NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Clarendon House, Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company is 29th Floor, Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The financial statements are prepared in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of the Group are property development and investment, manufacture and trading of medicine and health food, trading of motorcycles and securities investment. The activities of its principal subsidiaries are set out in note 44.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes of presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business combinations

The Group has applied HKFRS 3 "Business Combination" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group, on 1st April, 2005, eliminated the carrying amount of the related accumulated amortisation of HK$1,051,000, with a corresponding decrease in the cost of goodwill (see note 17). The Group has discontinued amortising such goodwill from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st April, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2005 have not been restated (see note 3 for the financial impact).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Share-based payments

HKFRS 2 "Share-based Payment" requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to share options granted before 1st April, 2005, the Group choose not to apply HKFRS 2 with respect to share options granted on or before 7th November, 2002 and vested before 1st April, 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st April, 2005. Because there were no unvested share options at 1st April, 2005 and no share options have been granted during the year, the adoption of HKFRS 2 has had no impact on the Group's results for the current or prior accounting periods.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The liability component is classified as a liability while the equity component is included in reserves. Because HKAS 32 requires retrospective application, comparative figures for 2005 have been restated. Liabilities at 31st March, 2005 have been decreased by HK$5,197,000 with a decrease in share premium of HK$247,000, an increase in accumulated profits of HK$2,324,000 and an increase in convertible loan notes equity reserve by HK$3,120,000. Interest payable of HK$180,000 included in creditors and accrued charges at 31st March, 2005 has been classified to convertible note payables (see note 3 for the financial impact).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st April, 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. Other investments classified as investments in securities under current assets with a carrying amount of HK$10,289,000 were classified to investments held-for-trading.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirement of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. During the year, the Group has acquired and designated all equity-linked notes as "financial assets at fair value through profit or loss". The adoption of HKAS 39 has had no material effect on the Group's accumulated profits at 1st April, 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior year are as follows:

	Effect of adopting	**2006** ***HK$'000***	2005 *HK$'000*
Increase in impairment loss recognised in respect of goodwill arising from acquisition of subsidiaries	HKFRS 3	**(1,146)**	–
Decrease in amortisation of goodwill	HKFRS 3	**1,146**	–
Increase in interest on the liability component of convertible notes	HKAS 32	**(19,839)**	(175)
Decrease in administrative expenses in respect of the capitalisation of transaction costs incurred for issue of convertible notes	HKAS 32	**–**	2,499
Increase in (loss) profit for the year		**(19,839)**	2,324

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March, 2005 (originally stated)	Effect of HKAS 17	Effect of HKAS 32	As at 31st March, 2005 (restated)	Effect of HKAS 39	As at 1st April, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items						
Property, plant and equipment	65,748	(1,395)	–	64,353	–	64,353
Prepaid lease payments	–	1,395	–	1,395	–	1,395
Investments in securities	10,289	–	–	10,289	(10,289)	–
Investments held-for-trading	–	–	–	–	10,289	10,289
Creditors and accrued charges	(62,952)	–	180	(62,772)	–	(62,772)
Convertible note payables						
– current portion	–	–	(180)	(180)	–	(180)
– non-current portion	(90,000)	–	5,197	(84,803)	–	(84,803)
Total effect on assets and liabilities	(76,915)	–	5,197	(71,718)	–	(71,718)
Share premium	102,604	–	(247)	102,357	–	102,357
Accumulated profits	112,720	–	2,324	115,044	–	115,044
Convertible loan notes equity reserve						
– equity component of convertible notes	–	–	3,120	3,120	–	3,120
Total effects on equity	215,324	–	5,197	220,521	–	220,521

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company have commenced considering the potential impact of these new standards, amendments and interpretations and anticipated that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[6]

[1] *Effective for annual periods beginning on or after 1st January, 2007.*
[2] *Effective for annual periods beginning on or after 1st January, 2006.*
[3] *Effective for annual periods beginning on or after 1st December, 2005.*
[4] *Effective for annual periods beginning on or after 1st March, 2006.*
[5] *Effective for annual periods beginning on or after 1st May, 2006.*
[6] *Effective for annual periods beginning on or after 1st June, 2006.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs, HKASs and INT issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Companies Ordinance.

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 intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or an associate at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st April, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on the acquisition of a subsidiary or associate for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interests in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill *(Cont'd)*

Goodwill arising on acquisitions on or after 1st January, 2005 (Cont'd)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interest in an associate

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

When the group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Sales of investments in securities is recognised when the related brought and sold notes are executed.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income, including rentals invoiced in advance, from properties under operating leases, is recognised on a straight-line basis over the terms of the relevant lease.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight-line basis.

Research and development expenditures

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Inventories

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to professional valuations or directors' estimates based on prevailing market conditions.

Borrowing costs

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

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transition costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are classified as investments held-for-trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial assets *(Cont'd)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, deposits, loan receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subjected to a restriction that the carrying amount of the asset at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including creditors and accrued charges, promissory notes payable and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan note into equity, is included in equity as an equity component of the convertible loan notes (convertible loan notes equity reserve).

In the subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial liabilities and equity *(Cont'd)*

Convertible loan notes (Cont'd)

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability components are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when, and only when, they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leasing *(Cont'd)*

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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 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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

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

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

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

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

Retirement benefit costs

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key sources of estimation uncertainty and the critical judgements that can significantly affect the amounts recognised in the financial statements are disclosed below.

Inventory valuation

Inventory is valued using the cost method, which values inventory at the lower of cost or net realisable value. Cost is determined using the weighted average method. The estimated realisable value is generally merchandise selling price less selling expenses. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow moving items. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving merchandise of HK$5,964,000 has been made in the consolidated financial statements.

