1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's ultimate holding company is Guardwell Investments Limited ("Guardwell"), a company which was incorporated in the British Virgin Islands.

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

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early applied these new HKFRSs in the financial statements for the year ended 31st March, 2005 except for HKFRS 3 "Business combinations" ("HKFRS 3") to business combinations for which the agreement date is on or after 1st April, 2004, HKAS 36 "Impairment of assets" ("HKAS 36") and HKAS 38 "Intangible assets" ("HKAS 38") for goodwill and intangible assets acquired through business combinations for which the agreement date is on or after 1st April, 2004.

The early adoption of HKFRS 3 and HKAS 36 from 1st April, 2004 has resulted in the Group ceasing annual amortisation of goodwill and to test for impairment annually/in the financial year in which business combination takes place at the cash generating unit level, or more frequently if there are indications that goodwill might be impaired. The transitional provisions of HKFRS 3 have required the Group to eliminate the carrying amount of the accumulated amortisation at 1st April, 2004 by HK$8,091,000 with a corresponding entry to the cost of goodwill.

The adoption of HKFRS 3 has resulted in the changes in the Group's accounting policies for goodwill. In accordance with the transitional provisions of HKFRS 3, the new accounting policy has been applied prospectively from 1st April, 2004, the changes have had no impact on the results for prior accounting periods. Accordingly, no prior period adjustment was required.

The early adoption of HKFRS 3 has resulted in an increase in the net profit for the current year by HK$10,088,000.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (continued)

The application of HKAS 36 and HKAS 38 has had no material effect to the Group.

The Group has commenced considering the potential impact of other 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 are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Goodwill

For the business combinations with agreement date before 1st April, 2004, goodwill arising on business combinations which represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition, is capitalised and amortised on a straight line basis over its economic useful life. From 1st April, 2004 onwards, the Group has ceased annual amortisation of goodwill and to test for impairment at least annually.

For business combinations with agreement date on or after 1st April, 2004, goodwill arising on business combinations, which represents the excess of the cost of acquisition over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition, is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in income statement and is not subsequently reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

Investments in subsidiaries

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

Revenue recognition

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

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

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and any identified impairment loss at the balance sheet date.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

Furniture, fixtures and office equipment	20% – 25%
Leasehold improvements	20% – 50%
Motor vehicles	$12^1/_2$% – 30%
Plant and machinery	$6^2/_3$% – 30%

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

Medicine production license

Acquired medicine production license are stated at cost less amortisation and any identified impairment loss. Amortisation is calculated on a straight line basis over its estimated useful economic life.

Technical know-how

Technical know-how for the production of new products is stated at cost less accumulated amortisation and any identified impairment loss. Amortisation is calculated on a straight line basis over its estimated useful life.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets (excluding goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. For goodwill arising on business combinations, impairment reviews are performed annually, or more frequently when there is an indication that goodwill might be impaired. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. An impairment loss recognised for goodwill arising from business combinations is not reversed in a subsequent period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

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 to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

In current year, the Group's operation is regarded as a single segment, being an enterprise engaged in the manufacture and sales of pharmaceutical products.

In previous years, the Group was also involved in the provision of transportation related services. These operations were discontinued in March 2004 upon disposal of the relevant subsidiaries.

Business segments for the year are as follows:

	2005 HK$'000	2004 HK$'000
Turnover		
Continuing operations		
– manufacture and sales of pharmaceutical products	**124,191**	90,443
Discontinuing operations		
– transportation related services	**–**	903
	124,191	91,346
Results		
Continuing operations		
– manufacture and sales of pharmaceutical products	**33,444**	26,060
Discontinuing operations		
– transportation related services	**–**	(2,815)
	33,444	23,245
Central administrative expenses	**(5,075)**	(5,467)
Finance costs	**(4,699)**	(2,307)
Loss on disposal of subsidiaries	**–**	(227)
Profit before taxation	**23,670**	15,244
Taxation	**(3,683)**	830
Profit before minority interests	**19,987**	16,074
Minority interests	**402**	(3,641)
Net profit attributable to shareholders	**20,389**	12,433

No segmental analysis of geographical segments is presented for the year, as the Group's operations are substantially carried out in Mainland China (the "PRC").

