

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 37.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In year 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and certain investments in securities.

The financial statements have been prepared 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

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 subsidiaries and associates at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of associates is included with the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented separately in the balance sheet as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Interests in subsidiaries

Interests in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interest in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net asset of the associate, less any identified impairment losses.

Revenue recognition

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

Services income is recognised when services are provided.

Income from properties held for sale is recognised on the execution of binding sales agreement.

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 under operating leases, is recognised on a straight line basis over the terms of the relevant lease.

Profits and losses arising on trading in securities are recognised on a trade-date basis.

Dividend income from investments is recognised when the right to receive payment has been established.

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 independent 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, 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 surplus subsequently arises, the surplus is credited to the income statement to the extent of the deficit previously charged.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties (Cont'd)

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

No depreciation is provided on investment properties except where the term of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation and amortisation are provided to write off items of property, plant and equipment, over their estimated useful lives, using the straight line method, at the following rates per annum:

Land use rights	Over the terms of the relevant right
Leasehold land and leasehold improvements	Over the terms of the lease
Buildings	4% or over the remaining terms of the relevant lease, if shorter
Plant and machineries	5% – 15%
Furniture, fixtures and equipment	10% – 33 $\frac{1}{3}$ %
Motor vehicles	10% – 20%

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment (Cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are carried at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds less estimated selling expenses.

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 useful life.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Research and development expenditure (Cont'd)

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

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs.

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental expenses are charged to the income statement on a straight line basis over the relevant lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, 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.

Loan arrangement fees represent expenses incurred in obtaining long-term secured bank loan facilities. Such expenses are deferred and amortised to the income statement over the repayment term of the loan on a straight line basis to provide a constant periodic rate of charge.

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, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. 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.

Taxation

Income tax expenses represent 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 difference 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 taxation 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, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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 realised. Deferred tax is charged or credited in 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.

Retirement benefit costs

The pension costs charged to the income statement represent the contributions payable in the current year to the Group's Mandatory Provident Fund Scheme and defined contribution retirement scheme.

4. TURNOVER

Turnover represents the aggregate of the net amounts received and receivable from third parties, less returns and allowance and is summarised as follows:

	2005	2004
	HK\$'000	HK\$'000
Sale of properties	91,609	47,276
Trading of motorcycles	11,737	15,864
Medicine and health food	275,952	–
Rental income	98	374
	379,396	63,514

The outgoings arising from rental income were negligible in both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

5. PROFIT (LOSS) FROM OPERATIONS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration		
– current year	1,310	653
– underprovision in previous year	75	249
	<u>1,385</u>	<u>902</u>
Staff costs, including directors' emoluments	40,992	3,933
Retirement benefits scheme contributions, net of forfeited contributions of HK\$65,000 (2004: HK\$77,000)	1,768	23
	<u>42,760</u>	<u>3,956</u>
Less: Amount capitalised in intangible assets	(10)	–
	<u>42,750</u>	<u>3,956</u>
Cost of inventories recognised as an expense	241,700	55,429
Depreciation and amortisation of property, plant and equipment:		
– assets owned by the Group	8,810	183
– an asset held under a finance lease	26	–
Amortisation of intangible assets	71	–
Allowance for properties held for sale	–	6,006
Allowance for amount due from associate	17	–
Loss on disposal of property, plant and equipment	66	–
and after crediting:		
Gain on disposal of property, plant and equipment	–	(1,053)
Interest income	(595)	(5,720)
Release of negative goodwill (included in cost of sales)	(2,224)	(747)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

6. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on bank and other borrowings wholly repayable within five years	5,677	15,105
Interest on obligations under a finance lease	14	–
Interest on convertible notes wholly repayable within five years	368	–
Loan arrangement fees	1,320	480
	<u>7,379</u>	<u>15,585</u>

7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

A. Directors' emoluments

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	96	20
	<u>96</u>	<u>20</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	268	2,574
Retirement benefits scheme contributions	2	39
	<u>270</u>	<u>2,613</u>
	<u>366</u>	<u>2,633</u>

The directors' emoluments were within the following bands:

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	8	7
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>8</u>	<u>8</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (Cont'd)

A. Directors' emoluments (Cont'd)

During the year ended 31st March, 2005, one director waived emoluments of HK\$240,000. No directors waived any emoluments during the year ended 31st March, 2004.

B. Highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2004: three) were directors of the Company whose emoluments are included in (A) above.

The emoluments of the remaining four (2004: two) individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	1,535	486
Retirement benefits scheme contributions	57	22
	<u>1,592</u>	<u>508</u>

Their emoluments were below HK\$1,000,000.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

8. TAXATION

	2005 HK\$'000	2004 HK\$'000
Current tax:		
Hong Kong Profits Tax	5	–
Taxation in other jurisdictions	1,818	–
	<u>1,823</u>	<u>–</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits for the year.

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

During the year ended 31st March, 2004, no provision for Hong Kong Profits Tax was made for the Group as the Company and its subsidiaries had no assessable profit for that year.

Details of deferred taxation are set out in note 24.

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

	2005 HK\$'000	2004 HK\$'000
Profit (loss) before taxation	<u>11,761</u>	<u>(37,791)</u>
Tax at the Hong Kong Profits Tax rate of 17.5%	2,058	(6,613)
Tax effect of expenses not deductible for tax purpose	3,653	673
Tax effect of income not taxable for tax purpose	(1,167)	(1,406)
Tax effect of deferred tax asset not recognised	4,805	7,379
Utilisation of tax losses previously not recognised	(7,020)	(33)
Effect of tax exemptions granted to subsidiaries in the People's Republic of China (the "PRC")	(841)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>335</u>	<u>–</u>
Taxation for the year	<u>1,823</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

9. EARNINGS (LOSS) PER SHARE

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

	2005 HK\$'000	2004 <i>HK\$'000</i>
Earnings:		
Profit (loss) for the year and earnings (loss) for the purpose of basic earnings (loss) per share	9,938	<u>(29,612)</u>
Effect of dilutive potential ordinary shares – Interest on convertible notes	<u>304</u>	
Earnings (loss) for the purpose of diluted earnings (loss) per share	<u>10,242</u>	
Number of shares:		
Weighted average number of shares for the purpose of basic earnings (loss) per share	160,809,612	<u>118,228,175</u>
Effect of dilutive potential ordinary shares – share options – convertible notes	26,804 <u>42,356,597</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>203,193,013</u>	

No diluted loss per share was presented for the year ended 31st March, 2004 because the exercise of the share options would result in a decrease of net loss per share.

10. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$'000</i>
VALUATION	
At 1st April, 2004	8,200
Disposals	<u>(8,200)</u>
At 31st March, 2005	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

10. INVESTMENT PROPERTIES (Cont'd)

During the year ended 31st March, 2005, the Group disposed of all of its investment properties at a consideration of HK\$4,983,000. The loss arising on disposal amounting to HK\$3,217,000 had been charged to the consolidated income statement.

The Group's investment properties were situated in Hong Kong and were held under medium term leases.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machineries HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st April, 2004	-	-	-	717	238	955
Currency realignment	-	207	-	82	30	319
Arising on acquisition of subsidiaries	4,186	46,769	14,749	4,385	1,460	71,549
Additions	-	1,743	19	511	808	3,081
Disposals	-	(1,581)	(353)	(378)	(511)	(2,823)
At 31st March, 2005	4,186	47,138	14,415	5,317	2,025	73,081
DEPRECIATION, AMORTISATION AND IMPAIRMENT						
At 1st April, 2004	-	-	-	460	115	575
Currency realignment	-	124	-	64	15	203
Provided for the year	85	6,208	834	1,379	330	8,836
Eliminated on disposals	-	(1,509)	(70)	(371)	(331)	(2,281)
At 31st March, 2005	85	4,823	764	1,532	129	7,333
NET BOOK VALUES						
At 31st March, 2005	4,101	42,315	13,651	3,785	1,896	65,748
At 31st March, 2004	-	-	-	257	123	380

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

11. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

The leasehold land and buildings of the Group were held under medium-term land use rights in the PRC.

At 31st March, 2005, the net book values of property, plant and equipment of the Group included an amount of approximately HK\$127,000 (2004: Nil) in respect of an asset held under a finance lease.

At 31st March, 2005, the property, plant and equipment of the Group amounting to approximately HK\$11,959,000 (2004: Nil) were pledged to a bank to secure general banking facilities granted to the Group.

	Furniture and fixtures HK\$'000
THE COMPANY	
COST	
At 1st April, 2004 and 31st March, 2005	6
DEPRECIATION	
At 1st April, 2004	2
Provided for the year	1
At 31st March, 2005	3
NET BOOK VALUES	
At 31st March, 2005	3
At 31st March, 2004	4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

12. INTERESTS IN SUBSIDIARIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, carrying value	183,277	183,277
Amounts due from subsidiaries	646,247	607,354
	829,524	790,631
Less: Impairment losses	(725,096)	(725,096)
	104,428	65,535

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Company as at the date on which the Company became the holding company of the Group under the group reorganisation in 1994, less dividends distributed from pre-reorganisation reserves of the subsidiaries.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the Company will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

For the year ended 31st March, 2004, an impairment loss of HK\$88,926,000 had been recognised in respect of the investment in and advances to subsidiaries to their recoverable amounts.

Particulars of the principal subsidiaries at 31st March, 2005 are set out in note 37.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

13. INTANGIBLE ASSETS

	<i>HK\$'000</i>
THE GROUP	
COST	
Arising on acquisition of subsidiaries	1,264
Additions	1,467
Written-off	(645)
	2,086
At 31st March, 2005	2,086
AMORTISATION	
Provided for the year and at 31st March, 2005	71
	71
NET BOOK VALUE	
At 31st March, 2005	2,015

The amount represents the development costs incurred on Chinese medicines and pharmaceutical products, and is deferred and amortised, using the straight-line method, over a period of five years from date of commencement of commercial operation.

During the year, the directors of the Company reviewed the net recoverable amount of the Group's development costs in view of the current technological development and economic conditions. The technological development of certain drug manufacturing techniques have been prolonged and may no longer warrants future economic benefits adequate to support current capitalisation of the development costs. As a result, the carrying amount of the related development costs has been fully written off during the year.

In the opinion of the directors of the Company, the remaining intangible assets are worth at least their carrying amount at the balance sheet date.

At 31st March, 2005, other than the amount of HK\$439,000 which related to products in stage of development, the remaining intangible assets had been put into commercial use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

14. GOODWILL

	<i>HK\$'000</i>
THE GROUP	
COST	
Arising on acquisition of subsidiaries and at 31st March, 2005	22,936
AMORTISATION	
Charge for the year and balance at 31st March, 2005	1,051
NET BOOK VALUE	
At 31st March, 2005	21,885

The amortisation period adopted for goodwill is 20 years.

15. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from associate	17	-
Less: Allowance	(17)	-
	-	-

The amount due from associate is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the Group will not demand repayment within twelve months from the balance sheet date and the amount is therefore shown as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

15. INTEREST IN AN ASSOCIATE (Cont'd)

At 31st March, 2005, the Group had interest in the following associate:

Name of associate	Form of business structure	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of issued share capital indirectly held by the Company	Principal activity
Jean-Bon Pharmaceutical Technology Company Limited	Incorporated	Hong Kong	HK\$2 ordinary shares	50%	Inactive

16. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Raw materials	16,792	—
Work in progress	1,588	—
Finished goods	40,900	—
	59,280	—

Included above are finished goods of HK\$38,360,000 (2004: Nil) carried at net realisable value.