Impairment of properties held for sale

Properties held for sale are valued using the cost method, which values the properties at the lower of cost or net realisable value. The net realisable value is determined by reference to professional valuations or directors' estimates based on prevailing market conditions. Calculation of net realisable value requires the use of judgement and estimates. Should the factors of estimates be changed, there would be material changes to the net realisable value.

Allowance on trade receivables and loan receivables

The Group performs ongoing credit evaluations of its customers and borrowers and adjust credit limits based on payment history and the customers' and borrowers' current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and borrowers and maintains an allowance for estimated credit losses based upon its historical experience and any specific customer and borrower collection issues that it has identified. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be reprised.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. As at 31st March, 2006, the goodwill arose from the acquisition of subsidiaries was fully impaired. Details of the recoverable amount calculation are disclosed in note 18. Should the assumptions underlying the value in use calculation be changed, there would be material changes to the reasonable amounts of the cash generating units.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank balances and cash, equity investments, debtors, loan receivables, creditors, bank borrowings and convertible notes payable. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are currency risk, credit risk, price risk, interest rate risk and liquidity risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

Currency risk

Certain trade receivables and trade payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors the related foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

Certain bank balances and cash are denominated in Renminbi which were subject to foreign exchange control.

Credit risk

The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimise credit risk, the management of the Group has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management of the Group reviews the recoverable amount of each individual trade debt and loans regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the management considers that the Group's credit risk is significantly reduced.

With respect to trade debts, the Group has no significant concentration of credit risk, with exposure spread over a number of customers.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short term bank deposits to interest rate risk is not significant as interest bearing bank balances are with short maturity periods.

In addition, the Group has exposure to fair value interest rate risk through the impact of the rate changes on the fixed rate loan receivable, convertible notes and other borrowings. Certain of the Group's bank and other borrowings has exposure to cash flow interest rate risk due to fluctuation of variable interest rate on bank and other borrowings. The Group does not have an interest rate hedging policy. However, the management monitors interest rate exposures and will consider hedging significant interest rate exposures should the need arises.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining flexibility in funding by arranging banking facilities and other external financing.

7. TURNOVER

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

	2006	2005
	HK$'000	*HK$'000*
Securities trading	**502,914**	–
Dividend income from investments held-for-trading	**588**	–
Trading of motorcycles	**11,756**	11,737
Medicine and health food	**324,800**	275,952
Rental income	**2,198**	98
Sale of properties	**–**	91,609
	842,256	379,396

The outgoings arising from rental income were negligible.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

8. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Interest income	**19,323**	595
Others	**2,464**	1,544
	21,787	2,139

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Interest on bank and other borrowings wholly repayable within five years	**3,428**	5,677
Interest on obligations under finance leases	**18**	14
Effective interest on convertible notes	**33,372**	543
Loan arrangement fees	**–**	1,320
	36,818	7,554

10. TAXATION

	2006	2005
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**33**	5
Taxation in other jurisdictions	**2,624**	1,818
	2,657	1,823

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

10. TAXATION *(Cont'd)*

Pursuant to the relevant law and regulations in The People's Republic of China (the "PRC"), 黑龍江金保華農業有限公司 is entitled to full exemption from PRC Enterprise Income Tax for two years commencing from its first profit-making year of operation and thereafter, which is entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The first profit-making period of 黑龍江金保華農業有限公司 commenced on 1st January, 2005.

Details of deferred taxation are set out in note 32.

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

	2006	2005
	HK$'000	*HK$'000*
		(restated)
(Loss) profit before taxation	**(70,435)**	14,085
Tax at the Hong Kong Profits Tax rate	**(12,326)**	2,465
Tax effect of expenses not deductible for tax purpose	**9,998**	3,246
Tax effect of income not taxable for tax purpose	**(1,674)**	(1,167)
Tax effect of deferred tax asset not recognised	**7,093**	4,805
Utilisation of tax losses previously not recognised	**(756)**	(7,020)
Effect of tax exemptions granted to subsidiaries in the PRC	**(511)**	(841)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**833**	335
Taxation for the year	**2,657**	1,823

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

11. (LOSS) PROFIT FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
		(restated)
(Loss) profit for the year has been arrived at after charging:		
Auditors' remuneration		
– current year	**2,659**	1,310
– underprovision in previous years	**379**	75
	3,038	1,385
Staff costs, including directors' emoluments	**54,455**	40,992
Retirement benefits scheme contributions, net of forfeited contributions of HK$288,000 (2005: HK$65,000)	**2,293**	1,768
Total staff costs	**56,748**	42,760
Less: Amount capitalised in intangible assets	**(96)**	(10)
	56,652	42,750
Cost of inventories recognised as an expense	**203,288**	241,700
Depreciation of property, plant and equipment:		
– assets owned by the Group	**10,209**	8,783
– assets held under finance leases	**37**	26
Amortisation of prepaid lease payments	**30**	27
Amortisation of intangible assets	**171**	71
Total depreciation and amortisation	**10,447**	8,907
Allowance for amount due from an associate	**–**	17
Allowance for inventories	**5,964**	7,272
Loss on disposal of property, plant and equipment	**544**	66
Write-off of intangible assets	**299**	645
Net exchange losses	**968**	14
and after crediting:		
Interest income	**(19,323)**	(595)
Release of negative goodwill (included in cost of sales)	**–**	(2,224)
Reversal of allowance for amount due from an associate	**(3)**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

12. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

A. Directors' emoluments

The emoluments paid or payable to each of the ten (2005: eight) directors were as follows:

		Other emoluments		
	Fees *HK$'000*	**Salaries and other benefits** *HK$'000*	**Contributions to retirement benefits schemes** *HK$'000*	**Total emoluments** *HK$'000*
2006				
Cheung Hon Kit	**9**	**2,200**	**10**	**2,219**
Chan Fut Yan	**9**	**1,000**	**100**	**1,109**
Tse Cho Tseung	**360**	**–**	**–**	**360**
Cheung Sze Man	**–**	**–**	**–**	**–**
Ho Hau Chong, Norman	**10**	**–**	**–**	**10**
Lo Lin Shing, Simon	**10**	**–**	**–**	**10**
Wong Chi Keung, Alvin	**94**	**–**	**–**	**94**
Kwok Ka Lap, Alva	**94**	**–**	**–**	**94**
Chui Sai Cheong	**67**	**–**	**–**	**67**
Zhang Shichen	**27**	**–**	**–**	**27**
	680	**3,200**	**110**	**3,990**

		Other emoluments		
	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Contributions to retirement benefits schemes *HK$'000*	Total emoluments *HK$'000*
2005				
Tse Cho Tseung	–	268	2	270
Cheung Sze Man	–	–	–	–
Keung Mei Wah, Jennifer	–	–	–	–
Ho Hau Chong, Norman	–	–	–	–
Lo Lin Shing, Simon	–	–	–	–
Wong Chi Keung, Alvin	34	–	–	34
Kwok Ka Lap, Alva	34	–	–	34
Zhang Shichen	28	–	–	28
	96	268	2	366

No directors waived any emoluments during the year ended 31st March, 2006. During the year ended 31st March, 2005, one director waived emoluments of HK$240,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

B. Highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2005: one) were directors of the Company whose emoluments are included in (A) above.

The emoluments of the remaining three (2005: four) individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**1,949**	1,535
Retirement benefits scheme contributions	**41**	57
	1,990	1,592

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

13. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Earnings:		
(Loss) profit for the year attributable to equity holders of the Company and (loss) earnings for the purpose of basic (loss) earnings per share	**(72,960)**	12,262
Effect of dilutive potential ordinary shares		
– Interest on convertible notes		543
Earnings for the purpose of diluted earnings per share		12,805
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**424,304,856**	160,809,612
Effect of dilutive potential ordinary shares		
– share options		26,804
– convertible notes		42,356,597
Weighted average number of ordinary shares for the purpose of diluted earnings per share		203,193,013

No diluted loss per share was presented for the year ended 31st March, 2006 because the exercise of the share options and the conversion of convertible notes would result in a decrease in the net loss per share.

The following table summarises the impact on both basic and diluted (loss) earnings per share as a result of:

	Impact on basic (loss) earnings per share		**Impact on diluted earnings per share**	
	2006	2005	**2006**	2005
	HK cents	*HK cents*	***HK cents***	*HK cents*
Reported figures before adjustments	**(12.5)**	6.2	**N/A**	5.2
Adjustments arising from changes in accounting policies *(see note 3)*	**(4.7)**	1.4	**N/A**	1.1
Restated	**(17.2)**	7.6	**N/A**	6.3

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machineries *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST						
At 1st April, 2004	–	–	–	717	238	955
Exchange adjustments	–	207	–	82	30	319
Arising on acquisition of subsidiaries	2,764	46,769	14,749	4,385	1,460	70,127
Additions	–	1,743	19	511	808	3,081
Disposals	–	(1,581)	(353)	(378)	(511)	(2,823)
At 31st March, 2005 and at 1st April, 2005	2,764	47,138	14,415	5,317	2,025	71,659
Exchange adjustments	84	469	–	101	59	713
Arising on acquisition of a subsidiary	–	–	–	–	1,264	1,264
Additions	2,978	3,876	331	1,095	2,001	10,281
Disposals	–	(1,440)	(379)	(1,641)	(1,053)	(4,513)
At 31st March, 2006	5,826	50,043	14,367	4,872	4,296	79,404
DEPRECIATION						
At 1st April, 2004	–	–	–	460	115	575
Exchange adjustments	–	124	–	64	15	203
Provided for the year	58	6,208	834	1,379	330	8,809
Eliminated on disposals	–	(1,509)	(70)	(371)	(331)	(2,281)
At 31st March, 2005 and at 1st April, 2005	58	4,823	764	1,532	129	7,306
Exchange adjustments	5	95	–	56	41	197
Provided for the year	124	7,257	964	1,317	584	10,246
Impairment loss recognised in the income statement	–	17,478	8,373	–	–	25,851
Eliminated on disposals	–	(1,001)	(26)	(1,524)	(272)	(2,823)
At 31st March, 2006	187	28,652	10,075	1,381	482	40,777
CARRYING VALUES						
At 31st March, 2006	**5,639**	**21,391**	**4,292**	**3,491**	**3,814**	**38,627**
At 31st March, 2005	2,706	42,315	13,651	3,785	1,896	64,353

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	4% or over the remaining terms of the relevant lease, if shorter
Leasehold improvements	Over the terms of the leases
Plant and machineries	5% – 15%
Furniture, fixtures and equipment	10% – 33 $^{1}/_{3}$%
Motor vehicles	10% – 20%

During the year, the directors conducted a review of the recoverable amount of the Group's manufacturing assets and determined that a number of those assets were impaired. Accordingly, impairment losses of HK$17,478,000 and HK$8,373,000 respectively have been recognised in respect of leasehold improvements and plant and machineries, which are used in the Group's medicine and health food segment. Details of impairment test in respect of this segment are set out in note 18.

The buildings of the Group were situated on land held under medium-term lease in the PRC.

At 31st March, 2006, the net book values of property, plant and equipment of the Group included an amount of HK$198,000 (2005: HK$127,000) in respect of assets held under finance leases.

