

Notes to the Financial Statements

For the year ended 31st March, 2004

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's ultimate holding company is Guardwell Investments Limited ("Guardwell"), a company incorporated in the British Virgin Islands.

The Company acts as an investment holding company while its subsidiaries is engaged in the manufacture and sales of pharmaceutical products.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time the Hong Kong Financial Reporting Standard ("HKFRS") - Statement of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA. The adoption of this revised SSAP 12 has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements. These changes have not had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted 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.

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its economic useful 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 while 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.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost 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.

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

The cost of land use rights is amortised over the period of the right 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.

Depreciation is provided to write off the cost 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%

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.

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

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.

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. 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.

4. 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. During the year, the provision of transportation related services were discontinued in March 2004 upon disposal of the relevant subsidiaries.

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, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments for the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Continuing operations		
– manufacture and sales of pharmaceutical products	90,443	61,212
Discontinuing operations		
– transportation related services	903	905
– travel related services	–	4,063
– operation of a restaurant	–	3,406
	91,346	69,586
Results		
Continuing operations		
– manufacture and sales of pharmaceutical products	26,060	18,625
Discontinuing operations		
– transportation related services	(2,815)	(62,990)
– travel related services	–	(121)
– operation of a restaurant	–	1,283
	23,245	(43,203)
Central administrative expenses	(5,467)	(9,866)
Finance costs	(2,307)	(3,827)
(Loss) gain on disposal of subsidiaries	(227)	6,562
Profit (loss) before taxation	15,244	(50,334)
Taxation	830	–
Profit (loss) before minority interests	16,074	(50,334)
Minority interests	(3,641)	(10,366)
Net profit (loss) attributable to shareholders	12,433	(60,700)

Notes to the Financial Statements

For the year ended 31st March, 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

	2004 HK\$'000	2003 HK\$'000
ASSETS		
Segment assets		
Continuing operations		
– manufacture and sales of pharmaceutical products	294,058	192,261
Discontinuing operations		
– transportation related services	–	11,468
	294,058	203,729
Unallocated corporate assets	–	2,107
	294,058	205,836
LIABILITIES		
Segment liabilities		
Continuing operations		
– manufacture and sales of pharmaceutical products	57,955	15,607
Discontinuing operations		
– transportation related services	–	905
	57,955	16,512
Unallocated corporate liabilities	–	113,001
	57,955	129,513
OTHER INFORMATION		
Capital additions		
– manufacture and sales of pharmaceutical products	62,079	142,278
– unallocated	–	1,164
	62,079	143,442
Depreciation and amortisation		
– manufacture and sales of pharmaceutical products	12,696	5,788
– transportation related services	416	5,928
– unallocated	539	511
	13,651	12,227

Notes to the Financial Statements

For the year ended 31st March, 2004

4. 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	
	2004 HK\$'000	2003 HK\$'000
PRC	91,346	62,117
Hong Kong	–	7,469
	91,346	69,586

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
PRC	288,369	203,907	62,079	142,278
Hong Kong	5,689	1,929	–	1,164
	294,058	205,836	62,079	143,442

Notes to the Financial Statements

For the year ended 31st March, 2004

5. REVALUATION DEFICIT

	2004	2003
	HK\$'000	HK\$'000
Deficit arising on revaluation of		
– investment properties	–	(16,500)
– vessels	–	(38,744)
	–	(55,244)

6. PROFIT (LOSS) FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Directors' remuneration (note 7)	2,145	2,507
Other staff's retirement benefits scheme contributions	868	536
Other staff costs	5,240	6,278
	8,253	9,321
Allowance for bad and doubtful debts	3,980	2,981
Amortisation of goodwill included in administrative expenses	5,682	2,409
Auditors' remuneration	330	330
Depreciation and amortisation of property, plant and equipment	7,969	9,818
Loss on disposal of property, plant and equipment	–	97
Operating lease rentals in respect of land and buildings	534	1,082
Research and development costs	223	22
and after crediting:		
Government subsidies	1,932	–
Gross rental income from investment properties before deduction of negligible outgoings	903	905
Interest income	239	87

Notes to the Financial Statements

For the year ended 31st March, 2004

7. DIRECTORS' EMOLUMENTS

	2004	2003
	HK\$'000	HK\$'000
Fees for		
– executive directors	–	313
– independent non-executive directors	400	300
	400	613
Other emoluments for independent non-executive directors	–	–
Other emoluments for executive directors		
– salaries and other benefits	1,720	1,862
– retirement benefits scheme contributions	25	32
	1,745	1,894
Total directors' remuneration	2,145	2,507

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Up to HK\$1,000,000	7	11
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.