17. INVESTMENTS IN SECURITIES

	THE GROUP	
	Other investments	
	2005 HK\$'000	2004 HK\$'000
Equity securities:		
Listed in Hong Kong, at market value	10,289	16,388

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

18. LOAN RECEIVABLES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Principal	31,500	-	10,500	-

The loans are unsecured, bear interest at Hong Kong prime rate plus 2% per annum and are repayable on demand.

19. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows credit period ranging from 0 to 30 days to its trade customers.

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 60 days	16,336	4,799
61 – 90 days	11,336	-
	27,672	4,799
Other debtors, deposits and prepayments	10,608	5,512
	38,280	10,311

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

20. CREDITORS AND ACCRUED CHARGES

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 60 days	20,206	488
61 – 90 days	20,037	–
Over 90 days	4,470	1,283
	<hr/>	<hr/>
	44,713	1,771
Other creditors and accrued expenses	18,239	5,870
	<hr/>	<hr/>
	62,952	7,641
	<hr/>	<hr/>

21. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Amount payable under a finance lease:				
Within one year	36	–	23	–
In the second to fifth year inclusive	122	–	119	–
	<hr/>	<hr/>	<hr/>	<hr/>
	158	–	142	–
Less: Future finance charges	(16)	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Present value of lease obligations	142	–	142	–
	<hr/>	<hr/>	<hr/>	<hr/>
Less: Amount due within one year shown under current liabilities			(23)	–
			<hr/>	<hr/>
Amount due after one year			119	–
			<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

21. OBLIGATIONS UNDER A FINANCE LEASE (Cont'd)

It is the Group's policy to lease a motor vehicle under a finance lease. The lease term is approximately three years.

For the year ended 31st March, 2005, the effective borrowing rate is 7.5%. Interest rate was fixed at the contract date.

The obligations under a finance lease of the Group are secured by the lessor's charge over the leased asset.

22. PROMISSORY NOTE PAYABLES

The promissory note payables of the Group and the Company are unsecured, bear interest at 5.5% per annum and are repayable on 6th May, 2005.

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank loans, secured	54,207	87,844	–	–
Other borrowings, unsecured	13,564	6,600	7,940	600
	67,771	94,444	7,940	600
The maturity profile of the above loans and borrowings is as follows:				
Within one year or on demand	62,146	94,444	7,940	600
More than one year, but not exceeding two years	5,625	–	–	–
	67,771	94,444	7,940	600
Less: Amount due within one year shown under current liabilities	(62,146)	(94,444)	(7,940)	(600)
Amount due after one year	5,625	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

23. BANK AND OTHER BORROWINGS (Cont'd)

Included in other borrowings of the Group were HK\$7,940,000 and HK\$5,624,000 which bear interest at 12% per annum and at Hong Kong prime rate plus 2% per annum, respectively.

The other borrowing of the Company bears interest at 12% per annum.

24. DEFERRED TAXATION

The followings are the major deferred tax liabilities (asset) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Deferred development costs	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April, 2003 and 31st March, 2004	–	–	–	–
Arising on acquisition of subsidiaries	3,263	–	(3,263)	–
(Credit) charge to income for the year	(730)	353	377	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2005	2,533	353	(2,886)	–
	<hr/>	<hr/>	<hr/>	<hr/>

At 31st March, 2005, the Group has unused tax losses of HK\$679,816,000 (2004: HK\$538,966,000) available for offset against future profits and deductible temporary differences associated with property, plant and equipment of HK\$216,000 (2004: associated with investment properties and property, plant and equipment of HK\$25,504,000). A deferred tax asset has been recognised in respect of HK\$16,492,000 (2004: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$663,324,000 (2004: HK\$538,966,000) and the deductible temporary differences due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

25. CONVERTIBLE NOTE PAYABLES

	THE GROUP AND THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Principal	90,000	–

On 6th May, 2004 upon acquisition of subsidiaries as set out in note 30, the Company issued HK\$15 million 2% unsecured convertible notes due 2006 at conversion price of HK\$0.45. The HK\$15 million 2% convertible notes due 2006 were converted into 33,333,331 ordinary shares of HK\$0.01 each in the capital of the Company at conversion price of HK\$0.45 as set out in note 26(4).

On 23rd February, 2005, the Company issued HK\$100 million 2% unsecured convertible notes due 2008 at conversion price of HK\$0.42 (subject to adjustment). The convertible notes carry interest at 2% per annum, will mature on 23rd February, 2008 (or the next following business day if it is not a business day) and are transferable but may not be transferred to a connected person of the Company without prior written consent of the Company. The holders of the convertible notes have the rights to convert the convertible notes into shares of HK\$0.01 each of the Company at any time during the period from 23rd February, 2005 to 23rd February, 2008. During the year, HK\$10 million 2% unsecured convertible notes due 2008 were converted into 23,809,520 ordinary shares of HK\$0.01 each in the capital of the Company at conversion price of HK\$0.42 as set out in note 26(4). The remaining HK\$90 million 2% unsecured convertible notes due 2008 were outstanding at 31st March, 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

26. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At 1st April, 2003, at HK\$0.10 each	4,000,000,000	400,000
Capital reorganisation		
– Share sub-division (<i>note 1b</i>)	796,000,000,000	–
– Share consolidation (<i>note 1c</i>)	(760,000,000,000)	–
	<hr/>	<hr/>
At 31st March, 2004 and 31st March, 2005, at HK\$0.01 each	40,000,000,000	400,000
	<hr/>	<hr/>
Issued and fully paid:		
At 1st April, 2003, at HK\$0.10 each	2,343,753,121	234,375
Capital reorganisation		
– Capital reduction (<i>note 1a</i>)	–	(233,203)
– Share consolidation (<i>note 1c</i>)	(2,226,565,465)	–
Exercise of share options (<i>note 2</i>)	10,510,000	105
	<hr/>	<hr/>
At 31st March, 2004, at HK\$0.01 each	127,697,656	1,277
Exercise of share options (<i>note 2</i>)	1,155,000	12
Issue of shares (<i>note 3</i>)	175,000,000	1,750
Conversion of convertible notes (<i>note 4</i>)	57,142,851	571
	<hr/>	<hr/>
At 31st March, 2005, at HK\$0.01 each	360,995,507	3,610
	<hr/>	<hr/>