At 31st March, 2006, the property, plant and equipment of the Group amounting to HK$2,902,000 (2005: HK$11,959,000) were pledged to a bank to secure general banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2006	2005
	HK$'000	*HK$'000*
Land use rights in the PRC on medium-term lease	**1,405**	1,395
Analysed for reporting purposes as:		
Current asset	**30**	30
Non-current asset	**1,375**	1,365
	1,405	1,395

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

16. INTANGIBLE ASSETS

	Development costs *HK$'000*
COST	
At 1st April, 2004	–
Arising on acquisition of subsidiaries	1,264
Additions	1,467
Written-off	(645)
At 31st March, 2005 and at 1st April, 2005	2,086
Additions	1,441
Written-off	(299)
At 31st March, 2006	3,228
AMORTISATION	
Provided for the year and balance at 31st March, 2005 and at 1st April, 2005	71
Provided for the year	171
At 31st March, 2006	242
CARRYING VALUES	
At 31st March, 2006	**2,986**
At 31st March, 2005	2,015

The development costs of HK$1,441,000 (2005: HK$1,467,000) incurred on Chinese medicines and pharmaceutical products are internally generated. They have definite useful lives and are deferred and amortised, using the straight-line method, over a period of five years from date of commencement of commercial operation.

At 31st March, 2006, other than the amount of HK$1,833,000 (2005: HK$439,000) which related to products in the stage of development, the remaining intangible assets had been put into commercial use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

17. GOODWILL

	HK$'000
COST	
Arising on acquisition of subsidiaries and at 31st March, 2005 and 1st April, 2005	22,936
Elimination of accumulated amortisation upon the application of HKFRS 3	(1,051)
At 31st March, 2006	21,885
AMORTISATION	
Charge for the year and balance at 31st March, 2005 and at 1st April, 2005	1,051
Elimination of accumulated amortisation upon the application of HKFRS 3	(1,051)
At 31st March, 2006	–
IMPAIRMENT	
Impairment loss recognised for the year and balance at 31st March, 2006	21,885
CARRYING VALUES	
At 31st March, 2006	**–**
At 31st March, 2005	21,885

Particulars regarding impairment testing on goodwill are disclosed in note 18.

Until 31st March, 2005, goodwill had been amortised over its estimated useful life of 20 years.

18. IMPAIRMENT TEST ON GOODWILL

As explained in note 45, the Group uses business segment as its primary segment for reporting segment information. For the purpose of impairment testing, goodwill set out in note 17, which arose from the acquisition of Tung Fong Hung Investment Limited, has been allocated to a cash generating unit (the "CGU"), the medicine and health food segment.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation used cash flow projections for a 5-year period based on financial budgets approved by management covering a 1-year period and discount rate of 8%. The CGU's cash flows beyond the 1-year period are extrapolated using a steady 4% growth rate. This growth rate is based on the relevant industry growth rate forecasts. Other key assumptions for the value in use calculations are the terminal value at the end of the fifth year, which is determined based on the price earnings ratio by reference to the market, and the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

Since the recoverable amount is lower than the carrying amount of the CGU, the Group recognised an impairment loss of HK$21,885,000 on goodwill and HK$25,851,000 on property, plant and equipment in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

19. INTEREST IN AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Cost of investment in an associate, unlisted	**5**	–
Share of post-acquisition losses	**(5)**	–
	–	–
Amount due from an associate	**14**	17
Less: Allowance	**(14)**	(17)
	–	–

The amount due from an associate was unsecured, interest free and had no fixed terms of repayment. At 31st March, 2005, in the opinion of the directors, the Group would not demand repayment within twelve months from the balance sheet date and the amount was therefore shown as non-current.

The fair value of the Group's amount due from an associate approximates its carrying amount.

At 31st March, 2006, the Group had interest in the following associate:

Name of associate	Form of business structure	Place of incorporation/ operation	Class of shares held	Nominal value of issued and fully paid share capital		Proportion of nominal value of issued share capital held by the Company		Principal activity
				2006	2005	Directly	Indirectly	
						%	%	
Jean-Bon Pharmaceutical Technology Company Limited ("Jean-Bon")	Incorporated	Hong Kong	Ordinary	**HK$10,000**	HK$2	–	50	Inactive

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

19. INTEREST IN AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE *(Cont'd)*

The summarised financial information in respect of the Group's associate is set out below:

	2006	2005
	HK$'000	*HK$'000*
Total assets	**–**	–
Total liabilities	**16**	17
Net liabilities	**(16)**	(17)
Group's share of net liabilities of an associate *(Note)*	**(8)**	(9)

	1.4.2005 to 31.3.2006	1.7.2004 to 31.3.2005
	HK$'000	*HK$'000*
Turnover	**–**	–
Loss for the year	**(9)**	(17)
Group's share of results of an associate for the year *(Note)*	**(5)**	(9)

Note: The Group's share of the post-acquisition losses of Jean-Bon in excess of the carrying amount of its equity investment in that associate, has been provided for to the extent of the obligations or payments made by the Group to satisfy the obligations of the associate that the Group has guaranteed.

20. DEPOSITS AND EXPENSES PAID FOR ACQUISITION OF SUBSIDIARIES AND ASSOCIATES

		2006	2005
	Notes	***HK$'000***	*HK$'000*
Deposits and expenses paid for acquisition of:			
Subsidiaries	*(i)*	**12,099**	–
Associates	*(ii)*	**241,865**	–
		253,964	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

20. DEPOSITS AND EXPENSES PAID FOR ACQUISITION OF SUBSIDIARIES AND ASSOCIATES *(Cont'd)*

Notes:

(i) As stated in the announcement on 7th February, 2006 and the circular dated 26th April, 2006, New Smarten Limited, an indirect wholly-owned subsidiary of the Company entered into an acquisition agreement dated 2nd February, 2006 with Green Label Investments Limited ("Green Label"), Concord Link Development Limited, Magnum Company Limited and Mr. Ku Yuet Kan, Tony (the "Vendors") and Mr. Chan Jink Chou, Eric and Mr. Lai Tsan Tung, David (the "Guarantors") in relation to the acquisition of the entire interest in Everight Investment Limited ("Everight"), a company incorporated in Hong Kong with limited liability, and the loan owed by Everight and its subsidiaries (the "Everight Group") to Green Label for an aggregate consideration of HK$140 million (the "Acquisition"), of which HK$80 million was satisfied by cash and HK$60 million by issue of zero coupon convertible notes due on 11th August, 2010.

