1 GENERAL

The company is incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company while its subsidiaries are engaged in the distribution of medical equipment, medicinal and winery products.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

(i) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. Details of the new accounting policy are set out in note 2(k) below.

(ii) The Group depends on finance from banks and the convertible note to fund its operations. The convertible note and a substantial portion of the bank loan are repayable within twelve months from 31st March 2004, the balance sheet date. The Group considers to sell its properties for sale, if necessary, to finance the repayment of these liabilities and its operations. Based on this and the Group's cash flow projections and available banking facilities, the Board of directors of the Company believes that the Group has sufficient financial resources to repay its liabilities as and when they fall due and to continue its operations as a going concern. Consequently, the accounts have been prepared on a going concern basis.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of their voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(i) Consolidation (continued)

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land and buildings are depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	33.33%
Furniture, fixtures and office equipment	15% – 20%
Computer equipment	33.33%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Properties for sale

Properties for sale are stated at the lower of cost and net realisable value, which is determined by the directors with reference to the prevailing market prices less any further costs expected to be incurred in the process of disposal, on an individual property basis.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(i) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(j) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1st December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions vest fully with the employees when contributed to the MPF Scheme, except for the Group's voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 represents a change in accounting policy and the effect of this change is not material to the accounts.

(l) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from the provision of maintenance service is recognised on a straight-line basis over the period of the maintenance contract.

Revenue from the provision of repair services is recognised when the services are rendered.

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Segment reporting

The Group is engaged in the business of distribution of medical equipment and sale of medicinal and winery products in Hong Kong and other Asian countries.

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash and exclude properties held for sale. Segment liabilities comprise operating liabilities and exclude a mortgage bank loan and the convertible note. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3 TURNOVER AND REVENUES

Revenues recognised during the year are as follows:

	2004	2003
	HK$'000	HK$'000
Turnover		
Sales of medical equipment	**14,985**	20,737
Sales of medicinal and winery products	**3,269**	2
	18,254	20,739
Other revenues		
Net repair and maintenance income	**1,860**	1,969
Others	**589**	776
	2,449	2,745
Total revenues	**20,703**	23,484

4 SEGMENTAL INFORMATION

(a) Primary reporting format – Business segments

For management purposes, the Group is currently organised into two operating divisions – medicinal and winery products, and medical equipment.

There are no sales or other transactions between the business segments.

(i) Analysis of the Group's business segment results are as follows:

	Medicinal & winery products		Medical equipment		Total	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**3,269**	2	**14,985**	20,737	**18,254**	20,739
Other revenues	**–**	–	**2,449**	2,745	**2,449**	2,745
	3,269	2	**17,434**	23,482	**20,703**	23,484
Segment results	**(2,024)**	(948)	**(2,848)**	(3,847)	**(4,872)**	(4,795)
Unallocated corporate expenses					**(2,573)**	(1,104)
Operating loss					**(7,445)**	(5,899)
Finance costs					**(706)**	(2,123)
Loss before taxation					**(8,151)**	(8,022)
Taxation					**–**	–
Loss attributable to shareholders					**(8,151)**	(8,022)
Segment assets	**2,933**	318	**20,378**	33,816	**23,311**	34,134
Unallocated corporate assets					**8,573**	8,573
Total assets					**31,884**	42,707
Segment liabilities	**1,356**	98	**9,905**	13,780	**11,261**	13,878
Unallocated corporate liabilities					**7,068**	7,203
Total liabilities					**18,329**	21,081
Capital expenditure	**7**	178	**43**	21	**50**	199
Depreciation	**59**	31	**570**	709	**629**	740
(Loss)/gain on disposal of fixed assets	**–**	–	**(10)**	52	**(10)**	52
Write down of properties for sale	**–**	–	**–**	499	**–**	499
Impairment loss of fixed assets	**–**	–	**3,286**	–	**3,286**	–

4 SEGMENTAL INFORMATION (continued)

(b) Secondary reporting format – Geographical segments

The Group's operations are located in Hong Kong and other Asian countries which include Taiwan and Korea in trading operations.