During the year, except for a former director who waived his previous years' emoluments of HK\$1,890,000, none of the directors has waived any emoluments.

Notes to the Financial Statements

For the year ended 31st March, 2004

8. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals for the year included two (2003: three) executive directors of the Company, whose emoluments are included in note 7 above. The aggregate emoluments of the remaining three (2003: two) highest paid individuals are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	715	492
Retirement benefits scheme contributions	26	18
	741	510

9. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest on		
– bank and other borrowings wholly repayable within five years	(2,187)	(1,959)
– bonds	(111)	(1,680)
– finance leases	(9)	(188)
	(2,307)	(3,827)

Notes to the Financial Statements

For the year ended 31st March, 2004

10. DISCONTINUING OPERATIONS

In order to consolidate the resources of the Group in developing the more profitable business of manufacture and sales of pharmaceutical products, the subsidiaries operating the business of transportation related services were disposed of in October 2003 and March 2004. A loss of HK\$2,434,000 results on the disposal of this business, being the proceeds of disposal less carrying amount of subsidiaries' net assets (see note 25).

The results of the discontinuing operations for the period from 1st April, 2003 to the date of disposal and for prior year, which have been included in the consolidated income statement, were as follows:

	Transportation related services	
	1.4.2003	1.4.2002
	to	to
	22.3.2004	31.3.2003
	HK\$'000	HK\$'000
Turnover	903	905
Other operating income	–	100
Operating costs	(1,312)	(64,590)
Loss for the period/year	(409)	(63,585)

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

	Transportation related services	
	1.4.2003	1.4.2002
	to	to
	22.3.2004	31.3.2003
	HK\$'000	HK\$'000
Net cash used in operating activities	(874)	(3,716)

Notes to the Financial Statements

For the year ended 31st March, 2004

10. DISCONTINUING OPERATIONS (CONTINUED)

As at the date of disposal and 31st March, 2003, the carrying amounts of the total assets and total liabilities of the discontinuing operations disposed of were as follows:

	Transportation related services	
	22.3.2004	31.3.2003
	HK\$'000	HK\$'000
Total assets	12,601	11,468
Total liabilities	(1,184)	(905)
Net assets	11,417	10,563

11. TAXATION

	2004	2003
	HK\$'000	HK\$'000
The credit comprises:		
PRC income tax	(1,268)	–
Deferred taxation	2,098	–
	830	–

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 third profit-making year of operation.

Notes to the Financial Statements

For the year ended 31st March, 2004

11. TAXATION (CONTINUED)

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

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit (loss) before taxation	15,244		(50,334)	
Tax at the applicable income tax rate	(5,031)	(33.0)	16,610	33.0
Tax effect of expenses not deductible for tax purposes	(3,043)	(20.0)	(11,976)	(23.8)
Tax effect of income not taxable for tax purposes	618	4.1	767	1.5
Effect of different tax rates of group companies operating in Hong Kong	(2,508)	(16.5)	(12,277)	(24.4)
Effect of preferential tax rates of a subsidiary operating in PRC	715	4.7	–	–
Effect of tax holiday of a subsidiary operating in PRC	9,416	61.8	7,445	14.8
Utilisation of tax losses previously not recognised	64	0.4	–	–
Tax effect of tax losses not recognised	–	–	(569)	(1.1)
Others	599	3.9	–	–
Tax effect and effective tax rate for the year	830	5.4	–	–

Notes to the Financial Statements

For the year ended 31st March, 2004

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2004	2003
	HK\$'000	HK\$'000
Earnings:		
Net profit (loss) attributable to shareholders for the purposes of basic and diluted earnings (loss) per share	12,433	(60,700)
	2004	2003
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	989,317,302	122,792,188
Effect of dilutive potential ordinary shares – option	146,392,624	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,135,709,926	

The calculation of the basic loss per share for 2003 is based on the weighted average number of 122,792,188 shares in issue during the year after taking into effect of the share consolidation as stated in note 22(a).

No diluted loss per share is presented for 2003 as the exercise of the potential shares outstanding would result in a decrease in the loss per share.