On completion of the Acquisition, the Company, Everight, Braniff Developments Limited ("Braniff"), a company incorporated in the British Virgin Islands with limited liability which is beneficially owned by the Guarantors, Smart Sharp Investment Limited ("Smart Sharp"), a company incorporated in Hong Kong with limited liability which is owned as to approximately 63.03% by Everight and approximately 36.97% by (prior to the acquisition by Braniff) an independent third party, and the Guarantors should enter into a shareholders' agreement, pursuant to which Everight should be responsible for financing the working capital requirement of Smart Sharp and its subsidiaries for the first two years commencing from the date of the shareholders' agreement up to a maximum amount of HK$80 million.

The Everight Group was engaged in the development and operation of golf resort and hotel and property development. Upon completion of the Acquisition, Everight became an indirect wholly-owned subsidiary of the Company. The Acquisition was approved by shareholders in a special general meeting held on 23rd May, 2006 and was completed on 8th June, 2006.

As at 31st March, 2006, the Group paid a deposit of HK$5 million for the Acquisition and the remaining balance of HK$7 million was paid as expenses incurred for the Acquisition.

The information for the amounts recognised at the acquisition date for each class of Everight's assets, liabilities and contingent liabilities and the carrying amounts of each of those assets, determined in accordance with HKFRS 3, immediately before the combination has not been presented as the information is not available to the Group.

(ii) As stated in the announcement on 3rd April, 2006 and the circular dated 29th May, 2006 (the "Circular"), Million Orient Limited ("Million Orient"), an indirect wholly-owned subsidiary of the Company entered into an acquisition agreement dated 29th March, 2006 (the "Acquisition Agreement") with Pacific Wish Limited ("Pacific Wish"), a company incorporated in the British Virgin Islands in relation to the acquisition of 40% of the issued share capital of Orient Town Limited ("Orient Town"), a company incorporated in Hong Kong with limited liability, for a cash consideration of HK$280, being the nominal value of the 280 shares of Orient Town to be acquired (the "Orient Town Acquisition"). The principal asset of Orient Town is its indirect shareholding interest in 聯生發展股份有限公司 (Empresa De Fomento Industrial E Comercial Concórdia, S.A.) ("Concordia"), a company incorporated in Macau, which is the owner of the 14 parcels of leased land situated in Estrada de Seac Pai Van, Macau (澳門路環聯生填海區).

As further consideration for Million Orient agreeing to enter into the Acquisition Agreement, Pacific Wish had granted Million Orient an option to purchase all or any of the 70 shares of Orient Town (the "Option Shares"), representing 10% of its issued share capital as at 24th May, 2006 (the "Latest Practicable Date of the Circular"), held by Pacific Wish as at the date of the Acquisition Agreement (the "Call Option"). Pursuant to the Call Option, Million Orient had the right to require Pacific Wish, from time to time within the period commencing from the day following the completion date of the Orient Town Acquisition (the "Completion Date") and ending on the first anniversary of the Completion Date, to sell all or any part of the Option Shares to Million Orient or its nominee(s) at the aggregate nominal value of the Option Shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

20. DEPOSITS AND EXPENSES PAID FOR ACQUISITION OF SUBSIDIARIES AND ASSOCIATES *(Cont'd)*

Notes: (Cont'd)

Pursuant to the Acquisition Agreement, Million Orient undertook to advance to Orient Town, subject to the completion of the Orient Town Acquisition, a loan in the amount of HK$885 million (the "Shareholder's Loan") on 12th May, 2006 or the Completion Date, whichever is later (or such other date as may be agreed between Million Orient and Orient Town), which would principally be used for (i) completion of the acquisition of the 77.1% of the registered share capital of Concordia and the aggregate amount of loan and interest of approximately MOP1,713 million accrued and due by Concordia to the shareholders of Concordia holding in aggregate 77.1% of the registered share capital of Concordia by 新聯盟投資有限公司 (San Lun Mang Investimentos, Limitada) ("XLM"), a company incorporated in Macau with limited liability which is interested in 5.9% of the registered share capital of Concordia pursuant to the acquisition agreement dated 25th October, 2005 (the "Concordia Acquisition"); or (ii) if the Concordia Acquisition had been completed, for repayment of the shareholder's loan due from Orient Town to Pacific Wish.

As at the Latest Practicable Date of the Circular, Orient Town was effectively interested in 70% of the issued share capital of XLM, which in turn was the owner of (i) 5.9% of the registered share capital of Concordia; and (ii) shareholder's loan of approximately MOP84.5 million advanced to Concordia. Upon completion of the Concordia Acquisition, XLM would be interested in 83% of the registered share capital of Concordia. Upon completion of the Orient Town Acquisition and the Concordia Acquisition, the Company would have an indirect effective interest in approximately 23.2% of the registered share capital of Concordia and Concordia would become an associate of the Group. The Acquisition was approved by shareholders in a special general meeting held on 15th June, 2006. The Concordia Acquisition was completed on 26th May, 2006 and the Orient Town Acquisition was completed on 15th June, 2006.

As at 31st March, 2006, the Group paid approximately HK$241.9 million for the Orient Town Acquisition. Such amount to the extent of HK$240 million was used to satisfy the Shareholders' Loan and the remaining balance of HK$1.9 million was used as expenses incurred for the Orient Town Acquisition. The remaining sum of HK$645 million of the advance committed would be satisfied by internal resource of the Group.