Notes:

- (1) Pursuant to an announcement dated 6th March, 2003 (the “Announcement”) and resolutions passed on 14th April, 2003, a capital reorganisation (the “Capital Reorganisation”) was passed with effect from 15th April, 2003 which involved:
- (a) (i) the nominal value of all issued ordinary shares of HK\$0.10 each in the share capital of the Company (the “Share(s)”) was reduced by HK\$0.0995 each by cancelling an equivalent amount of paid-up capital of the Share so that the nominal value of each such Share was reduced from HK\$0.10 to HK\$0.0005. Accordingly, based upon 2,343,753,121 Shares in issue as at the date of the Announcement, the issued share capital of the Company of HK\$234,375,000 would be reduced by HK\$233,203,000 to HK\$1,172,000 (the “Capital Reduction”); and
- (ii) the credit arising from such reduction had been credited to the contributed surplus account of the Company;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

26. SHARE CAPITAL (Cont'd)

Notes: (Cont'd)

- (b) every unissued share of HK\$0.10 was sub-divided into 200 unissued shares of HK\$0.0005 each;
- (c) every 20 issued and unissued shares of HK\$0.0005 each in the capital of the Company were consolidated into one new ordinary share of HK\$0.01 each in the share capital of the Company following the Capital Reorganisation (the "Consolidated Share(s)"). On such basis and after the Capital Reduction, there were 117,187,656 Consolidated Shares in issue (the "Share Consolidation"); and
- (d) the share premium as at 31st January, 2003 in the share premium account of the Company was cancelled and the credit arising therefrom was credited to the contributed surplus account of the Company.

Part of the credit transferred to the contributed surplus account of the Company mentioned in (a)(ii) and (d) above had been used to set off against the deficit of the Company as at 31st January, 2003. According to the unaudited management accounts of the Company as at 31st January, 2003, the deficit of the Company amounted to approximately HK\$535.9 million.

- (2) On 23rd February, 2004, 24th February, 2004, 5th March, 2004 and 19th April, 2004, the Company issued 3,510,000, 5,845,000, 1,155,000 and 1,155,000 ordinary shares of HK\$0.01 each, respectively, for consideration of HK\$0.207 per share upon exercise of share options granted to certain employees and consultants.
- (3) On 15th December, 2004, the Company entered into a share placing agreement with a placing agent for the placing of 150,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company at an issue price of HK\$0.40 per share, on a best effort basis to not less than six placing share subscribers (the "Share Placing"). On the same date, the Company also entered into a convertible note placing agreement with the placing agent for a placing of HK\$100 million 2% convertible notes due 2008 at an initial conversion price of HK\$0.42 per share, representing a discount of approximately 8.7% to the closing price of HK\$0.46 per share as quoted on the Stock Exchange on 10th December, 2004, on a best effort basis to not less than six convertible note subscribers (the "Convertible Note Placing"). The net proceeds of approximately HK\$35 million and HK\$90 million would be used to finance the repayment of certain short-term borrowings and the expansion of the Group's investment properties portfolio, respectively. The balance of HK\$30 million would be used as general working capital. The new shares rank pari passu with other shares in issue in all respects.

On 28th December, 2004, the Company entered into another share placing agreement with a placing agent for a placing of 25,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company at an issue price of HK\$0.81 per share, representing a discount of 19.0% to the price of HK\$1.00 per share as quoted on the Stock Exchange on 23rd December, 2004 on a best effort basis to not less than six placees. The net proceeds of HK\$19.25 million would be used as general working capital. These shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 31st August, 2004 and rank pari passu with all the other shares in issue in all respects.

- (4) In December 2004 and February 2005, the HK\$15,000,000 2% convertible notes due 2006 and HK\$10,000,000 2% convertible notes due 2008 were converted into 33,333,331 and 23,809,520 ordinary shares of HK\$0.01 each in the capital of the Company at conversion prices of HK\$0.45 and HK\$0.42 per share, respectively. The new shares rank pari passu with all the other shares in issue in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

27. SHARE OPTIONS

Scheme adopted on 28th February, 1994 (the "1994 Scheme")

The 1994 Scheme was adopted on 28th February, 1994 for the primary purpose of providing incentives to directors and eligible employees and was expired on 27th February, 2004.

At 31st March, 2005, the number of shares in respect of which options had been granted and remained outstanding under the 1994 Scheme was 27,300, representing approximately 0.02% of the shares of the Company in issue at that date.

Pursuant to a resolution passed on 26th August, 2002, the 1994 Scheme was terminated. After the termination of 1994 Scheme, no more share options can be granted under the scheme and the outstanding share options under it are remain exercisable until they expire.

Scheme adopted on 26th August, 2002 (the "2002 Scheme")

Following the termination of the 1994 Scheme in August 2002, the 2002 Scheme was adopted pursuant to a resolution passed on 26th August, 2002 for the primary purpose of providing incentives to eligible persons and will expire on 25th August, 2012. Under the 2002 Scheme, the Board of Directors of the Company may grant share options to the following eligible persons to subscribe for shares in the Company:

- (i) employees including executive directors of the Company, its subsidiaries and any companies in which the Company holds any equity interest; or
- (ii) non-executive directors of the Company, its subsidiaries and any companies in which the Company holds any equity interest; or
- (iii) suppliers or customers; or
- (iv) consultants, advisers or agents.