There are no sales or other transactions between the geographical segments.

	Turnover 2004 HK$'000	**Segment results 2004 HK$'000**	**Total assets 2004 HK$'000**	**Capital expenditure 2004 HK$'000**
Hong Kong	**16,900**	**(5,167)**	**23,311**	**50**
Other Asian countries	**1,354**	**295**	**–**	**–**
	18,254	**(4,872)**	**23,311**	**50**
Unallocated assets			**8,573**	
Total assets			**31,884**	

	Turnover 2003 HK$'000	Segment results 2003 HK$'000	Total assets 2003 HK$'000	Capital expenditure 2003 HK$'000
Hong Kong	20,739	(4,795)	34,134	199
Other Asian countries	–	–	–	–
	20,739	(4,795)	34,134	199
Unallocated assets			8,573	
Total assets			42,707	

5 OPERATING LOSS

Operating loss is stated after charging and crediting the following:

	2004	2003
	HK$'000	HK$'000
Charging:		
Cost of goods sold	**11,940**	14,303
Depreciation	**629**	740
Operating leases in respect of land and buildings	**628**	374
Staff costs (including directors' remuneration)		
Salaries, wages, allowances and bonus	**6,175**	7,701
Pension costs – defined contribution plan (note)	**233**	276
Auditors' remuneration		
Provision for current year	**229**	230
Overprovision in prior years	**–**	(554)
Exchange losses, net	**11**	13
Write down of properties for sale	**–**	499
Loss on disposal of fixed assets	**10**	–
Impairment loss of fixed assets	**3,286**	–
Crediting:		
Interest income	**45**	92
Rental income	**561**	856
Gain on disposal of fixed assets	**–**	52

Note: At 31st March 2004, the Group had no forfeited contributions available to reduce its contributions to its retirement benefits scheme in future years (2003: Nil).

6 FINANCE COSTS

	2004 HK$'000	2003 HK$'000
Interest on:		
Bank loan and overdrafts wholly repayable within five years	**144**	239
Convertible note	**562**	273
Finance lease and hire purchase contracts	**–**	5
Loan from the former ultimate holding company	**–**	1,606
	706	2,123

7 TAXATION

No provision for profits tax has been made in the accounts as the Group did not have any assessable profit for the year. In 2003, the government of Hong Kong enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong, the home country of the Group, as follows:

	2004 HK$'000	2003 HK$'000
Loss before taxation	**(8,151)**	(8,022)
Calculated at a taxation rate of 17.5% (2003: 16%)	**(1,426)**	(1,284)
Income not subject to taxation	**(93)**	(232)
Expenses not deductible for taxation purposes	**568**	806
Increase in unrecognised tax losses	**951**	710
Taxation	**–**	–

8 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the year ended 31st March 2004 is dealt with in the accounts of the Company to the extent of HK$3,134,000 (2003: HK$19,110,000).

9 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders for the year of HK$8,151,000 (2003: HK$8,022,000) and the weighted average of 5,442,325,172 (2003: 2,880,681,336) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31st March 2004 and 2003 were not presented as the conversion of the convertible note is anti-dilutive.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004	2003
	HK$'000	HK$'000
Fees		
Executive directors	**–**	–
Independent non-executive directors	**230**	50
Other emoluments		
Salaries, allowances and benefits in kind	**504**	871
Retirement benefits scheme contributions	**4**	9
Compensation for loss of office	**–**	1,230
	738	2,160

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Emolument bands		
Nil – HK$1,000,000	**7**	13
HK$1,500,001 – HK$2,000,000	**–**	1
	7	14

No directors waived or agreed to waive any emoluments during the years ended 31st March 2004 and 2003.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

The five highest paid individuals during the year included one (2003: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2003: four) individuals during the year are as follows:

	2004 HK$'000	2003 HK$'000
Salaries, allowances and benefits in kind	**1,865**	2,432
Retirement benefits scheme contributions	**47**	32
	1,912	2,464

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals	
	2004 HK$'000	2003 HK$'000
Emolument band		
Nil – HK$1,000,000	**4**	3
HK$1,000,001 – HK$1,500,000	**–**	1
	4	4

11 FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
Cost					
At 1st April 2003	10,802	178	697	751	12,428
Additions	–	29	21	–	50
Disposals	–	–	(33)	–	(33)
Reclassification	–	–	(159)	159	–
At 31st March 2004	10,802	207	526	910	12,445
Accumulated depreciation and impairment					
At 1st April 2003	708	121	241	604	1,674
Charge for the year	257	44	107	221	629
Disposals	–	–	(23)	–	(23)
Reclassification	–	–	(44)	44	–
Impairment charge	3,286	–	–	–	3,286
At 31st March 2004	4,251	165	281	869	5,566
Net book value					
At 31st March 2004	6,551	42	245	41	6,879
At 31st March 2003	10,094	57	456	147	10,754

The Group's leasehold land and buildings are held on leases of between 10 and 50 years in Hong Kong.

At 31st March 2004, one of the Group's leasehold land and buildings with net book value of HK$5,321,000 (2003: HK$5,464,000) was mortgaged to a bank to secure banking facilities granted to the Group (note 21).

12 SUBSIDIARIES

	Company 2004 HK$'000	Company 2003 HK$'000
Unlisted shares, at cost	**2,371,904**	2,371,904
Amounts due from subsidiaries	**3,384**	1,450
	2,375,288	2,373,354
Provision for impairment losses	**(2,350,538)**	(2,350,538)
	24,750	22,816

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within the next twelve months.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ operations	Particulars of issued share capital	Percentage of equity attributable to the Company 2004	2003	Principal activities
Ultronics Enterprise Limited	Hong Kong	11 Ordinary shares of HK$0.50 each 8,627,759 Deferred shares of HK$0.50 each	**100**	100	Distribution of medical equipment and supplies
Wanji (Hong Kong) Trading Limited	Hong Kong	100 Ordinary shares of HK$1 each	**100**	100	Distribution of medicinal and winery products

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

13 PROPERTIES FOR SALE

The properties for sale are situated in the People's Republic of China. Certain of the Group's properties for sale with an aggregate carrying amount of HK$4,270,000 at 31st March 2004 (2003: HK$6,000,000) are leased to third parties under operating leases.

At 31st March 2004, one of the Group's properties for sale with carrying amount of HK$900,000 (2003: HK$900,000) was mortgaged to a bank to secure a bank loan of the Group (note 21).

14 INVENTORIES

Inventories of HK$261,000 (2003: HK$423,000) were stated at net realisable value as at 31st March 2004.

15 DEBTORS, PREPAYMENTS AND DEPOSITS

	Group		**Company**	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors	**2,633**	1,919	**–**	–
Prepayments, deposits and other debtors	**1,654**	1,929	**471**	564
	4,287	3,848	**471**	564

The Group allows an average general credit period of 30 to 90 days to its customers, except for certain well-established customers where the terms are extended beyond 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An ageing analysis of the Group's trade debtors at 31st March 2004, net of provisions, is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Current – 90 days	**2,125**	1,868
91 – 180 days	**40**	8
181 – 365 days	**468**	43
	2,633	1,919

16 CREDITORS, ACCRUED LIABILITIES AND DEPOSITS RECEIVED

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade creditors	**1,186**	1,101	**–**	–
Accrued liabilities, deposits received and other creditors	**8,950**	9,799	**1,125**	2,178
	10,136	10,900	**1,125**	2,178

An ageing analysis of the Group's trade creditors as at 31st March 2004 is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Current – 90 days	**876**	892
91 – 180 days	**54**	7
181 – 365 days	**69**	202
Over 365 days	**187**	–
	1,186	1,101

17 AMOUNTS DUE TO/FROM THE ULTIMATE HOLDING COMPANY AND THE RELATED COMPANIES

The balances were unsecured, interest-free and had no fixed terms of repayment.