5. PROFIT FROM OPERATIONS

	2005 HK$'000	2004 HK$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 6)	**2,284**	2,145
Other staff's retirement benefits scheme contributions	**1,070**	868
Other staff costs	**8,048**	5,240
	11,402	8,253
Allowance for bad and doubtful debts	**–**	3,980
Amortisation of goodwill included in administrative expenses	**–**	5,682
Amortisation of intangible assets included in administrative expenses	**350**	–
Auditors' remuneration	**520**	330
Depreciation and amortisation of property, plant and equipment	**9,823**	7,969
Operating lease rentals in respect of land and buildings	**413**	534
Research and development costs	**640**	223
and after crediting:		
Gain on disposal of property, plant and equipment	**61**	–
Interest income	**1,751**	239
Reversal of allowance for bad and doubtful debts	**631**	–

6. DIRECTORS' EMOLUMENTS

	2005 HK$'000	2004 HK$'000
Fees for		
– executive directors	–	–
– independent non-executive directors	350	400
	350	400
Other emoluments for independent non-executive directors	–	–
Other emoluments for executive directors		
– salaries and other benefits	1,910	1,720
– retirement benefits scheme contributions	24	25
	1,934	1,745
Total directors' remuneration	2,284	2,145

The emoluments of the directors were within the following bands:

	Number of directors 2005	2004
Up to HK$1,000,000	5	7
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$2,000,000	1	–

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors and employees, as an inducement to join or upon joining the Group or as compensation for loss of office.

7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals for the year included two executive directors of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining three highest paid individuals are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**768**	715
Retirement benefits scheme contributions	**26**	26
	794	741

8. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on		
– bank and other borrowings wholly repayable within five years	**(4,699)**	(2,187)
– bonds	**–**	(111)
– finance leases	**–**	(9)
	(4,699)	(2,307)

9. TAXATION

	2005	2004
	HK$'000	HK$'000
The (charge) credit comprises:		
PRC income tax	(3,784)	(1,268)
Deferred taxation	101	2,098
	(3,683)	830

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

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

The (charge) credit for the year is reconciled to the profit before taxation as follows:

	2005		2004	
	HK$'000	%	HK$'000	%
Profit before taxation	23,670		15,244	
Tax at the applicable income tax rate	(7,811)	(33.0)	(5,031)	(33.0)
Tax effect of expenses not deductible for tax purposes	(963)	(4.1)	(3,043)	(20.0)
Tax effect of income not taxable for tax purposes	290	1.2	618	4.1
Effect of different tax rates of group companies operating in Hong Kong	(786)	(3.3)	(2,508)	(16.5)
Effect of tax holiday of subsidiaries operating in PRC	5,893	24.9	10,131	66.5
Utilisation of tax losses previously not recognised	–	–	64	0.4
Others	(306)	(1.3)	599	3.9
Tax (charge) credit and effective tax rate for the year	(3,683)	(15.6)	830	5.4

10. EARNINGS PER SHARE

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

	2005 HK$'000	2004 HK$'000
Earnings:		
Net profit attributable to shareholders for the purposes of basic and diluted earnings per share	**20,389**	12,433

	2005	2004
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,264,796,754**	989,317,302
Effect of dilutive potential ordinary shares – option	**100,245,328**	146,392,624
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,365,042,082**	1,135,709,926

