1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- marketing and distribution of pharmaceutical products
- development, manufacture and sale of pharmaceutical products
- commercial exploitation of gene inventions
- research on genome-related technology and development and manufacture of genechips
- development and commercialisation of oral insulin products

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, hereinafter collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

HKFRS 3 "Business Combinations" applies to the accounting for business combinations for which the agreement date is on or after 1 January 2005. The Group did not have such business combinations and accordingly, HKFRS 3 has had no impact on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAPs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of a period up to a maximum of 20 years. In the case of jointly-controlled entities and associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separate identifiable asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 which permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of SSAP 30 is treated according to the goodwill accounting policy above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

On disposal of subsidiaries, jointly-controlled entities or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Fixed assets and depreciation

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium and short term leasehold land and buildings outside Hong Kong	Over the lease terms
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 30%
Motor vehicles	20%

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets

Intangible assets, which comprise rights to technical know-how and rights to commercially exploit certain gene inventions, are stated at cost less accumulated amortisation and any impairment losses.

General pharmaceutical products

The cost of acquiring the rights to technical know-how for the development and production of new pharmaceutical products is amortised on the straight-line basis over the estimated economic lives of the know-how of a maximum of five years commencing in the year when the rights are available for use.

Genome related technology

The cost of acquiring the rights to technical know-how for the development and production of genome related products is amortised on the straight-line basis over the estimated economic lives of the know-how of a period up to a maximum of 20 years.

Gene invention rights

The cost of acquiring the rights to commercially exploit certain gene inventions is amortised over the lives of the rights granted for the gene inventions of a period up to a maximum of 20 years.

Oral insulin products

The cost of acquiring the rights for development and commercialisation of oral insulin products is amortised on the straight-line basis over the estimated economic lives of the products commencing in the year when the rights are available for use.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, jointly-controlled entities and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, jointly-controlled entities and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the assignment of technical know-how, when the technology is transferred to the buyer; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits (Cont'd)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Company's subsidiaries established in the People's Republic of China (the "PRC") are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to this scheme.

Share option schemes

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme 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 recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of 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 are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

Detailed segment information is presented by way of the Group's primary segment reporting basis, which is by business segment. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the manufacturing segment engages in the development, manufacture and sale of pharmaceutical products;

(b) the trading segment engages in the marketing and distribution of imported pharmaceutical products;

(c) the gene development segment engages in the commercial exploitation of certain gene inventions, the research on genome-related technology, and the development and manufacture of genechips; and

(d) the oral insulin segment engages in the development and commercialisation of oral insulin products.

Notwithstanding the disposal of Gene Generation Limited ("GGL") and its subsidiaries (the "GGL Group") during the year, there are still continuing activities in the gene development segment and the directors have no intention to discontinue the gene development segment.

4. SEGMENT INFORMATION (Cont'd)

Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue										
Sales to external customers	**39,033**	83,567	**129,740**	128,579	**993**	3,485	**–**	–	**169,766**	215,631
Segment results	**(14,352)**	12,983	**26,582**	30,974	**(88,581)**	(69,307)	**(279)**	–	**(76,630)**	(25,350)
Interest income									**925**	749
Net unallocated expenses									**(9,927)**	(7,132)
Loss from operating activities									**(85,632)**	(31,733)
Finance costs									**(2,203)**	(2,375)
Share of loss of an associate	**–**	–	**–**	–	**–**	(1,727)	**–**	–	**–**	(1,727)
Loss before tax									**(87,835)**	(35,835)
Tax									**1,793**	(1,103)
Loss before minority interests									**(86,042)**	(36,938)
Minority interests									**10,219**	51,579
Net profit/(loss) from ordinary activities attributable to shareholders									**(75,823)**	14,641

4. SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**151,527**	183,956	**82,871**	82,108	**7**	193,724	**284,289**	–	**518,694**	459,788
Interest in an associate	**–**	–	**–**	–	**–**	7,247	**–**	–	**–**	7,247
Bank overdrafts included in segment assets	**–**	–	**9**	–	**–**	–	**–**	–	**9**	–
Unallocated assets									**72,587**	63,297
Total assets									**591,290**	530,332
Segment liabilities	**38,710**	54,316	**23,532**	24,976	**364**	20,415	**214**	–	**62,820**	99,707
Bank overdrafts included in segment assets	**–**	–	**9**	–	**–**	–	**–**	–	**9**	–
Unallocated liabilities									**34,983**	7,367
Total liabilities									**97,812**	107,074
Other segment information:										
Capital expenditure	**811**	4,102	**492**	302	**–**	21,701	**73,351**	–	**74,654**	26,105
Unallocated capital expenditure									**34**	53
									74,688	26,158
Depreciation and amortisation	**8,392**	7,300	**329**	273	**7,999**	16,492	**–**	–	**16,720**	24,065
Unallocated depreciation and amortisation									**519**	511
									17,239	24,576
Impairment losses recognised in the profit and loss account	**6,600**	–	**–**	–	**79,958**	68,887	**–**	–	**86,558**	68,887
Other non-cash expenses	**77**	4,788	**431**	104	**–**	–	**–**	–	**508**	4,892
Unallocated other non-cash expenses									**2**	4
									510	4,896

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and proceeds from the assignment of technical know-how. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	Notes	**2005**	2004
		HK$'000	HK$'000
Cost of inventories sold		**123,676**	135,076
Staff costs (excluding directors' remuneration, note 8):			
Wages and salaries		**17,213**	18,622
Pension scheme contributions		**147**	238
		17,360	18,860
Depreciation	12	**6,396**	11,805
Intangible assets:	13		
Amortisation for the year *		**7,317**	9,933
Impairment arising during the year		**79,958**	59,981
		87,275	69,914
Goodwill:	14		
Amortisation for the year **		**3,526**	2,838
Impairment arising during the year **		**6,600**	8,906
		10,126	11,744
Provision/(write-back of provision) for bad and doubtful debts **	20	**(9,858)**	4,635
Auditors' remuneration		**1,500**	1,100
Minimum lease payments under operating leases for land and buildings		**1,973**	2,239
Research costs **		**1,432**	4,262
Exchange losses, net		**280**	398
Loss on disposal of fixed assets		**131**	261
Gain on disposal of intangible assets		**–**	(3,158)
Gain on disposal of subsidiaries	31(b)	**(72)**	–
Gain on partial disposal of a subsidiary		**–**	(20,760)
Interest income from:			
Cash and bank balances		**(305)**	(438)
Other	21	**(620)**	–
An amount due from a related company	22	**–**	(311)

6. LOSS FROM OPERATING ACTIVITIES (Cont'd)

Cost of inventories sold includes HK$8,789,000 (2004: HK$18,091,000) relating to staff costs, depreciation, amortisation of technical know-how, and minimum lease payments under operating leases for land and buildings, which is also included in the respective total amounts disclosed separately above for these types of expenses.

* The amortisation of intangible assets for the year is included as to HK$2,567,000 in "Cost of sales" and as to HK$4,750,000 in "Other operating expenses, net" on the face of the consolidated profit and loss account.

** These items are included in "Other operating expenses, net" on the face of the consolidated profit and loss account for the current year.

7. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest expense on bank overdrafts and loans wholly repayable within five years	**2,203**	2,375

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Fees:		
Executive directors	**100**	132
Independent non-executive directors	**50**	52
	150	184
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	**3,819**	4,067
Pension scheme contributions	**12**	12
	3,831	4,079
	3,981	4,263

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

Directors' remuneration (Cont'd)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2005	2004
Nil to HK$1,000,000	**7**	9
HK$1,000,001 to HK$1,500,000	**1**	1
	8	10

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

Five highest paid employees

The five highest paid employees during the year included five directors (2004: five), details of whose remuneration are set out above.

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005	2004
	HK$'000	HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**207**	90
Overprovision in prior years	**(4,413)**	(2,000)
Current – Elsewhere		
Charge for the year	**806**	3,735
Underprovision in prior year	**258**	–
Deferred (note 27)	**1,349**	(722)
Total tax charge/(credit) for the year	**(1,793)**	1,103

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group

	2005	2004
	HK$'000	HK$'000
Loss before tax	**(87,835)**	(35,835)
Tax at the applicable tax rate	**(18,621)**	(22,356)
Preferential statutory rate offered	**1,326**	(4,097)
Temporary differences not recognised	**–**	74
Adjustments in respect of current tax of previous periods	**(4,155)**	(2,000)
Income not subject to tax	**(1,712)**	(3,431)
Expenses not deductible for tax	**21,369**	32,913
Tax charge/(credit) at the Group's effective rate	**(1,793)**	1,103

The applicable tax rate is calculated based on the Hong Kong profits tax rate of 17.5% (2004: 17.5%), the flat rate of Malaysian income tax of MYR20,000 per annum (2004: MYR20,000 per annum) and the statutory corporate income tax rate and preferential tax rate in Mainland China of 33% (2004: 33%) and 18% (2004: 18%), respectively.