13. INVESTMENT PROPERTIES

	HK\$'000
THE GROUP	
At 1st April, 2002	12,930
Transferred from property, plant and equipment	9,070
Deficit arising on revaluation	(16,500)
At 31st March, 2003	5,500
Eliminated on disposal of a subsidiary	(5,500)
At 31st March, 2004	–

Notes to the Financial Statements

For the year ended 31st March, 2004

14. PROPERTY, PLANT AND EQUIPMENT

	Vessels	Land and buildings	Containers	Furniture, fixtures and office equipment	Leasehold improvements	Motor vehicles	Plant and machinery	Construction in progress	Total
	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, 2003	5,700	21,087	46,525	1,661	993	1,693	45,898	923	124,480
Additions	-	2,334	-	270	-	549	2,868	6,413	12,434
Eliminated on disposal of subsidiaries	(5,700)	-	(46,525)	(1,077)	-	-	-	-	(53,302)
Disposals	-	-	-	-	-	-	-	(979)	(979)
Transfers	-	5,642	-	-	-	-	249	(5,891)	-
At 31st March, 2004, at cost	-	29,063	-	854	993	2,242	49,015	466	82,633
DEPRECIATION AND AMORTISATION									
At 1st April, 2003	-	655	46,525	1,153	414	363	2,318	-	51,428
Provided for the year	416	1,737	-	180	496	138	5,002	-	7,969
Eliminated on disposal of subsidiaries	(416)	-	(46,525)	(1,077)	-	-	-	-	(48,018)
At 31st March, 2004	-	2,392	-	256	910	501	7,320	-	11,379
NET BOOK VALUES									
At 31st March, 2004	-	26,671	-	598	83	1,741	41,695	466	71,254
At 31st March, 2003	5,700	20,432	-	508	579	1,330	43,580	923	73,052

The Group's land and buildings which are situated in PRC are held under medium-term land use rights.

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

At the balance sheet date, the Group has pledged certain of its property, plant and equipment with an aggregate net book value of HK\$16,125,000 (2003: HK\$5,700,000) to certain financial institutions to secure the credit facilities granted to the Group.

Notes to the Financial Statements

For the year ended 31st March, 2004

15. GOODWILL

	HK\$'000
THE GROUP	
COST	
Arising on acquisition of subsidiaries and balance at 31st March, 2003	72,265
Arising on acquisition of additional interest in a subsidiary	49,645
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At 31st March, 2004	121,910
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AMORTISATION	
Amortised for the year and balance at 31st March, 2003	2,409
Amortised for the year	5,682
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At 31st March, 2004	8,091
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CARRYING VALUE	
At 31st March, 2004	113,819
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At 31st March, 2003	69,856
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The goodwill is amortised on a straight line basis over its estimated useful life of 20 years.

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	371,530	286,730
Less: Impairment loss	(180,230)	(180,230)
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	191,300	106,500
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Details of the Company's principal subsidiaries at 31st March, 2004 are set out in note 29.

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For the year ended 31st March, 2004

17. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the Group and the movements thereon during the current and prior years:

	Allowance for bad and doubtful debts	Accelerated accounting depreciation	Total
	HK\$'000	HK\$'000	HK\$'000
Credit to income statement for the year and balance at 31st March, 2004	1,197	901	2,098

At the balance sheet date, the Group and the Company has unutilised tax losses of HK\$28,398,000 (2003: HK\$31,825,382) and HK\$28,398,000 (2003: HK\$28,761,000) respectively available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses will be carried forward indefinitely.

18. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	1,756	1,242
Packaging materials and consumables	3,234	4,266
Finished goods	7,072	5,288
	12,062	10,796

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For the year ended 31st March, 2004

19. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables	44,828	25,398
Other receivables	19,913	2,442
	64,741	27,840

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:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Age		
0 to 90 days	40,640	24,234
91 to 180 days	9,212	2,881
181 to 365 days	1,182	1,157
Over 365 days	-	71
	51,034	28,343
Less: Allowance for bad and doubtful debts	(6,206)	(2,945)
	44,828	25,398

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20. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade payables	7,558	7,410
Other payables	11,429	17,914
	<u>18,987</u>	<u>25,324</u>

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Age		
0 to 90 days	4,265	3,575
91 to 180 days	720	2,360
180 to 365 days	261	9
Over 365 days	2,312	1,466
	<u>7,558</u>	<u>7,410</u>