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and office equipment	Leasehold improve-ments	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP							
COST							
At 1st April, 2004	29,063	854	993	2,242	49,015	466	82,633
Acquired on acquisition of subsidiaries	23,532	477	–	482	28,708	–	53,199
Additions	387	323	–	547	713	2,175	4,145
Disposals	–	–	–	(340)	–	–	(340)
Transfers	513	–	–	–	–	(513)	–
At 31st March, 2005	**53,495**	**1,654**	**993**	**2,931**	**78,436**	**2,128**	**139,637**
DEPRECIATION AND AMORTISATION							
At 1st April, 2004	2,392	256	910	501	7,320	–	11,379
Provided for the year	2,179	267	83	458	6,836	–	9,823
Eliminated on disposals	–	–	–	(124)	–	–	(124)
At 31st March, 2005	**4,571**	**523**	**993**	**835**	**14,156**	**–**	**21,078**
NET BOOK VALUES							
At 31st March, 2005	**48,924**	**1,131**	**–**	**2,096**	**64,280**	**2,128**	**118,559**
At 31st March, 2004	26,671	598	83	1,741	41,695	466	71,254

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

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

At the balance sheet date, the Group has pledged certain of its property, plant and equipment with an aggregate net book value of HK$47,516,000 (2004: HK$16,125,000) to certain banks to secure the credit facilities granted to the Group.

12. INTANGIBLE ASSETS

	Medicine production license	Technical know-how	Total
	HK$'000	HK$'000	HK$'000
THE GROUP			
COST			
Acquired on acquisition of subsidiaries	649	–	649
Additions	–	660	660
At 31st March, 2005	649	660	1,309
AMORTISATION			
Amortised for the year and balance at 31st March, 2005	305	45	350
CARRYING VALUE			
At 31st March, 2005	344	615	959

Medicine production license is amortised on a straight line basis over its estimated remaining useful economic life of two years.

Technical know-how is also amortised on a straight line basis over its estimated useful economic life of five years.

13. GOODWILL

	HK$'000
THE GROUP	
COST	
At 1st April, 2003	72,265
Arising on acquisition of additional interest in a subsidiary	49,645
At 31st March, 2004	121,910
Elimination of accumulated amortisation prior to the adoption of HKFRS 3	(8,091)
Arising on acquisition of subsidiaries	102,980
Arising on acquisition of additional interests in subsidiaries	14,604
At 31st March, 2005	231,403
AMORTISATION	
At 1st April, 2003	2,409
Amortised for the year	5,682
At 31st March, 2004	8,091
Elimination of accumulated amortisation prior to the adoption of HKFRS 3	(8,091)
At 31st March, 2005	–
CARRYING VALUE	
At 31st March, 2005	231,403
At 31st March, 2004	113,819

At 31st March, 2005, the carrying amount of goodwill had been allocated to the cash generating units ("CGUs") for the manufacture and sales of pharmaceutical products.

13. GOODWILL (Continued)

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for goodwill based on cash flow forecasts derived from the most recent financial budgets approved by management for the next four years and extrapolated cash flows for the subsequent years based on estimated growth rates up to 6.5%, using discount rates of 6% and 17.2%. The growth rates used do not exceed the average long-term growth rate for the relevant markets. No impairment loss was considered necessary.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	180,230
Less: Impairment loss	**–**	(180,230)
	–	–
Amounts due from subsidiaries	**343,179**	191,300
	343,179	191,300

Details of the Company's subsidiaries at 31st March, 2005 are set out in note 29.

15. DEFERRED TAXATION

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

	Allowance for bad and doubtful debts	Accelerated accounting depreciation	Total
	HK$'000	HK$'000	HK$'000
THE GROUP			
Credit to income statement for the year and balance at 31st March, 2004	1,197	901	2,098
(Charge) credit to income statement for the year	(109)	210	101
At 31st March, 2005	1,088	1,111	2,199

At the balance sheet date, the Group and the Company has unutilised tax losses of HK$30,142,000 (2004: HK$28,398,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses will be carried forward indefinitely.

16. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Raw materials	**1,836**	1,756
Packaging materials and consumables	**4,652**	3,234
Finished goods	**7,905**	7,072
	14,393	12,062

17. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Trade receivables	**63,212**	44,828
Other receivables	**27,669**	19,913
	90,881	64,741

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

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Age		
0 to 90 days	**53,222**	40,640
91 to 180 days	**8,740**	9,212
181 to 365 days	**3,923**	1,182
Over 365 days	**3,174**	–
	69,059	51,034
Less: Allowance for bad and doubtful debts	**(5,847)**	(6,206)
	63,212	44,828

18. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Trade payables	**9,765**	7,558
Other payables	**14,905**	11,429
	24,670	18,987

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

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Age		
0 to 90 days	**6,520**	4,265
91 to 180 days	**573**	720
180 to 365 days	**215**	261
Over 365 days	**2,457**	2,312
	9,765	7,558

19. SHORT-TERM BANK LOANS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Bank loans		
– secured	**59,849**	9,425
– unsecured	**13,667**	28,275
	73,516	37,700

20. SHARE CAPITAL

	Number of ordinary shares	**Amount**
		HK$'000
Authorised:		
At 1st April, 2003, ordinary shares of HK$0.01 each	100,000,000,000	1,000,000
– reduction of share capital and consolidation of ordinary shares	(90,000,000,000)	(500,000)
At 31st March, 2004 and 31st March, 2005, ordinary shares of HK$0.05 each	10,000,000,000	500,000
Issued and fully paid:		
At 1st April, 2003, ordinary share of HK$0.01 each	4,093,217,701	40,932
– reduction of share capital and consolidation of ordinary shares	(3,956,777,111)	(34,110)
– issue of new shares on subscription	900,000,000	45,000
At 31st March, 2004, ordinary shares of HK$0.05 each	1,036,440,590	51,822
– issue of new shares by placement	175,000,000	8,750
– exercise of option	200,000,000	10,000
At 31st March, 2005, ordinary shares of HK$0.05 each	1,411,440,590	70,572

20. SHARE CAPITAL (continued)

(a) On 4th June, 2004, the Company entered into a placing agreement (the "Placing Agreement") with the ultimate holding company Guardwell and an independent placing agent (the "Placing Agent"). Pursuant to the Placing Agreement, Guardwell agreed to place through the Placing Agent 175,000,000 shares at HK$2.00 each to not less than six independent placees. On the same date, Guardwell and the Company entered into a conditional subscription agreement (the "Subscription Agreement"). Pursuant to the Subscription Agreement, Guardwell would, on the completion of the placing, subscribe for 175,000,000 new shares at the same price of HK$2.00 each. The placing and subscription price per share of HK$2.00 represents (i) a discount of approximately 19.19% to the closing price of HK$2.475 per share as quoted on the Stock Exchange on 4th June, 2004; (ii) a discount of approximately 18.37% to the average closing price of HK$2.45 per share as quoted on the Stock Exchange for the last 5 trading days up to 4th June, 2005; and (iii) discount of approximately 16.67% to the average closing prices of the Company's shares of HK$2.40 per shares as quoted on the Stock Exchange for the last ten trading days up to 4th June, 2005. The net proceeds of HK$342 million was used for the existing business operations of the Group and for the general working capital including any strategic development, acquisition or investments that the Company decided to pursue. The directors are authorised to issue these new shares under the general mandate pursuant to the annual general meeting held on 25th August, 2003. The placing and subscription were completed in mid-June 2004.

(b) On 12th October, 2004, pursuant to a subscription and option agreement dated 21st February, 2003, an option with the subscription right of HK$40,000,000 was exercised by Guardwell, resulting in the issue of 200,000,000 new shares of HK$0.05 each of the Company at a price of HK$0.20 per share.

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

21. SHARE OPTIONS

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

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme cannot exceed 10% (the "Limit") of the issued share capital of the Company at the date of adoption of the Scheme, excluding any options lapsed in accordance with the terms of the Scheme and any other share option schemes. The limit upon which the maximum number of shares may be granted under the Scheme cannot exceed 5,894,059 shares as at 31st March, 2005. However, the Company may seek approval by its shareholders in general meeting to renew the Limit from time to time.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of shares in issue from time to time. Option will not be granted to any Eligible Persons if the exercise in full of all options, including any unexercised options and shares already issued under all previous option granted, would in the 12-month period up to and including the date of such further grant enable that relevant Eligible Person to have shares exceeding 1% of the issued shares of the Company for the time being unless separate approval by the shareholders in general meeting is obtained.