9. TAX (Cont'd)

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, since two of the Group's subsidiaries in Mainland China are operating in specific development zones of Mainland China, and the relevant tax authorities have granted those subsidiaries a preferential CIT rate of 18%.

In accordance with the relevant tax legislation in Malaysia, enterprises are subject to a profit tax rate of a lower of a flat rate of MYR20,000 per annum or a rate of 3% of their net profits for the year. Certain of the Group's subsidiaries, which operate in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum for the two years ended 31 March 2004 and 2005.

10. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company amounted to HK$11,487,000 (2004: HK$2,544,000) (note 30(b)).

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$75,823,000 (2004: net profit of HK$14,641,000) and the 2,290,000,000 (2004: 2,290,000,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 March 2004 and 2005 have not been disclosed as no diluting events existed during these two years.

12. FIXED ASSETS

Group

	Leasehold land and buildings outside Hong Kong HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:					
At 1 April 2004	75,917	56,488	7,471	4,111	143,987
Additions	–	596	113	628	1,337
Disposal of subsidiaries (note 31(b))	–	(31,072)	(1,069)	(1,106)	(33,247)
Disposals	–	(2,426)	(96)	(347)	(2,869)
At 31 March 2005	**75,917**	**23,586**	**6,419**	**3,286**	**109,208**
Accumulated depreciation:					
At 1 April 2004	7,633	17,966	3,523	1,657	30,779
Provided during the year	2,014	3,365	518	499	6,396
Disposal of subsidiaries (note 31(b))	–	(10,188)	(324)	(341)	(10,853)
Disposals	–	(998)	(39)	(157)	(1,194)
At 31 March 2005	**9,647**	**10,145**	**3,678**	**1,658**	**25,128**
Net book value:					
At 31 March 2005	**66,270**	**13,441**	**2,741**	**1,628**	**84,080**
At 31 March 2004	68,284	38,522	3,948	2,454	113,208

An analysis of the Group's cost of land and buildings outside Hong Kong at the balance sheet date is as follows:

	2005 HK$'000	2004 HK$'000
Leasehold land and buildings held under:		
Medium term leases	**73,295**	73,295
Short term leases	**2,622**	2,622
	75,917	75,917

At 31 March 2005, certain of the Group's leasehold land and buildings with a net book value of HK$49,545,000 (2004: HK$50,910,000) were pledged to secure general banking facilities granted to the Group (note 26(c)).

13. INTANGIBLE ASSETS

Group

	Technical know-how HK$'000	Gene invention rights HK$'000	Total HK$'000
Cost:			
At 1 April 2004	113,471	95,000*	208,471
Acquisition of subsidiaries (note 31(a))	284,260**	–	284,260
Disposal of subsidiaries (note 31(b))	(105,503)	–	(105,503)
At 31 March 2005	**292,228**	**95,000**	**387,228**
Accumulated amortisation and impairment:			
At 1 April 2004	70,435	10,292	80,727
Amortisation provided during the year	2,567	4,750	7,317
Impairment during the year recognised in the profit and loss account	–	79,958*	79,958
Disposal of subsidiaries (note 31(b))	(69,228)	–	(69,228)
At 31 March 2005	**3,774**	**95,000**	**98,774**
Net book value:			
At 31 March 2005	**288,454**	**–**	**288,454**
At 31 March 2004	43,036	84,708	127,744

Notes:

* These gene invention rights (the "Gene Invention Rights") represent the rights held by Right & Rise Limited ("R&R") and Grand Success Management Limited ("Grand Success") to commercially exploit 19 gene inventions, which are closely associated with diabetes. The Group is in the process of applying for patents in respect of the Gene Invention Rights. Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") have warranted that in the event that the Gene Invention Rights are prohibited from being commercially exploited due to the patents being registered in Mainland China by other persons at any time for a period of three years commencing from the completion of the acquisition of the entire issued capital of R&R by the Group on 6 February 2002, they will compensate the Group with an amount of HK$5 million less any net income derived from each of those gene inventions so prohibited. Both HK Biowindow and Fudan Biotech are related companies of the Group in which Dr. Mao Yu Min ("Dr. Mao") and Dr. Xie Yi ("Dr. Xie"), two directors and shareholders of the Company, have beneficial interests.

