-off against the deficit of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

34. POST BALANCE SHEET EVENTS (continued)

- (b) Pursuant to an ordinary resolution passed by the Company's shareholders in the special general meeting held on 7th April, 2003, the Company was authorised to execute the subscription and option agreement dated 21st February, 2003 with an independent third party Guardwell Investments Limited ("Guardwell") for the subscription of 400,000,000 new shares of HK\$0.05 each under the first subscription and 500,000,000 new shares of HK\$0.05 each under the second subscription at a price of HK\$0.20 per share and the grant of an option by the Company to Guardwell for a consideration of HK\$1 upon completion of the second subscription to subscribe for in aggregate a maximum amount of HK\$40,000,000 of new shares of HK\$0.05 each at a price of HK\$0.20 per share, subject to adjustments during a period of 18 months after the date of completion of the second subscription. The subscription price of HK\$0.20 per share (equivalent to HK\$0.0067 per share prior to capital reorganisation) represents a discount of $33\frac{1}{3}\%$ to the closing price of the Company's shares of HK\$0.01 per share as quoted on the Stock Exchange on 18th February, 2003, being the last trading day prior to the suspension of trading pending the release of the announcement in connection with the subscription and option agreement. The Company used the net proceeds from the subscription for acquisition of additional investments in the pharmaceutical sector in the PRC and repaying the Group's borrowings. The first and the second subscription was completed in April 2003.

On 23rd April, 2003, arrangements were made for a placement to independent investors by Guardwell, a placing agent and the Company which was completed on 25th April, 2003 in which 248,000,000 shares of HK\$0.05 each were placed at a price of HK\$0.20 per share, equivalent to the subscription price mentioned in the preceding paragraph.

- (c) Pursuant to an ordinary resolution passed by the Company's shareholders in the special general meeting held on 9th June, 2003, the Group acquired an additional 41% equity interest in Value Brilliant for a consideration of HK\$84.8 million. Value Brilliant controls 95% equity interest in a subsidiary that manufactures and sells pharmaceutical products.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2003 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/ operation | Nominal value of issued and fully paid share/ registered capital | Attributable proportion of nominal value of issued/ registered capital held by the Company | | Principal activity |
|--|--|---|---|------------|--|
| | | | Directly | Indirectly | |
| Billion Source Investments Limited | British Virgin Islands | US\$2 | 100% | - | Investment holding |
| China Value Assets Limited | British Virgin Islands | US\$1 | 100% | - | Investment holding |
| Merit Development Limited | British Virgin Islands | US\$1 | 100% | - | Investment holding |
| Double Diamond International Limited | British Virgin Islands/ Macau | US\$1 | - | 100% | Property holding |
| Union Bright International Holding Limited | Hong Kong | HK\$10,000 | - | 100% | Shipowner |
| Unionwin International Holding Limited | Hong Kong | HK\$10,000 | - | 100% | Shipowner |
| Value Brilliant Investments Limited | British Virgin Islands | US\$30,000 | - | 51% | Investment holding |
| 四平巨能藥業有限公司 (Siping Ju Neng Medicine Industry Co., Ltd.) * | PRC | RMB55,350,000 | - | 49%# | Manufacture and sales of pharmaceutical products |

* Siping Ju Neng Medicine Industry Co., Ltd. is a Sino-foreign equity joint venture company established in the PRC for a term of 25 years commencing 27th March, 2002.

Value Brilliant Investments Limited holds 95% equity interest therein.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2003

35. PRINCIPAL SUBSIDIARIES (continued)

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

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.