Share options granted should be accepted within 28 days of the date of grant, upon payment of HK\$1 per each grant of share options. The exercise price is determined at the highest of: (i) the closing price of the shares on the date of grant of the share option; or (ii) the average closing price of shares on the five trading days immediately preceding the date of grant; or (iii) the nominal value of shares on the date of grant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

27. SHARE OPTIONS *(Cont'd)*

Scheme adopted on 26th August, 2002 (the “2002 Scheme”) *(Cont'd)*

Share options may be exercised in accordance with the terms of the 2002 Scheme at any time after the date upon which the option is granted and accepted and prior to the expiry of ten years from that date.

At 31st March, 2005, no option under the 2002 Scheme was outstanding. The maximum number of shares in respect of which share options under the 2002 Scheme may be granted when aggregated with the maximum number of shares in respect of which options may be granted under all the other schemes (the “Scheme Limit”) is 10% of shares in issue on the adoption date of the 2002 Scheme. The Scheme Limit may be refreshed by a resolution in shareholders’ meeting such that the total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other schemes shall not exceed 10% of the shares in issue as at the date of such shareholder’s approval. However, the Scheme Limit and any increase in the Scheme Limit shall not result in the number of shares which may be issued upon exercise of all outstanding share options granted under the 2002 Scheme and other schemes exceed 30% of the shares in issue from time to time. No person shall be granted a share option, within 12-month period of the date of grant, exceeds 1% of the shares in issue as at the date of grant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

27. SHARE OPTIONS (Cont'd)

The following table discloses details of the Company's share options held by employees (including directors) and movements in such holdings during the year:

Option type	Outstanding at 1.4.2004	Adjustment during the year	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.3.2005
1994 Scheme	27,300	-	-	-	-	27,300
2002 Scheme	1,155,000	-	-	(1,155,000)	-	-
	<u>1,182,300</u>	<u>-</u>	<u>-</u>	<u>(1,155,000)</u>	<u>-</u>	<u>27,300</u>

Option type	Outstanding at 1.4.2003	Adjustment during the year (Note)	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.3.2004
1994 Scheme	11,889,000	(11,294,550)	-	-	(567,150)	27,300
2002 Scheme	-	-	11,665,000	(10,510,000)	-	1,155,000
	<u>11,889,000</u>	<u>(11,294,550)</u>	<u>11,665,000</u>	<u>(10,510,000)</u>	<u>(567,150)</u>	<u>1,182,300</u>

The market price of the shares was HK\$0.33 (2004: ranged from HK\$0.40 to HK\$0.43) on the exercise date of the options.

Details of the 1994 Scheme held by the directors during the year ended 31st March, 2004 included in the above table are as follows:

Year	Outstanding at 1st April	Adjustment during the year (Note)	Cancelled during the year	Outstanding at 31st March
2004	<u>4,580,000</u>	<u>(4,351,000)</u>	<u>(229,000)</u>	<u>-</u>

There was no option granted to directors under the 2002 Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

27. SHARE OPTIONS (Cont'd)

Details of the share options outstanding at 31st March, 2004 and 2005 are as follows:

Date of grant	Exercisable period	Exercise price HK\$ (Note)	Number of shares to be issued upon exercise of the share options	
			2005 (Note)	2004 (Note)
1994 Scheme				
19.6.1997	19th June, 1997 to 18th June, 2007	21.84	4,800	4,800
2.2.1998	2nd February, 1998 to 1st February, 2008	2.00	2,000	2,000
17.11.1999	17th November, 1999 to 16th November, 2009	2.34	10,500	10,500
14.3.2000	14th March, 2000 to 13th March, 2010	6.60	10,000	10,000
			27,300	27,300
2002 Scheme				
7.1.2004	9th January, 2004 to 8th January, 2014	0.207	–	1,155,000
			27,300	1,182,300

Note: With effect from 15th April, 2003, every 20 issued and unissued shares of HK\$0.0005 each in the capital of the Company was consolidated into one new ordinary share of HK\$0.01 each in the share capital of the Company following the Capital Reorganisation. Accordingly, the exercise price and the number of share options were adjusted.

Total consideration received during the year ended 31st March, 2004 from employees and consultants for taking up the options granted amounted to HK\$10.

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 in 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 lapse 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, 2005

28. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000 (Note)	Deficit HK\$'000	Total HK\$'000
THE COMPANY					
At 1st April, 2003	334,999	646	173,869	(587,984)	(78,470)
Capital reorganisation					
– Capital reduction (note 26(1a))	–	–	233,203	–	233,203
– Cancellation of share premium (note 26(1d))	(334,999)	–	334,999	–	–
– Set-off against the deficit (note 26(1))	–	–	(535,894)	535,894	–
Exercise of share options (note 26(2))	2,071	–	–	–	2,071
Loss for the year	–	–	–	(92,083)	(92,083)
At 31st March, 2004	2,071	646	206,177	(144,173)	64,721
Exercise of share options (note 26(2))	227	–	–	–	227
Issue of shares (note 26(3))	78,500	–	–	–	78,500
Conversion of convertible notes (note 26(4))	24,429	–	–	–	24,429
Expenses incurred in connection with issue of shares	(2,623)	–	–	–	(2,623)
Loss for the year	–	–	–	(6,563)	(6,563)
At 31st March, 2005	102,604	646	206,177	(150,736)	158,691

Note: The contributed surplus of the Company represents:

- (i) the difference between the underlying net assets of the subsidiaries acquired by the Company at the date of the group reorganisation in 1994 less any dividends distributed from the pre-reorganisation reserves and the nominal amount of the Company's share capital issued as consideration for the acquisition; and
- (ii) net balance from capital reduction, cancellation of share premium and set-off against the deficit pursuant to the capital reorganisation on 15th April, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

28. RESERVES (Cont'd)

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

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st March, 2005 was HK\$55,441,000 (2004: HK\$62,004,000).

29. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000
Net assets disposed of:	
Creditors and accrued charges	(20)
Gain on disposal of subsidiaries	30
	10
Total consideration	10
Satisfied by:	
Cash	10
	10
Net cash inflow arising on disposal:	
Cash consideration	10

The subsidiaries disposed of during the year ended 31st March, 2004 had no contribution to the Group's turnover and had a loss of HK\$39,000 included in the Group's results from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

30. ACQUISITION OF SUBSIDIARIES

In May 2004, the Group acquired 100% of the issued share capital of Tung Fong Hung Investment Limited and its subsidiaries and the remaining 50% of the issued share capital of Pacific Wins Development Ltd. for considerations of HK\$42 million and HK\$28 million, respectively. The acquisitions have been accounted for by using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	2005 HK\$'000	2004 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	71,549	–
Intangible assets	1,264	–
Inventories	60,353	–
Debtors, deposits and prepayments	26,205	–
Tax recoverable	14	–
Bank balances and cash	23,274	–
Creditors and accrued charges	(48,613)	–
Obligations under a finance lease	(149)	–
Bank and other borrowings	(82,698)	–
Minority interests	–	(124,879)
	<u>51,199</u>	(124,879)
Goodwill	22,936	–
	<u>74,135</u>	(124,879)
SATISFIED BY		
Cash	42,000	–
Promissory notes	13,000	–
Convertible notes	15,000	–
Legal and professional fees	4,135	261
Waiver of loans from former minority shareholder	–	(125,140)
	<u>74,135</u>	(124,879)
Net cash outflow arising on acquisition		
Cash consideration	(42,000)	–
Legal and professional fees	(4,135)	–
Bank balances and cash acquired	23,274	–
	<u>(22,861)</u>	–

The subsidiaries acquired during the year contributed HK\$275,952,000 (2004: HK\$11,158,000) to the Group's turnover and a profit of HK\$2,888,000 (2004: HK\$1,895,000) to the Group's results from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

31. CONTINGENT LIABILITIES

At 31st March, 2005, the Group had given an indemnity to the purchaser relating to unrecorded taxation liabilities, if any, and warranties relating to the affairs and businesses of a subsidiary disposed of in the previous year. The maximum aggregate liability of the Group in respect of all claims for breach of the warranties shall, when taken together with the aggregate liability of the Group in respect of all claims under the indemnity, not exceed the sum of HK\$60,000,000 (2004: HK\$60,000,000). All related claims may be brought against the Group up to the expiry of 10 years from 31st March, 1998.

At 31st March, 2005, the Company had outstanding corporate guarantees amounting to approximately HK\$41,082,000 (2004: HK\$114,000,000) issued in favour of banks to secure general banking facilities granted by the banks to its subsidiaries and had given guarantees to security companies in respect of the obligations of security accounts opened in the security companies by its subsidiaries.

32. CAPITAL COMMITMENTS

Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment

THE GROUP	
2005	2004
HK\$'000	HK\$'000
2,550	-

33. OPERATING LEASE COMMITMENTS

The Group as lessee

Property rentals paid by the Group during the year in respect of:

Minimum lease payments
Contingent rents

THE GROUP	
2005	2004
HK\$'000	HK\$'000
19,162	-
3,811	-
22,973	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

33. OPERATING LEASE COMMITMENTS (Cont'd)

The Group as lessee (Cont'd)

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

	2005 HK\$'000	2004 HK\$'000
Within one year	19,280	–
In the second to fifth year inclusive	18,710	–
	<u>37,990</u>	<u>–</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises and outlets. Leases are negotiated for an average term of three years and rentals are either fixed or, in addition to the fixed rentals, contingent based on a fixed percentage of the monthly gross turnover of the outlets, for an average term of three years.

The Group as lessor

The property rental income earned during the year was HK\$98,000 (2004: HK\$374,000).

The investment property was expected to generate rental yields of 4.56% for the year ended 31st March, 2004 on an ongoing basis.

At 31st March, 2005, the Group had no operating lease commitment.

At 31st March, 2004, the Group had contracted tenants for the future minimum lease payments amounting to HK\$90,000 which fall due within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

34. PLEDGE OF ASSETS

At 31st March, 2005, the Group's bank and other borrowings were secured by the following:

- (a) legal charges over the property, plant and equipment of Jean-Marie Pharmacal Company Limited, a subsidiary of the Company with a carrying value of HK\$11,959,000 (2004: Nil);
- (b) bank deposits of HK\$3,000,000 (2004: Nil); and
- (c) legal charges over the properties held for sale of the Group with a carrying value of HK\$58,536,000 (2004: HK\$116,846,000).

In addition to (c) indicated above, at 31st March, 2004, the Group's bank and other borrowings were also secured by the following:

- (a) legal charges over the investment properties of a subsidiary, Fountain Property Limited, with a carrying value of HK\$8,200,000;
- (b) a share charge of a subsidiary Master Super Development Limited ("Master Super");
- (c) a floating charge on all the assets, including but not limited to the uncalled capital, of Master Super;
- (d) assignments of the right, title, interest and benefits in and under all the existing and future building contracts in respect of the Group's properties held for sale in Hong Kong;
- (e) the benefit under all insurance policies of the Group's properties held for sale in Hong Kong;
- (f) the future sales proceeds, rentals and other earnings generated from the Group's properties held for sale; and
- (g) subordination of shareholders' loans of Master Super.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

35. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme for eligible employees. The assets of the scheme are separately held in funds under the control of trustees.

The cost charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet dates, the Group had no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contributions payable by the Group in future years.

With effect from 1st December, 2000, the Group has also joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. The contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. No forfeited contribution is available to reduce the contribution payable in future years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

36. POST BALANCE SHEET EVENTS

Subsequent to 31st March, 2005, the Group has the following significant post balance sheet events:

- (a) Pursuant to the announcement on 20th April, 2005 and the circular dated 23rd May, 2005, on 8th April, 2005, the Company entered into seven subscription agreements with each of the subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with each of the subscribers and a placing agent, respectively. Each of the subscription agreements and the placing agreement are not inter-conditional on each other.