Since there was a slow down of the global gene sector during the year and there was no sign of significant improvement up to the date of approval of these financial statements, the directors considered that a full provision on impairment of the carrying amount of Gene Invention Rights was required. Thus the net carrying value of the Gene Inventions Rights of HK$79,958,000 has been fully charged to the profit and loss account for the year.

13. INTANGIBLE ASSETS (Cont'd)

** Balance represents the carrying value of a technical know-how (the "Know-how") in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group. The Product was co-developed by Fosse Bio-Engineering Development Limited ("Fosse Bio") and Tsinghua University, Beijing ("THU"). Fosse Bio and THU jointly applied the patent (the "Patent") in respect of the Know-how on 20 April 2001. The Patent was granted by State Intellectual Property Office of the PRC. on 4 August 2004. Fosse Bio is a subsidiary newly acquired by the Group in the current year (note 31(a)).

The Product is currently undergoing phase II of a clinical trial up to the date of approval of these financial statements and the certificate of new medicine has not been granted by the relevant authority. Based on the feedback from the medical professional leading the clinical trial, the results of the clinical trial, so far, were satisfactory. The directors of the Company considered that no impairment provision against the carrying value for the Know-how is necessary. Should the clinical trial fail, the certificate of new medicine cannot be obtained or the launching of the Product be unsuccessful, adjustments would have to be made against the carrying value of the Know-how.

14. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

	Group
	HK$'000
Cost:	
At 1 April 2004	27,387
Disposal of subsidiaries (note 31(b))	(9,760)
At 31 March 2005	**17,627**
Accumulated amortisation and impairment:	
At 1 April 2004	12,110
Amortisation provided during the year	3,526
Impairment during the year recognised in the profit and loss account	6,600
Disposal of subsidiaries (note 31(b))	(9,760)
At 31 March 2005	**12,476**
Net book value:	
At 31 March 2005	**5,151**
At 31 March 2004	15,277

14. GOODWILL (Cont'd)

As Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("JECP") recorded an operating loss during the year, the directors evaluated the business activity and future performance of JECP and considered that the goodwill arising from the acquisition of JECP was impaired. Accordingly, the Group has recognised in the profit and loss account an impairment loss of HK$6,600,000 for goodwill attributable to the Group's equity interest in JECP.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, which is stated at cost, amounted to HK$1,327,000 as at 1 April 2004 and 31 March 2005.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**52,990**	52,990
Due from subsidiaries	**166,224**	211,683
Due to subsidiaries	**–**	(42,733)
	219,214	221,940
Provision for impairment	**(8,421)**	–
	210,793	221,940

Having considered the operating loss recorded for JECP as further detailed in note 14 to the financial statements, the Company has recognised in the profit and loss account an impairment loss of HK$8,421,000 for its interest in JECP for the year ended 31 March 2005.

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Directly held					
Extrawell (BVI) Limited	British Virgin Islands	US$10,000 Ordinary	100	100	Investment holding
Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. (Note 1)	PRC/Mainland China	RMB33,000,000	100	100	Development, manufacture and sale of pharmaceutical products
Indirectly held					
Extrawell Pharmaceutical (HK) Limited	Hong Kong	HK$2 Ordinary	100	100	Provision of agency services
South Asia Pharmaceutical (China) Limited	British Virgin Islands/ Malaysia	US$50,000 Ordinary	100	100	Marketing and distribution of pharmaceutical products
Smart Phoenix Holdings Limited	British Virgin Islands	US$50,000 Ordinary	100	100	Investment holding
Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP") (Note 2)	PRC/Mainland China	RMB50,000,000	68	68	Development, manufacture and sale of pharmaceutical products
Best-Bio Developments Limited ("Best-Bio")	British Virgin Islands	US$1 Ordinary	100	100	Investment holding

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Indirectly held (Cont'd)					
Right & Rise Limited	British Virgin Islands	US$50,000 Ordinary	100	100	Holding of gene invention rights
Grand Success Management Limited	British Virgin Islands	US$50,000 Ordinary	75	75	Holding of gene invention rights
Smart Ascent Limited ("Smart Ascent")	Hong Kong	HK$10,000 Ordinary	51 #	–	Investment holding
Fosse Bio-Engineering Development Limited (Note 3)	Hong Kong	HK$10,000 Ordinary	51 #	–	Development and commercialisation of oral insulin products

Notes:

(1) JECP is a wholly foreign-owned enterprise established in the PRC with an operating period of 15 years commencing from 22 April 1999.