21. LOAN RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Fixed-rate loan receivable	**4,635**	–
Variable-rate loan receivables	**59,314**	31,500
	63,949	31,500
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	**59,314**	31,500
Non-current assets (receivable after 12 months from the balance sheet date)	**4,635**	–
	63,949	31,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

21. LOAN RECEIVABLES *(Cont'd)*

The fixed rate loan is unsecured, carries interest at 3% per annum and is repayable on 6th October, 2008.

At 31st March, 2006, the Group's loan receivables of HK$59,314,000 and HK$4,635,000 are denominated in Hong Kong dollars and US dollars, respectively. The variable-rate loans are unsecured, carry interest at Hong Kong prime rate plus 2% per annum (2005: Hong Kong prime rate plus 2% per annum) and are repayable on demand.

The fair values of the Group's loan receivables approximate their carrying amounts.

22. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**20,423**	16,792
Work in progress	**1,018**	1,588
Finished goods	**49,418**	40,900
	70,859	59,280

23. DEBTORS, DEPOSITS AND PREPAYMENTS

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

The following is an analysis of debtors, deposits and prepayments at the balance sheet date:

	2006 HK$'000	2005 HK$'000
Trade debtors aged:		
0 – 60 days	**19,309**	16,336
61 – 90 days	**528**	11,336
Over 90 days	**1,537**	–
	21,374	27,672
Refundable earnest money *(Note)*	**150,136**	–
Other debtors, deposits and prepayments	**21,855**	10,608
	193,365	38,280

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

23. DEBTORS, DEPOSITS AND PREPAYMENTS *(Cont'd)*

Note:

In June 2005, a wholly-owned subsidiary of the Company and an independent third party (the "Vendor") signed a non-binding letter of intent with a view of negotiating a possible acquisition from the Vendor of 50% of its ownership and interest in certain land located in Macau which is initially intended for redevelopment purposes, at an initial consideration of HK$495 million. Upon signing of the letter of intent, an amount of HK$10 million was paid by the Group as refundable earnest money.

In addition, a further amount of refundable earnest money of HK$140 million was paid by the Group with a view of negotiating possible acquisition of ownership and interest in properties located in the PRC. The amount was fully refunded to the Group subsequent to 31st March, 2006.

No formal agreement in respect of the possible acquisition has been entered into up to the date of the financial statements. In the opinion of the directors of the Company, the possible acquisition may or may not materialise or fully refunded subsequent to 31st March, 2006, therefore, the refundable earnest money is classified as current assets accordingly.

The fair values of the Group's trade and other receivables approximate their corresponding carrying amounts.

24. INVESTMENTS HELD-FOR-TRADING

Investments held-for-trading represent equity securities listed in Hong Kong. The fair values of these securities are determined based on the quoted market bid prices available on the Stock Exchange.

25. INVESTMENTS IN SECURITIES

Investments in securities at 31st March, 2005 are set out below. Upon the application of HKAS 39, the investments in securities were reclassified on 1st April, 2005 to appropriate categories under HKAS 39 (see note 3 for details).

	Other investments
	HK$'000
Equity securities:	
Listed in Hong Kong, at market value	10,289

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits

The amount represents deposits pledged to banks to secure general banking facilities granted to the Group.

The deposits carry interest rate of 3.15% (2005: 1.30%) per annum. The fair values of bank deposits approximate their corresponding carrying amounts.

Bank balances and cash

The bank balances carried interest at rate, ranging from 1.30% to 4.00% (2005: ranging from 0.25% to 1.30%) per annum. The fair values of the Group's bank balances and cash approximate their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

27. CREDITORS AND ACCRUED CHARGES

The following is an analysis of creditors and accrued charges at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Trade creditors aged:		
0 – 60 days	**22,496**	20,206
61 – 90 days	**21,329**	20,037
Over 90 days	**8,138**	4,470
	51,963	44,713
Other creditors and accrued expenses	**18,274**	18,059
	70,237	62,772

The fair values of the Group's creditors and accrued charges approximate their corresponding carrying amounts.

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amount payable under finance leases:				
Within one year	**162**	36	**143**	23
In the second to fifth year inclusive	**127**	122	**96**	119
	289	158	**239**	142
Less: Future finance charges	**(50)**	(16)	**–**	–
Present value of lease obligations	**239**	142	**239**	142
Less: Amount due within one year shown under current liabilities			**(143)**	(23)
Amount due after one year			**96**	119

It is the Group's policy to lease certain motor vehicles and fixtures and equipment under finance leases. The average lease term is approximately four years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 7.5% to 9.2%.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The directors consider that the carrying amounts of the obligations under finance leases approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

29. PROMISSORY NOTE PAYABLES

The promissory note payables of the Group were unsecured, bore interest at 5.5% per annum and were fully repaid on 6th May, 2005.

30. CONVERTIBLE NOTE PAYABLES

On 23rd February, 2005, the Company issued HK$100 million 2% unsecured convertible notes due 2008 at conversion price of HK$0.42 (subject to adjustment). The convertible notes carry interest at 2% per annum, will mature on 23rd February, 2008 (or the next following business day if it is not a business day) and are transferable but may not be transferred to a connected person of the Company without prior written consent of the Company. The holders of the convertible notes have the rights to convert the convertible notes into shares of HK$0.01 each of the Company at any time during the period from 23rd February, 2005 to 23rd February, 2008. During the year, HK$43.3 million (2005: HK$10 million) and HK$46.7 million (2005: Nil) 2% unsecured convertible notes due 2008 were converted into 103,197,616 (2005: 23,809,520) and 112,698,063 (2005: Nil) ordinary shares of HK$0.01 each in the capital of the Company at conversion prices of HK$0.42 and HK$0.414, respectively, as set out in note 33(4). As at 31st March, 2006, all the HK$100 million 2% unsecured convertible notes due 2008 were fully converted (2005: HK$90 million 2% unsecured convertible notes due 2008 were outstanding).