Of the nine subscribers, seven of them are fund subscribers who are funds managed by global asset management firms, with the remaining two subscribers being Loyal Concept Limited ("Loyal Concept") and Kopola Investment Company Limited ("Kopola"). Pursuant to the subscription agreements, the fund subscribers, Loyal Concept and Kopola have in aggregate conditionally agreed to subscribe by cash for the HK\$956 million zero coupon convertible notes due 2010 proposed to be issued by the Company pursuant to the subscription agreements (the "Subscription Convertible Notes") with principal amounts of HK\$356 million, HK\$450 million and HK\$150 million, respectively (the "Subscription"). Loyal Concept is an indirect wholly-owned subsidiary of Hanny Holdings Limited ("Hanny"), a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange. Loyal Concept and Hanny are not connected persons of the Company. Kopola is 50% held by Mr. Ho Hau Chong, Norman ("Mr. Ho"), the deputy chairman and independent non-executive director of the Company, and therefore an associate of Mr. Ho. As Mr. Ho is a connected person of the Company under Rule 14A.11 of the Listing Rules. Therefore, the subscription of the Subscription Convertible Notes by Kopola constitutes a connected transaction of the Company under the Listing Rules.

Pursuant to the placing agreement, the placing agent will procure, on a best effort basis, no less than six placees to subscribe by cash for the HK\$44 million zero coupon convertible notes due 2010 proposed to be issued by the Company (the "Placing Convertible Notes") with a principal amount of HK\$44 million (the "Placing"). None of the placees will be a subscriber.

Upon full conversion of the Subscription Convertible Notes at initial conversion price of HK\$0.44 per share (subject to adjustment), a total of 2,172,727,272 new ordinary shares will be issued.

Assuming all the HK\$44 million Placing Convertible Notes are successfully placed by the placing agent, upon full conversion of the Placing Convertible Notes at the initial conversion price of HK\$0.44 per share (subject to adjustment), a total of 100,000,000 new ordinary shares will be issued.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

36. POST BALANCE SHEET EVENTS

(a) (Cont'd)

The total gross proceeds from the Subscription and the Placing amount to HK\$956 million and HK\$44 million, respectively. Therefore, the maximum total gross proceeds from the Subscription and the Placing amount to HK\$1,000 million. Net proceeds of approximately HK\$996 million will be used to finance the expansion of the investment property portfolio of the Company.

(b) Pursuant to the announcement on 3rd June, 2005, a subsidiary of the Company and an independent third party (the "Vendor") signed a non-binding letter of intent with a view to negotiating with the Vendor a possible acquisition from the Vendor 50% of its ownership and interest in certain land located in Macau (the "Acquisition"), which initially is intended for redevelopment purposes, at the initial consideration of HK\$495 million. Formal agreement in respect of the Acquisition has not been entered into up to the date of the financial statements.

37. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Asia Progress Investments Limited	British Virgin Islands	US\$1 ordinary share	-	100	Investment holding
Cheung Tai Hong (B.V.I.) Limited	British Virgin Islands	US\$50,000 ordinary shares	100	-	Investment holding
Cheung Tai Hong, Limited	Hong Kong	HK\$2,000 ordinary shares	-	100	Investment holding
		HK\$500,000 non-voting deferred shares (note 1)	-	-	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

37. SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Cheung Tai Hong Holdings (Motor Vehicle) Limited	Hong Kong	HK\$10,000 ordinary shares	-	100	Trading of motorcycles and spare parts
Champion Palace Development Limited	Hong Kong	HK\$2 ordinary shares	-	100	Properties holding in the PRC
Exalt Investment Limited	Hong Kong	HK\$10,000 ordinary shares	-	100	Investment holding
Fountain Property Limited	Hong Kong	HK\$2 ordinary shares	-	100	Property investment
Handsworth Investments Limited	British Virgin Islands	US\$1 ordinary share	-	100	Investment holding
Jean-Marie Wellness Biotech Corporation Limited	British Virgin Islands	US\$2 ordinary shares	-	100	Investment holding
Jean-Marie Pharmacal Company Limited	Hong Kong	HK\$812,600 ordinary shares	-	100	Manufacture and sales of pharmaceutical products
Jean-Marie Pharmacal Management Limited	Hong Kong	HK\$2 ordinary shares	-	100	Investment holding
Jumbo Ever Limited	Hong Kong	HK\$2 ordinary shares	-	100	Investment holding
Master Super	Hong Kong	HK\$100 ordinary shares	-	100	Property holding and sale

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

37. SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Pacific Essence Limited	British Virgin Islands	US\$1 ordinary share	-	100	Investment holding
Pacific Wins Development Ltd.	British Virgin Islands	US\$1,000 ordinary shares	-	100	Investment holding
Sound Advice Investments Limited	British Virgin Islands	US\$100 ordinary shares	-	100	Investment holding
Tung Fong Hung Investment Limited	British Virgin Islands	US\$10,000 ordinary shares	-	100	Investment holding
Tung Fong Hung Nominees Limited	British Virgin Islands	US\$2 ordinary shares	-	100	Provision of nominee services
Tung Fong Hung (China) Limited	Hong Kong	HK\$2 ordinary shares	-	100	Distribution of Chinese medicine and health food
Tung Fong Hung Foods Limited	Hong Kong	HK\$2 ordinary shares	-	100	Distribution of health food
Tung Fong Hung Foods Company, B.C. Limited	Canada	CAD360 common	-	100	Distribution of health food
Tung Fong Hung Medicine (BVI) Limited	British Virgin Islands	HK\$0.2 ordinary share	-	100	Investment holding
Tung Fong Hung Medicine Company, Limited	Hong Kong	HK\$1,001 ordinary shares	-	100	Retailing of Chinese medicine and foodstuffs