(2) CEP is a joint stock limited company established in the PRC for an operating period of 15 years commencing from 8 August 1992.

(3) Fosse Bio was acquired by the Group through the acquisition of Smart Ascent from two individuals (the "Vendors"), who are independent third parties to the Group, during the year (note 31(a)). Pursuant to the deed of transfer (the "Deed") entered into between Smart Ascent and a shareholder of Fosse Bio (the "Fosse Vendor"), Smart Ascent acquired a 51% equity interest of Fosse Bio from Fosse Vendor at a consideration (the "Consideration") which is payable in four instalments. The first and second instalments were already settled. The third instalment of HK$12,000,000 shall be paid within 14 days from the issuance of certificate of phase III clinical trial of the Product issued by the State Food and Drug Administration, China ("SFDA"). The fourth instalment of HK$19,780,000 shall be paid within 14 days from the issuance of certificate of new medicine for the Product by SFDA. The third and fourth instalments are recorded as an amount due to a minority shareholder as at the balance sheet date and are still outstanding as at the date of this report. Upon the Group acquiring Smart Ascent, the Vendors jointly and severally agreed to undertake in full the outstanding Consideration if and when the respective sums become due and payable. As a result, a corresponding amount of HK$31,780,000 was recorded as an other receivable by the Group as at the balance sheet date (note 21).

\# Subsidiaries acquired during the year (note 31(a)).

15. INTERESTS IN SUBSIDIARIES (Cont'd)

During the year, the GGL Group was disposed of by the Group during the year. For further details, please refer to note 31(b) to the financial statements.

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

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets	**–**	–

Particulars of the jointly-controlled entity were as follows:

		Place of	Percentage of			
	Business	registration	Ownership	Voting	Profit	Principal
Name	structure	and operations	interest	power	sharing	activities
Bioword Genechips, Inc. ("Bioword")	Corporate	PRC/ Mainland China	13.6	50	13.6	Research on genome related technology, and development and manufacture of genechips

Bioword was a jointly-controlled entity of Shanghai Biostar Genechip, Inc. ("Shanghai Biostar", an indirectly held subsidiary of the Company previously) and, accordingly, was accounted for as a jointly-controlled entity by virtue of the Group's control over Shanghai Biostar.

Bioword was acquired by the Group in the prior year via the acquisition of the GGL Group. The directors of the Company were of the opinion that Bioword was practically in a management dead-lock, and the value of the investment in Bioword in the consolidated balance sheet of the GGL Group prior to the completion of the Group's acquisition of the GGL Group of HK$13,977,000 was doubtful in a prior year. Accordingly, the Group's interest in Bioword was fully provided for prior to the completion of the Group's acquisition of the GGL Group in a prior year.

During the year, the Group's interest in Bioword was disposed of via the disposal of the GGL Group (note 31(b)).

17. INTEREST IN AN ASSOCIATE

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets	–	7,247

Particulars of the associate were as follows:

Name	Business structure	Place of registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shanghai Biochip Co., Ltd. ("Shanghai Biochip")	Corporate	PRC/ Mainland China	5.4	20	5.4	Research on genome related technology, and development and manufacture of biochips

Shanghai Biochip was an associate of Shanghai Biostar and, accordingly, was accounted for as an associate by virtue of the Group's control over Shanghai Biostar.

During the year, the Group's interest in Shanghai Biochip was disposed of via the disposal of the GGL Group (note 31(b)).

18. DEPOSITS PAID

	Group	
	2005	2004
	HK$'000	HK$'000
Deposits paid in respect of:		
Acquisition of a subsidiary*	–	20,000
Purchase of plant and machinery	–	368
	–	20,368

* On 3 March 2004, a wholly-owned subsidiary of the Company and the Vendors entered into a conditional sale and purchase agreement for the acquisition of an aggregate of 5,100 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent, a company incorporated in Hong Kong, for a cash consideration of HK$73 million. As at 31 March 2004, HK$20 million was paid as the deposit for the acquisition. The acquisition was completed on 17 August 2004. Further details of the acquisition are set out in note 31(a).