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

21. SHARE OPTIONS (continued)

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

During the year, Guardwell has exercised its right, resulting in the issue of 200,000,000 shares of HK$0.05 each of the Company at HK$0.20 per share.

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

22. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Deficit HK$'000	Total HK$'000
THE COMPANY				
At 1st April, 2003	48,934	180,030	(245,917)	(16,953)
Effect of capital reduction	(48,934)	83,044	–	34,110
Transfers	–	(83,044)	83,044	–
Premium arising on issue of shares	135,000	–	–	135,000
Expenses incurred in connection with the issue of shares	(1,139)	–	–	(1,139)
Net loss attributable to shareholders	–	–	(13,692)	(13,692)
At 31st March, 2004	133,861	180,030	(176,565)	137,326
Premium arising on issue of shares	371,250	–	–	371,250
Expenses incurred in connection with the issue of shares	(7,280)	–	–	(7,280)
Net loss attributable to shareholders	–	–	(2,101)	(2,101)
At 31st March, 2005	497,831	180,030	(178,666)	499,195

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

22. RESERVES (continued)

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

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st March, 2005 was HK$1,364,000 (2004: HK$3,465,000), which comprises contributed surplus less deficit of the Company.

THE GROUP

Details of the movements of the Group's reserves are set out in the consolidated statement of changes in equity on page 24.

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

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

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

23. PURCHASE OF SUBSIDIARIES

On 27th July, 2004, the Group acquired the entire issued share capital of Bright Central Investments Limited ("Bright Central") for a total consideration of HK$120,000,000 which was financed by the net proceeds raised in the placing and subscription agreements detailed in note 20(a) above. Bright Central is an investment holding company and its principal assets is the entire equity interest in 浙江巨能樂斯藥業有限公司 (Zhejiang Juneng Rosi Pharmaceutical Co., Ltd.) ("Rosi"). Rosi is a wholly foreign investment enterprise established in the PRC and is principally engaged in the business of manufacture and sales of pharmaceutical products. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK$102,980,000.

	Carrying amounts and fair values
	HK$'000
Net assets acquired:	
Property, plant and equipment	53,199
Intangible assets	649
Deposits made on acquisition of property, plant and equipment	2,925
Inventories	7,621
Trade and other receivables	18,096
Bank balances and cash	5,574
Trade and other payables	(21,091)
Short-term bank loans	(31,103)
Long-term bank loans	(18,850)
Net assets	17,020
Goodwill arising on acquisition	102,980
	120,000
Satisfied by:	
Cash consideration paid	120,000
Net outflow of cash and cash equivalents in connection with the purchase of subsidiaries:	
Cash consideration paid	(120,000)
Bank balances and cash acquired	5,574
	(114,426)

23. PURCHASE OF SUBSIDIARIES (continued)

The goodwill arising on the acquisition of Bright Central is attributable to the anticipated profitability of the distribution of the Group's products in the enlarged markets and the anticipated future operating synergies from the combination.

The subsidiaries acquired during the year contributed HK$28,139,000 to the Group's turnover, and HK$3,302,000 to the Group's profit from operations.

If the acquisition had been completed on 1st April, 2004, unaudited group's revenue and group's profit attributable to the equity holders of the Company for the year ended 31st March, 2005 would have been HK$130,589,000 and HK$18,065,000 respectively. The pro forma information is presented for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st April, 2004, nor is it intended to be a projection of future results.