21. SHORT-TERM BANK LOANS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Short-term bank loans		
– secured	9,425	–
– unsecured	28,275	16,023
	<u>37,700</u>	<u>16,023</u>

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For the year ended 31st March, 2004

22. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
At 1st April, 2002 and 31st March, 2003, ordinary shares of HK\$0.01 each	100,000,000,000	1,000,000
– reduction of share capital and consolidation of ordinary shares	(90,000,000,000)	(500,000)
At 31st March, 2004, ordinary shares of HK\$0.05 each	<u>10,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1st April, 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	4,093,217,701	40,932
– reduction of share capital and consolidation of ordinary shares	(3,956,777,111)	(34,110)
– issue of new shares on subscription	<u>900,000,000</u>	<u>45,000</u>
At 31st March, 2004, ordinary shares of HK\$0.05 each	<u>1,036,440,590</u>	<u>51,822</u>

(a) Pursuant to a special resolution passed by the Company's shareholders in the special general meeting held on 7th April, 2003, the following changes in the share capital of the Company took place and the 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.

Notes to the Financial Statements

For the year ended 31st March, 2004

22. SHARE CAPITAL (CONTINUED)

- (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.
- (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 a subscription and option agreement dated 21st February, 2003 with a then independent third party 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 first and second subscriptions for acquisition of additional investments in the pharmaceutical sector in the PRC and repaying the Group's borrowings. The first and second subscriptions were 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.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

Notes to the Financial Statements

For the year ended 31st March, 2004

23. SHARE OPTIONS

- (a) The Company's share options scheme (the "Scheme") adopted on 14th January, 2002 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 ("Eligible Persons") will expire on 13th January, 2012. Under the terms of the Scheme, the board of directors of the Company may for a notional consideration of HK\$1 grant options to the 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 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 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 Scheme (the "Option Period"). Options granted under the Scheme will be exercisable in the Option Period notwithstanding that the scheme period of the Scheme may have expired. The 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 issued upon exercise of all options to be granted under the Scheme cannot exceed 10% (the "Limit") of the issued share capital of the Company at the date of adoption of the Scheme, excluding any options lapsed in accordance with the terms of the Scheme and any other share option schemes. The limit upon which the maximum number of shares may be granted under the Scheme cannot exceed 5,894,059 shares as at 31st March, 2004. However, the Company may seek approval by its shareholders in general meeting to renew the Limit from time to time.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of shares in issue from time to time. Option will not be granted to any 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 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 Scheme since its adoption.

Notes to the Financial Statements

For the year ended 31st March, 2004

23. SHARE OPTIONS (CONTINUED)

- (b) Pursuant to an subscription and option agreement dated 21st February, 2003, an option with the right to subscribe 200,000,000 new shares was granted to Guardwell for a consideration of HK\$1 on 25th April, 2004. The option entitles Guardwell to subscribe in cash at an initial subscription price of HK\$0.20 per share, subject to adjustments, at any time between the date of grant up to 24th October, 2004.

No options were exercised during the year under the subscription and option agreement.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Notes to the Financial Statements

For the year ended 31st March, 2004

24. RESERVES

	Share premium	Contributed surplus	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
At 1st April, 2002	15,859	180,030	(210,554)	(14,665)
Premium arising on issue of shares	33,075	–	–	33,075
Net loss attributable to shareholders	–	–	(35,363)	(35,363)
<hr/>				
At 31st March, 2003	48,934	180,030	(245,917)	(16,953)
Effect of capital reduction	(48,934)	83,044	–	34,110
Transfers	–	(83,044)	83,044	–
Premium arising on issue of shares	135,000	–	–	135,000
Expenses incurred in connection with the issue of shares	(1,139)	–	–	(1,139)
Net loss attributable to shareholders	–	–	(13,692)	(13,692)
<hr/>				
At 31st March, 2004	133,861	180,030	(176,565)	137,326

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.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st March, 2004 were HK\$3,465,000 (2003: Nil), which comprises contributed surplus less deficit of the Company.

Notes to the Financial Statements

For the year ended 31st March, 2004

24. 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 26.