The acquisition constituted a discloseable transaction for the Company and further details of the acquisition were set out in the press announcement dated 4 March 2004 and a circular to the shareholders of the Company dated 25 March 2004.

19. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials	**1,752**	2,298
Work in progress	**355**	845
Finished goods	**13,584**	6,891
	15,691	10,034

At the balance sheet date, the carrying amount of inventories carried at net realisable value included in the above balance was HK$227,000 (2004: Nil).

20. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 120 days, extending up to one year for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 90 days	**48,512**	58,221
Between 91 to 180 days	**15,346**	22,932
Between 181 to 365 days	**8,999**	17,866
Between 1 to 2 years	**7,037**	6,997
Over 2 years	**3,041**	5,086
	82,935	111,102
Less: Provision for bad and doubtful debts	**(9,131)**	(18,989)
	73,804	92,113

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables at 31 March 2005 is the third and fourth instalments of the Consideration receivable from the Vendors (note 15(3)) (the "Receivable"). Shares representing 49% equity interest of Smart Ascent have been pledged by one of the Vendors to the Group for securing the settlement of the Receivable. Since the Know-how is the only major asset of Fosse Bio, which in turn is the only investment of Smart Ascent, the value of the 49% equity interest of Smart Ascent depends on the result of the clinical trial and the successful launching of the Product. As further explained in note 13 to the financial statements, based on the feedback from the medical professional leading the clinical trial, the results, so far, of clinical trial were satisfactory. Based on the pledge of the 49% interest of Smart Ascent, the directors of the Company considered that no provision against the Receivable was necessary. Should the clinical trial fail, the certificate of new medicine cannot be obtained or the launching of the Product is unsuccessful, adjustments would have to be made against the carrying value of the Receivable.

The balance at 31 March 2005 also included an amount advanced to an entity in Mainland China of HK$3,915,000. The amount advanced was unsecured, bore interest at 12% per annum and was fully settled subsequent to the balance sheet date.

At 31 March 2004, a receivable of HK$19,000,000 due from a minority shareholder of Grand Success, to which 10% of the equity interest in Grand Success was disposed of in last year, was included in the Group's other receivables. The receivable was fully settled during the year.

Balance at 31 March 2004 also included a deposit of HK$13,679,000 paid to an independent third party for making certain potential investments on behalf of the Group. The deposit was fully refunded to the Group during the year.

22. DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name	**31 March 2005**	Maximum amount outstanding during the year	1 April 2004
	HK$'000	HK$'000	HK$'000
Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow")	–	9,928	9,171

22. DUE FROM A RELATED COMPANY (Cont'd)

The amount due from Shanghai Biowindow, a related company of the Group in which both Dr. Mao and Dr. Xie have beneficial interests and are directors, represented advances originally made by certain subsidiaries of GGL to finance the business activities of Bioraise High-Tech Investment Ltd., Shanghai ("Bioraise"), also a related company of the Group as Dr. Mao and Dr. Xie both have beneficial interests therein. Pursuant to several debt transfer agreements entered into among the Group, Shanghai Biowindow and Bioraise, the total amount due from Bioraise of HK$9,171,000 was taken up by Shanghai Biowindow in the year ended 31 March 2004. The amount due from Shanghai Biowindow bore interest at 2% per annum for the period up to 30 June 2004 and 5% per annum thereafter. Furthermore, the amount due from Shanghai Biowindow was guaranteed by HK Biowindow.

The amount due from Shanghai Biowindow was fully settled during the year prior to the disposal of the GGL Group.

23. DUE FROM/(TO) A MINORITY EQUITY HOLDER/MINORITY SHAREHOLDERS

The amounts due from/(to) minority shareholders included in current assets/liabilities are unsecured, interest-free and have no fixed terms of repayment.

The amount due to a minority equity holder included in non-current liabilities was unsecured, interest-free and repayable upon the end of the operating period of the subsidiary, which was on 25 September 2030. The balance was disposed of via the disposal of the GGL Group during the year.