The related companies are controlled by Mr. Chen Wei Dong, who is a director of the Company and a brother of Ms. Chen Shini, the beneficial owner of Wealth Generator Limited, the ultimate holding company of the Company.

18 SHARE CAPITAL

	Number of Shares	Amount HK$'000
Authorised:		
At 31st March 2004 and 2003		
– ordinary shares of HK$0.01 each	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1st April 2002	442,325,172	4,423
– issue of new shares *(note)*	5,000,000,000	50,000
– at 31st March 2003 and 2004	5,442,325,172	54,423

Note: Pursuant to an ordinary resolution passed on 8th August 2002, 5,000,000,000 ordinary shares were issued in connection with the acquisition of the Group by Wealth Generator Limited.

19 RESERVES

Company

	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st April 2002	33,472	(46,014)	(12,542)
Share issue expenses	(1,648)	–	(1,648)
Loss for the year	–	(19,110)	(19,110)
At 31st March 2003	31,824	(65,124)	(33,300)
Write-back of share issue expenses	80	–	80
Loss for the year	–	(3,134)	(3,134)
At 31st March 2004	31,904	(68,258)	(36,354)

20 SHARE OPTIONS

Details of the Old Share Option Scheme and the New Share Option Scheme of the Company are as follows:

Old share option scheme

The Company operated a share option scheme (the "Old Share Option Scheme") which was adopted on 24th September 1998 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations including full-time employees and directors of the Company and its subsidiaries. The Old Share Option Scheme was terminated on 26th August 2003.

At 31st March 2003, no share option under the Old Share Option Scheme was outstanding. Also, no share option under the Old Share Option Scheme was granted, exercised, cancelled or lapsed during the year.

New share option scheme

Pursuant to a share option scheme approved by the shareholders on 26th August 2003 (the "New Share Option Scheme"), the directors of the Company may invite any director (including non-executive director and independent non-executive director) or employee of the Company or any of its subsidiaries or any employee of any of its associated companies (the "Eligible Person") to take up options to subscribe for shares of HK$0.01 each in the capital of the Company.

At 31st March 2004, no share option under the New Share Option Scheme was outstanding. Also, no share option under the New Share Option Scheme was granted, exercised, cancelled or lapsed during the year.

21 BANK LOANS

	Group	
	2004	2003
	HK$'000	HK$'000
Secured bank loans wholly repayable within five years	**1,175**	203
Current portion included under current liabilities	**(1,088)**	(135)
	87	68

At 31st March 2004, the Group's secured bank loans were repayable as follows:

	2004	2003
	HK$'000	HK$'000
Within one year	**1,088**	135
In the second year	**87**	68
	1,175	203

The Group's bank loans and overdrafts at 31st March 2004 and 2003 were secured by a leasehold property (note 11) and a property for sale (note 13) of the Group.

22 CONVERTIBLE NOTE

The convertible note bears interest at Hong Kong dollar prime lending rate plus 3% per annum and will mature on the second anniversary from its date of issue, 4th October 2002. The convertible note is convertible on any business day following the 12 months after the date of issue and is redeemable at the maturity date.

23 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%).

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group and Company have unrecognised tax losses of HK$243,045,000 (2003: HK$239,193,000) and HK$8,312,000(2003: HK$5,739,000) respectively to carry forward against future taxable income.