On 8th April, 2005, the Company entered into seven subscription agreements with seven subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with two subscribers and a placing agent, respectively. Each of the subscription agreements and the placing agreement were not inter-conditional on each other.

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

Pursuant to the placing agreement, the placing agent would procure, on a best effort basis, no less than six placees to subscribe by cash for HK$44 million unsecured zero coupon convertible notes due 2010 proposed to be issued by the Company (the "Placing Convertible Notes") pursuant to the placing agreement with a principal amount of HK$44 million (the "Placing"). The terms of the 2010 Subscription Convertible Notes and Placing Convertible Notes were identical. None of the placees would be the subscribers.

Upon full conversion of the 2010 Subscription Convertible Notes at the initial conversion price of HK$0.44 per ordinary share of HK$0.01 each in the share capital of the Company (subject to adjustment), a total of 2,172,727,272 new ordinary shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the 2010 Subscription Convertible Notes, would be issued.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

30. CONVERTIBLE NOTE PAYABLES *(Cont'd)*

Upon full conversion of the Placing Convertible Notes at the initial conversion price of HK$0.44 per share (subject to adjustment), a total of 100,000,000 new ordinary shares, which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Placing Convertible Notes, would be issued.

The 2010 Subscription Convertible Notes and the Placing Convertible Notes, unless converted prior to their maturity under the conditions specified in the relevant notes documents, will be redeemed at 110% of their principal amounts.

The Subscription and the Placing were completed on 11th August, 2005. The total gross proceeds from the Subscription and the Placing amounted to HK$956 million and HK$44 million, respectively. Therefore, the total gross proceeds from the Subscription and the Placing amounted to HK$1,000 million. After deducting related expenses of approximately HK$11 million, approximately HK$989 million would be used to finance the expansion of the investment property portfolio of the Company.

During the year, HK$21.5 million and HK$2.5 million of the Subscription Convertible Notes and the Placing Convertible Notes were converted respectively into 48,863,636 and 5,681,817 ordinary shares of HK$0.01 each in the capital of the Company at the conversion price of HK$0.44 as set out in note 33(4). The remaining HK$976 million unsecured zero coupon convertible notes due 2010 were outstanding at 31st March, 2006.

The convertible note payables contain two components, liability and equity elements. Upon the application of HKAS 32 "Financial Instruments: Disclosure and Presentation" (see note 3 for details), the convertible note payables were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity under the heading of "convertible loan notes equity reserve". The effective interest rates of the liability component range from 4.18% to 5.85% (2005: 4.18%).

The movement of the liability component of the convertible note payables for the year is set out below:

	2006	2005
	HK$'000	*HK$'000*
Liability component at the beginning of the year	**84,983**	–
Issue of convertible notes	**827,953**	109,035
Conversion during the year	**(106,590)**	(24,407)
Interest charge *(note 9)*	**33,372**	543
Interest paid	**(1,256)**	(188)
Liability component at the end of the year	**838,462**	84,983
Analysed for reporting purposes as:		
Current liability	**221**	180
Non-current liability	**838,241**	84,803
	838,462	84,983

The fair value of the liability component of the convertible note payables, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible note at the balance sheet date, approximate their corresponding carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

31. BANK AND OTHER BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Bank loans, secured	**30,125**	37,625
Trust receipt and import loans, secured	**15,045**	16,582
Other borrowings, unsecured	**–**	13,564
	45,170	67,771
The maturity profile of the above loans and borrowings is as follows:		
Within one year or on demand	**45,170**	62,146
More than one year, but not exceeding two years	**–**	5,625
	45,170	67,771
Less: Amount due within one year shown under current liabilities	**(45,170)**	(62,146)
Amount due after one year	**–**	5,625

Bank borrowings comprise	**Maturity date**	**Effective interest rate**	**Carrying amount 2006**	**2005**
			HK$'000	*HK$'000*
Variable-rate borrowings:				
HIBOR plus 2% secured HK$ bank loan *(notes i and ii)*	10th December, 2006	HIBOR + 2%	**5,625**	13,125
HIBOR plus 1.75% secured HK$ bank loan *(note ii)*	31st July, 2006	HIBOR + 1.75%	**24,500**	24,500
			30,125	37,625

Notes:

(i) Repayable in three equal quarterly instalments of HK$1,875,000 each commencing on 10th June, 2006 through 10th December, 2006.

(ii) Interest will be repriced when HIBOR is changed.

Secured trust receipts and import loans are repayable within one year from the balance sheet date and carry interest ranging from HIBOR plus 1% per annum to HIBOR plus 1.75% per annum (2005: from HIBOR plus 1% per annum to HIBOR plus 1.75% per annum). The Group's borrowings are denominated in Hong Kong dollars. Interest is repricing monthly or quarterly.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

31. BANK AND OTHER BORROWINGS *(Cont'd)*

At 31st March, 2005, the Group's unsecured other borrowings included fixed-rate borrowings of HK$7,940,000 which carried interest at 12% per annum and repaid on 30th May, 2005 and variable-rate borrowings of HK$5,624,000 which were unsecured and carried interest at HIBOR plus 2%. Variable-rate interest was repriced when HIBOR is changed. These borrowings were denominated in Hong Kong dollars.

The directors consider that the carrying amounts of bank and other borrowings approximate their fair values.