24. DISPOSAL OF SUBSIDIARIES

	2005 HK$'000	2004 HK$'000
Net assets disposed of:		
Investment properties	–	5,500
Property, plant and equipment	–	5,284
Trade and other receivables	–	1,941
Bank balances and cash	–	102
Trade and other payables	–	(803)
Taxation	–	(380)
Net assets	–	11,644
Loss on disposal of subsidiaries	–	(227)
Loss on disposal of discontinuing operations	–	(2,434)
	–	8,983
Satisfied by:		
Cash consideration received	–	8,983
Analysis of net inflow of cash and cash equivalents in connection with the disposal of subsidiaries		
Cash consideration received	–	8,983
Bank balances and cash disposed of	–	(102)
Net inflow of cash and cash equivalents in connection with the disposal of subsidiaries	–	8,881

The subsidiaries disposed of during the year did not have any significant impact on the Group's cash flows, turnover and operating results.

The subsidiaries disposed of in 2004 contributed HK$903,000 to the Group's turnover and HK$389,000 to the Group's profit from operations.

25. OPERATING LEASE COMMITMENTS

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

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year	**444**	466
In the second to fifth year inclusive	**–**	444
	444	910

26. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding capital commitments as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– acquisition of property, plant and equipment	**5,656**	–
– investment in the PRC	**27,600**	–
– technical know-how	**94**	–
	33,350	–

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

27. RETIREMENT BENEFITS SCHEME

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

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

28. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to 31st March, 2005:

On 21st March, 2005, the Group entered into an agreement (the "Acquisition Agreement") with an independent third party for the acquisition of the entire issued share capital of Silver Epoch Investments Limited ("Silver Epoch") for a consideration of HK$30,000,000 which was financed by the net proceeds raised in the placing and subscription agreements detailed in note 20(a) above. Silver Epoch is an investment holding company and its principal assets is the entire equity interest in 四平亞太藥業有限公司 (Siping Yatai Medicine Industry Co., Ltd.) ("Siping Yatai"). Siping Yatai Medicine Industry is a wholly foreign investment enterprise established in the PRC and is principally engaged in the business of manufacture and sales of pharmaceutical products. At the balance sheet date, pursuant to the Acquisition Agreement, the Group had paid HK$2,400,000 cash deposits and committed to invest the remaining balance of the investment of HK$27,600,000 for the acquisition of Silver Epoch. The acquisition was completed in mid-April 2005.

In the opinion of the directors, it is impracticable to disclose the carrying amounts and fair values of each class of Silver Epoch's assets, liabilities and contingent liabilities at the date of acquisition as the information with respect to the carrying amounts and fair values has not yet been finalised up to the date of issue of the financial statements.

29. SUBSIDIARIES

Details of the Company's subsidiaries, all of which are wholly-owned by the Company, at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation establishment/ operation	Nominal value of issued and fully paid share/ registered capital	Principal activity
China Value Assets Limited*	British Virgin Islands	US$1	Investment holding
Merit Development Limited*	British Virgin Islands	US$1	Investment holding
Billion Source Investments Limited	British Virgin Islands	US$2	Investment holding
Bright Central Investments Limited	British Virgin Islands	US$20,000	Investment holding
Man Lee Management Limited	Hong Kong	HK$2	Management services
Value Brilliant Investments Limited	British Virgin Islands	US$30,000	Investment holding
四平巨能藥業有限公司 (Siping Ju Neng Medicine Industry Co., Ltd.) (Note a)	PRC	RMB55,350,000	Manufacture and sales of pharmaceutical products
浙江巨能樂斯藥業有限公司 (Zhejiang Juneng Rosi Pharmaceutical Co., Ltd.) (Note b)	PRC	RMB33,333,300	Manufacture and sales of pharmaceutical products

* Directly held by the Company.

29. SUBSIDIARIES (Continued)

Notes:

(a) Siping Ju Neng Medicine Industry Co., Ltd. is a wholly foreign investment enterprise established in the PRC for a term of 25 years commencing 27th March, 2002.

(b) Zhejiang Juneng Rosi Pharmaceutical Co., Ltd. is a wholly foreign investment enterprise established in the PRC for a term of 20 years commencing 7th July, 2003.

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