24. CASH AND BANK BALANCES

At 31 March 2005, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$27,606,000 (2004: HK$41,987,000). RMB is not freely convertible into other currencies. However, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Outstanding balances with ages:		
Within 90 days	**4,721**	13,052
91 to 180 days	**2,598**	–
1 to 2 years	**–**	11
	7,319	13,063

26. INTEREST-BEARING BANK BORROWINGS

	Group	
	2005	2004
	HK$'000	HK$'000
Bank overdrafts – secured	**9**	–
Trust receipt loans:		
Secured	**2,693**	–
Unsecured	**2,860**	3,493
	5,553	3,493
Bank loans – secured	**31,904**	41,809
	37,466	45,302

At 31 March 2005, the Group's banking facilities were supported by the following:

(a) the pledge of the Group's fixed deposits of HK$12,204,000 (2004: HK$13,305,000);

(b) corporate guarantees from the Company and certain subsidiaries of the Company; and

(c) legal charges over the leasehold land and buildings of certain subsidiaries of the Company (note 12).

27. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities arising from accelerated tax depreciation

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**–**	–
Deferred tax charged to the profit and loss account (note 9)	**102**	–
At end of year	**102**	–

Deferred tax assets arising from general provision for bad and doubtful debts

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**2,493**	1,771
Deferred tax credited/(charged) to the profit and loss account (note 9)	**(1,247)**	722
At end of year	**1,246**	2,493
Net deferred tax assets at 31 March	**1,144**	2,493

The Group has tax losses arising in Hong Kong of HK$5,540,000 (2004: HK$382,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in Group companies that have been loss-making for some time.

At 31 March 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries, associate or jointly-controlled entity as the Group had no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

	Company 2005 HK$'000	Company 2004 HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,290,000,000 ordinary shares of HK$0.01 each	**22,900**	22,900

29. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Scheme became effective on 15 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date of approval of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted shall be determined by the directors at their absolute discretion, but in any event shall not be more than 10 years from the date of the offer of the share options. The directors may at their absolute discretion impose any vesting period at the date of grant.

29. SHARE OPTION SCHEME (Cont'd)

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares on the date of grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Up to 31 March 2005, no share options have been granted under the Scheme.

30. RESERVES

(a) Group

	Share premium account HK$'000	Capital reserve* HK$'000	Contributed surplus# HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2003	133,717	3,708	4,839	168,887	311,151
Transfer to capital reserve	–	2,408	–	(2,408)	–
Net profit for the year	–	–	–	14,641	14,641
At 31 March 2004	133,717	6,116	4,839	181,120	325,792
Release on disposal of subsidiaries	–	(1,640)	–	1,640	–
Net loss for the year	–	–	–	(75,823)	(75,823)
At 31 March 2005	**133,717**	**4,476**	**4,839**	**106,937**	**249,969**
Reserves retained by:					
Company and subsidiaries					
At 31 March 2005	**133,717**	**4,476**	**4,839**	**106,937**	**249,969**
Company and subsidiaries	133,717	6,116	4,839	183,482	328,154
Associate	–	–	–	(2,362)	(2,362)
At 31 March 2004	133,717	6,116	4,839	181,120	325,792

30. RESERVES (Cont'd)

(a) Group (Cont'd)

* In accordance with the relevant PRC regulations, all of the Group's subsidiaries registered in Mainland China are required to transfer part of their profit after tax to the capital reserve. Subject to certain restrictions set out in the relevant PRC regulations and the articles of association of these PRC subsidiaries, the capital reserve may be used to offset losses or for capitalisation as paid-up capital.

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation in 1999 (the "Group Reorganisation"), over the nominal value of the share capital of the Company issued in exchange therefor.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the Group's retained profits, as detailed in note 14 to the financial statements.

(b) Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2003	133,717	64,636	3,129	201,482
Net loss for the year	–	–	(2,544)	(2,544)
At 31 March 2004	133,717	64,636	585	198,938
Net loss for the year	–	–	(11,487)	(11,487)
At 31 March 2005	**133,717**	**64,636**	**(10,902)**	**187,451**

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	Note	2005 HK$'000	2004 HK$'000
Net assets acquired:			
Intangible assets	13	**284,260**	–
Prepayments, deposits and other receivables		**31,813**	–
Due from minority equity holders		**8**	–
Cash and bank balances		**342**	–
Accrued liabilities and other payables		**(2,021)**	–
Due to a minority equity holder		**(32,406)**	–
Minority interests		**(208,645)**	–
		73,351	–
Satisfied by:			
Cash		**73,351**	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Notes	2005 HK$'000	2004 HK$'000
Cash consideration		**(73,351)**	–
Deposit paid	18, 31(c)(i)	**20,000**	(20,000)
Cash and bank balances acquired		**342**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries		**(53,009)**	(20,000)

In August 2004, the Group acquired 5,100 shares of HK$1.00 each in the issued share capital of Smart Ascent from the Vendors. Smart Ascent is an investment holding company, which holds 51% interest in the issued share capital of Fosse Bio. Fosse Bio is principally engaged in the development and commercialisation of the technologies in relation to the Product (note 13).