At 31 March 2004 and 2003, the Company did not recognise any deferred tax liabilities and deferred tax assets. The movement in the deferred tax assets and liabilities of the Group prior to offsetting of balances within the same taxation jurisdiction during the year is as follows:

	Group Accelerated taxation depreciation	
Deferred tax liabilities	**2004**	2003
	HK$'000	HK$'000
At beginning of the year	**107**	134
Credited to profit and loss account	**(107)**	(27)
At end of the year	**–**	107

	Group Tax losses	
Deferred tax assets	**2004**	2003
	HK$'000	HK$'000
At beginning of the year	**(107)**	(134)
Charged to profit and loss account	**107**	27
At end of the year	**–**	(107)

23 DEFERRED TAXATION (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amount, determined after appropriate offsetting, is shown in the balance sheet:

	2004	2003
	HK$'000	HK$'000
Deferred tax assets	**–**	(107)
Deferred tax liabilities	**–**	107
Amount shown in the balance sheet	**–**	–

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to cash used in operations

	2004	2003
	HK$'000	HK$'000
Operating loss	**(7,445)**	(5,899)
Interest income	**(45)**	(92)
Depreciation	**629**	740
Loss/(gain) on disposal of fixed assets	**10**	(52)
Impairment loss of fixed assets	**3,286**	–
Write down of properties for sale	**–**	499
Operating loss before working capital changes	**(3,565)**	(4,804)
Decrease in inventories	**984**	1,538
(Increase)/decrease in debtors, prepayments and deposits	**(441)**	4,036
Decrease in creditors, accrued liabilities and deposits received	**(764)**	(11,239)
Decrease in amount due to the former ultimate holding company and a fellow subsidiary	**–**	(4,698)
(Decrease)/increase in amount due to the ultimate holding company	**(5)**	23
Increase in amounts due from related companies	**(354)**	–
Cash used in operations	**(4,145)**	(15,144)

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK$'000	Convertible note HK$'000	Loan from the former ultimate holding company HK$'000	Bank loans and overdrafts HK$'000	Finance lease and hire purchase contract payables HK$'000
At 1st April 2002	37,895	–	31,800	3,819	47
Issue of convertible note for the repayment of loan from the former ultimate holding company[1]	–	7,000	(7,000)	–	–
Net cash inflow/(outflow) from financing activities	48,352	–	(24,800)	(661)	(47)
At 31st March 2003	86,247	7,000	–	3,158	–
At 1st April 2003	86,247	7,000	–	3,158	–
Net cash inflow/(outflow) from financing activities	80	–	–	(1,983)	–
As at 31st March 2004	86,327	7,000	–	1,175	–

1 representing non-cash transaction

25 CONTINGENT LIABILITIES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**20,000**	20,000

26 OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its leasehold land and buildings and properties held for sale under operating lease arrangements, with lease terms ranging from one to three years.

At 31st March 2004, the Group had future minimum lease receivables under non-cancellable operating leases as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**396**	326
In the second to fifth years, inclusive	**245**	90
	641	416

(b) As lessee

At 31st March 2004, the Group had commitments in respect of land and buildings under non-cancellable operating leases to make minimum payments as set out below:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**288**	636
In the second to fifth years, inclusive	**60**	266
	348	902

27 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these accounts, the Group had the following material transactions with related parties during the year:

		Group	
		2004	2003
	Note	**HK$'000**	HK$'000
Purchase of medicinal and winery products from related companies	(a)	**2,378**	–
Interest charged by the former ultimate holding company	(b)	**–**	1,606
Amount charged by the former ultimate holding company for sharing of corporate expenses	(c)	**–**	2,800

(a) The transactions were conducted at price and terms as set out in the distributorship agreements entered between the Group and the related companies.

(b) The interest expenses charged by the ultimate holding company arose from an unsecured revolving term loan from the former ultimate holding company.

(c) The amount charged was mutually agreed between the Group and the former ultimate holding company with reference to the corporate expenses incurred.

28 ULTIMATE HOLDING COMPANY

The directors regard Wealth Generator Limited, a company incorporated in British Virgin Islands, as being the ultimate holding company.

29 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 20th July 2004.