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, 2004

25. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets (liabilities) disposed of:		
Investment properties	5,500	–
Property, plant and equipment	5,284	3,713
Trade and other receivables	1,941	1,372
Bank balances and cash	102	396
Trade and other payables	(803)	(8,484)
Trade payables to associates	–	(10)
Taxation	(380)	(2,827)
	<hr/>	<hr/>
Net assets (liabilities)	11,644	(5,840)
Asset revaluation reserve realised on disposal	–	(18)
(Loss) gain on disposal of subsidiaries	(227)	6,562
(Loss) gain on disposal of discontinuing operations	(2,434)	2,116
	<hr/>	<hr/>
Total consideration	8,983	2,820
	<hr/>	<hr/>
Satisfied by:		
Cash consideration received	8,983	2,820
	<hr/>	<hr/>
Analysis of net inflow of cash and cash equivalents in connection with the disposal of subsidiaries		
Cash consideration received	8,983	2,820
Bank balances and cash disposed of	(102)	(396)
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries	8,881	2,424
	<hr/>	<hr/>

The subsidiaries disposed of during the year contributed HK\$903,000 (2003: HK\$905,000) to the Group's turnover and HK\$389,000 (2003: HK\$62,411,000) to the Group's loss from operations.

Notes to the Financial Statements

For the year ended 31st March, 2004

26. OPERATING LEASE COMMITMENTS

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	
	2004 HK\$'000	2003 HK\$'000
Within one year	466	540
In the second to fifth year inclusive	444	164
	910	704

27. 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, 2004

28. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to 31st March, 2004:

- (a) On 4th June, 2004, the Company entered into a placing agreement (the “Placing Agreement”) with the ultimate holding company Guardwell and an independent placing agent (the “Placing Agent”). Pursuant to the Placing Agreement, Guardwell agreed to place through the Placing Agent 175,000,000 shares at HK\$2.00 each to not less than six independent placees. On the same date, Guardwell and the Company entered into a conditional subscription agreement (the “Subscription Agreement”). Pursuant to the Subscription Agreement, Guardwell would, on the completion of the placing, subscribe for 175,000,000 new shares at the same price of HK\$2.00 each. The placing and subscription price per share of HK\$2.00 represents (i) a discount of approximately 19.19% to the closing price of HK\$2.475 per share as quoted on the Stock Exchange on 4th June, 2004; (ii) a discount of approximately 18.37% to the average closing price of HK\$2.45 per share as quoted on the Stock Exchange for the last 5 trading days up to 4th June, 2004; and (iii) discount of approximately 16.67% to the average closing prices of the Company’s shares of HK\$2.40 per shares as quoted on the Stock Exchange for the last ten trading days up to 4th June, 2004. The net proceeds of HK\$342 million will be used for the existing business operations of the Group and for the general working capital including any strategic development, acquisition or investments that the Company may decide to pursue in the future but no part of the proceeds will be used towards settlement of debts. The directors are authorised to issue these new shares under the general mandate pursuant to the annual general meeting held on 25th August, 2003. The placing and subscription were completed in mid-June 2004.

All the shares issued rank pari passu with the then existing shares in all respects.

- (b) In June 2004, the Group has for a consideration of HK\$17,781,000 acquired from independent third parties the remaining 8% equity interest in the holding company of the 95% owned PRC subsidiary which is engaged in the manufacture and sales of pharmaceutical products.
- (c) On 7th July, 2004, the Group entered into an agreement (the “Acquisition Agreement”) with two independent third parties for the acquisition of the entire issued share capital of Bright Central Investments Limited (“Bright Central”) for a consideration of HK\$120,000,000 which will be financed by the net proceeds raised in the placing and subscription agreements detailed in note 28(a) above. Bright Central is an investment holding company and its principal assets is the entire equity interest in Zhejiang Juneng Rosi Pharmaceutical Co., Ltd. (“Rosi”) (浙江巨能樂斯藥業有限公司). Rosi is a wholly foreign investment enterprise established in the PRC and is principally engaged in the business of manufacture and sales of pharmaceutical products.

Notes to the Financial Statements

For the year ended 31st March, 2004

29. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2004 are as follows:

Name of subsidiary	Country 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	
China Value Assets Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Merit Development Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Billion Source Investments Limited	British Virgin Islands	US\$2	–	100%	Investment holding
Value Brilliant	British Virgin Islands	US\$30,000	–	92%	Investment holding
Siping Ju Neng Medicine Industry Co., Ltd. * (四平巨能药业有限公司)	PRC	RMB55,350,000	–	87%	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.

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.