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

37. SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Tung Fong Hung Medicine Company (Macau) Limited	Macau	MOP100,000 quota capital	-	100	Retailing of Chinese medicine and foodstuffs
TFH Management Limited	Hong Kong	HK\$2 ordinary shares	-	100	Provision of management services
TFH Manufacturing Company Limited	Hong Kong	HK\$2 ordinary shares	-	100	Processing, packaging and distribution of Chinese medicine and foodstuffs
TFH (China) Holdings Limited	Hong Kong	HK\$2 ordinary shares	-	100	Investment holding
Total Pacific Limited	Hong Kong	HK\$2 ordinary shares	-	100	Investment holding
Universal Focus Limited	British Virgin Islands	US\$1 ordinary share	-	100	Investment holding
廣州市東方紅保健品有限公司	PRC (note 2)	HK\$2,500,000	-	100	Distribution of Chinese medicine and health food
深圳市東方紅保健品有限公司	PRC (note 3)	RMB1,000,000	-	100	Distribution of Chinese medicine and health food
東方紅(中山)保健食品廠有限公司	PRC (note 2)	USD1,000,000	-	100	Processing and wholesaling of health food

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

37. SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
黑龍江金保華農業有限公司	PRC (note 2)	HK\$14,000,000	-	100	Cultivation and sales of potatoes
哈爾濱東方綠種業有限公司	PRC (note 3)	RMB1,100,000	-	100	Sales of potatoes seeds

Notes:

- (1) The non-voting deferred shares which are not held by the Group practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies nor to participate in any distribution on winding up.
- (2) The subsidiaries are wholly-owned foreign enterprises.
- (3) The subsidiaries are wholly-owned domestic enterprises.

None of the subsidiaries had any debt securities outstanding at the balance sheet date or at any time during the year.

The above table list 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, results in particulars of excessive length.

38. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Medicine and health food	-	manufacture and sales of medicine and health food
Property	-	property investment and development
Motorcycles	-	trading of motorcycles and spare parts

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

38. SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Segment information about these businesses is presented below:

2005

	Medicine and health food <i>HK\$'000</i>	Motorcycles <i>HK\$'000</i>	Property <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
INCOME STATEMENT					
FOR THE YEAR ENDED					
31ST MARCH, 2005					
Turnover	275,952	11,737	91,707	-	379,396
Segment results	2,888	542	27,160	-	30,590
Unallocated corporate expenses					(11,450)
Profit from operations					19,140
Finance costs					(7,379)
Profit before taxation					11,761
Taxation					(1,823)
Profit for the year					9,938
BALANCE SHEET					
AT 31ST MARCH, 2005					
ASSETS					
Segment assets	218,491	2,019	62,156	-	282,666
Unallocated corporate assets	-	-	-	195,847	195,847
Consolidated total assets					478,513
LIABILITIES					
Segment liabilities	57,986	753	1,636	-	60,375
Unallocated corporate liabilities	-	-	-	174,531	174,531
Consolidated total liabilities					234,906

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

38. SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

2005 (Cont'd)

	Medicine and health food HK\$'000	Motorcycles HK\$'000	Property HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
OTHER INFORMATION					
Depreciation and amortisation	8,652	-	-	184	8,836
Amortisation of intangible assets	71	-	-	-	71
Amortisation of goodwill	1,051	-	-	-	1,051
Write-off of intangible assets	645	-	-	-	645
Capital additions	74,627	-	-	3	74,630
Development cost incurred	2,731	-	-	-	2,731
Goodwill	22,936	-	-	-	22,936
Doubtful debt provided (recovered)	1,741	-	-	(12)	1,729
Loss on disposal of investment properties	-	-	(3,217)	-	(3,217)
Release of negative goodwill	-	-	(2,224)	-	(2,224)

2004

	Motorcycles HK\$'000	Property HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2004				
Turnover	15,864	47,650	-	63,514
Segment results	664	(9,641)	-	(8,977)
Unallocated corporate expenses				(13,259)
Loss from operations				(22,236)
Finance costs				(15,585)
Gain on disposal of subsidiaries		20	10	30
Loss before taxation				(37,791)
Taxation				-
Loss before minority interests				(37,791)
Minority interests				8,179
Loss for the year				(29,612)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

38. SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

2004 (Cont'd)

	Motorcycles HK\$'000	Property HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
BALANCE SHEET				
AT 31ST MARCH, 2004				
ASSETS				
Segment assets	1,977	132,995	–	134,972
Unallocated corporate assets				97,289
Consolidated total assets				<u>232,261</u>
LIABILITIES				
Segment liabilities	1,157	6,295	–	7,452
Unallocated corporate liabilities				94,633
Consolidated total liabilities				<u>102,085</u>
OTHER INFORMATION				
Depreciation and amortisation	–	2	181	183
Allowance for properties held for sale	–	6,006	–	6,006
Deficit arising on revaluation of investment properties	–	8,800	–	8,800
Release of negative goodwill	–	(747)	–	(747)
Doubtful debt provided (recovered)	–	37	(57)	(20)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

38. SEGMENT INFORMATION (Cont'd)

Geographical segments

The Group's operations are principally located in Hong Kong, the PRC and other countries including Canada, Taiwan, Singapore and Macau. The Group's administrative function was carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		Profit (loss) from operations	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	288,326	63,514	32,941	(11,131)
PRC	60,687	–	4,358	1,548
Other countries	30,383	–	(1,329)	–
	<u>379,396</u>	<u>63,514</u>	<u>35,970</u>	<u>(9,583)</u>
Corporate expenses			<u>(16,830)</u>	<u>(12,653)</u>
Profit (loss) from operations			<u>19,140</u>	<u>(22,236)</u>

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

	Carrying amount of segment assets		Additions to property, plant and equipment, intangible assets and goodwill	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	387,351	232,261	99,348	–
PRC	78,351	–	857	–
Other countries	12,811	–	92	–
	<u>478,513</u>	<u>232,261</u>	<u>100,297</u>	<u>–</u>