Since its acquisition, Smart Ascent and Fosse Bio had no turnover and contributed HK$246,000 to loss after tax and minority interests of the Group for the year ended 31 March 2005.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Disposal of subsidiaries

	Notes	2005 HK$'000	2004 HK$'000
Net assets disposed of:			
Fixed assets	12	**22,394**	–
Intangible assets	13	**36,275**	–
Interest in a jointly-controlled entity	16	**–**	–
Interest in an associate	17	**7,247**	–
Inventories		**4,720**	–
Accounts receivable		**124**	–
Prepayments, deposits and other receivables		**25,886**	–
Due from related companies		**9,928**	–
Pledged bank deposits		**2,062**	–
Cash and bank balances		**3,895**	–
Accounts payable		**(39)**	–
Accrued liabilities and other payables		**(13,313)**	–
Due to a minority equity holder	23	**(18,868)**	–
Minority interests		**(52,383)**	–
		27,928	-
Gain on disposal of subsidiaries	6	**72**	–
Consideration		**28,000**	–
Satisfied by:			
Cash		**28,000**	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2005 HK$'000	2004 HK$'000
Cash consideration	**28,000**	–
Cash and bank balances disposed of	**(3,895)**	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**24,105**	–

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Disposal of subsidiaries (Cont'd)

On 3 August 2004, Best-Bio, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party for the disposal (the "Disposal") of 27,500 shares (the "Sale Shares") of GGL for a cash consideration of HK$28 million.

The Sale Shares represent 55% of the issued capital of GGL, being the Group's entire interest in GGL. GGL ceased to be accounted for as a subsidiary of the Company immediately upon the completion of the Disposal which was unconditional and took place on 3 August 2004. The GGL Group contributed turnover of HK$993,000 (2004: HK$3,485,000) and loss after tax of HK$2,010,000 (2004: HK$77,173,000) for the period up to the date of the Disposal.

(c) Major non-cash transactions

(i) The deposit of HK$20,000,000 paid in prior year in connection with the acquisition of Smart Ascent was utilised as the settlement of the consideration together with the professional fees incurred of HK$73,351,000 during the year.

(ii) During the year ended 31 March 2004, a dividend of HK$7,891,000 distributed by CEP to its minority equity holder was capitalised as additional paid-up capital of CEP.

(iii) The deposit of HK$13,076,000 paid in prior year in connection with the purchase of additional equity interest in JECP was utilised as the payment of the consideration together with the professional fees incurred of HK$25,357,000 during the year ended 31 March 2004.

32. CONTINGENT LIABILITIES

(a) As at 31 March 2005, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK$43,018,000 (2004: HK$57,079,000) as at the balance sheet date.

(b) As at 31 March 2005, the Company provided corporate guarantee in favour of a subsidiary (the "Subsidiary") to a landlord that the Subsidiary will duly observe the terms and pay the monies, being the total rental expenses, management fee and utility charges of HK$5,078,000 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the Subsidiary during the year.

(c) As at 31 March 2005, the Group had bills discounted with recourse of approximately HK$25,033,000 (2004: HK$30,543,000).

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**1,292**	1,889
In the second to fifth years, inclusive	**2,649**	266
	3,941	2,155

The Company had no non-cancellable operating lease arrangements at 31 March 2005 (2004: Nil).

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 to the financial statements, at 31 March 2005, the Group had a commitment to advance to Fosse Bio, Fosse Vendor and/or other shareholders of Fosse Bio for expenses relating to clinical trial of the Product. The loans so advanced can be offset against the fourth instalment of the Consideration (note 15(3)) payable in accordance with the Deed.

At 31 March 2004, the Group had an authorised, but not contracted for, commitment of HK$53,000,000 in respect of the acquisition of Smart Ascent.

The Company had no significant commitments as at 31 March 2005 (2004: Nil).

35. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, during the year ended 31 March 2004. R&R, a wholly-owned subsidiary of the Company, and Shanghai Biowindow (note 22), a related company of the Group, entered into an agreement for the transfer of five gene inventions rights from Shanghai Biowindow to R&R at nil consideration.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 July 2005.