32. DEFERRED TAXATION

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

	Accelerated tax depreciation	Deferred development costs	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April, 2004	–	–	–	–
Arising on acquisition of subsidiaries	3,263	–	(3,263)	–
(Credit) charge to income for the year	(730)	353	377	–
At 31st March, 2005 and 1st April, 2005	2,533	353	(2,886)	–
(Credit) charge to income for the year	(2,533)	187	2,346	–
At 31st March, 2006	**–**	**540**	**(540)**	**–**

At 31st March, 2006, the Group has estimated unused tax losses of HK$682,993,000 (2005: HK$679,816,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$3,086,000 (2005: HK$16,492,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK$679,907,000 (2005: HK$663,324,000). Tax losses may be carried forward indefinitely.

At 31st March, 2006, the Group had deductible temporary differences associated with property, plant and equipment of HK$19,402,000 (2005: HK$216,000). No deferred tax asset had been recognised in respect of such deductible temporary differences due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

33. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
At 1st April, 2004, 31st March, 2005 and 31st March, 2006, at HK$0.01 each	40,000,000,000	400,000
Issued and fully paid:		
At 1st April, 2004, at HK$0.01 each	127,697,656	1,277
Exercise of share options *(note 1)*	1,155,000	12
Issue of shares *(note 2)*	175,000,000	1,750
Conversion of convertible notes *(note 3)*	57,142,851	571
At 31st March, 2005, at HK$0.01 each	360,995,507	3,610
Conversion of convertible notes *(note 4)*	270,441,132	2,704
At 31st March, 2006, at HK$0.01 each	631,436,639	6,314

Notes:

(1) On 19th April, 2004, the Company issued 1,155,000 ordinary shares of HK$0.01 each for consideration of HK$0.207 per share upon exercise of share options granted to an employee. The shares issued rank pari passu with other shares in all respects.

(2) On 15th December, 2004, the Company entered into a share placing agreement with a placing agent for the placing of 150,000,000 new ordinary shares of HK$0.01 each in the capital of the Company at an issue price of HK$0.40 per share, on a best effort basis to not less than six placing share subscribers. On the same date, the Company also entered into a convertible note placing agreement with the placing agent for a placing of HK$100 million 2% convertible notes due 2008 at an initial conversion price of HK$0.42 per share, representing a discount of approximately 8.7% to the closing price of HK$0.46 per share as quoted on the Stock Exchange on 10th December, 2004, on a best effort basis to not less than six convertible note subscribers. The net proceeds of approximately HK$35 million and HK$90 million would be used to finance the repayment of certain short-term borrowings and the expansion of the Group's investment properties portfolio, respectively. The balance of HK$30 million would be used as general working capital. The new shares rank pari passu with other shares in issue in all respects.

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

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

(4) In April 2005, November 2005, February 2006 and March 2006, the HK$20,000,000, HK$6,623,000, HK$16,720,000 and HK$46,657,000 2% convertible notes due 2008 were converted into 47,619,046, 15,769,047, 39,809,523 and 112,698,063 ordinary shares of HK$0.01 each in the capital of the Company at conversion prices of HK$0.42, HK$0.42, HK$0.42 and HK$0.414 per share, respectively. In February 2006 and March 2006, the HK$2,500,000 and HK$21,500,000 unsecured zero coupon convertible notes due 2010 were converted into 5,681,817 and 48,863,636 ordinary shares of HK$0.01 each in the capital of the Company at the conversion price of HK$0.44 per share. The new shares rank pari passu with all other shares in issue in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

34. SHARE OPTIONS

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

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

At 31st March, 2006, no option under the 1994 Scheme was outstanding.

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

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

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

(i) employees including executive directors of the Company, its subsidiaries and any companies in which the Company holds any equity interest; or

(ii) non-executive directors of the Company, its subsidiaries and any companies in which the Company holds any equity interest; or

(iii) suppliers or customers; or

(iv) consultants, advisers or agents.

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

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

At 31st March, 2006, no option under the 2002 Scheme was outstanding. The maximum number of shares in respect of which share options under the 2002 Scheme may be granted when aggregated with the maximum number of shares in respect of which options may be granted under all the other schemes (the "Scheme Limit") is 10% of shares in issue on the adoption date of the 2002 Scheme. The Scheme Limit may be refreshed by a resolution in shareholders' meeting such that the total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other schemes shall not exceed 10% of the shares in issue as at the date of such shareholders' approval. However, the Scheme Limit and any increase in the Scheme Limit shall not result in the number of shares which may be issued upon exercise of all outstanding share options granted under the 2002 Scheme and other schemes exceed 30% of the shares in issue from time to time. No person shall be granted a share option, within 12-month period of the date of grant, exceeds 1% of the shares in issue as at the date of grant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

34. SHARE OPTIONS *(Cont'd)*

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

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

Option type	Outstanding at 1.4.2005	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 31.3.2006
1994 Scheme	27,300	–	(27,300)	–

Option type	Outstanding at 1.4.2004	Exercised during the year	Cancelled/ Lapsed during the year	Outstanding at 31.3.2005
1994 Scheme	27,300	–	–	27,300
2002 Scheme	1,155,000	(1,155,000)	–	–
	1,182,300	(1,155,000)	–	27,300

There were no share options held by directors during the years ended 31st March, 2006 and 2005 and at 31st March, 2006 and 2005.

For the year ended 31st March, 2005, the market price of the shares was HK$0.33 on the exercise date of the options.

Details of the share options outstanding at 31st March, 2006 and 2005 are as follows:

Date of grant	Exercisable period	Exercise price	Number of shares to be issued upon exercise of the share options	
		HK$	**2006**	2005
1994 Scheme				
19.6.1997	19th June, 1997 to 18th June, 2007	21.84	–	4,800
2.2.1998	2nd February, 1998 to 1st February, 2008	2.00	–	2,000
17.11.1999	17th November, 1999 to 16th November, 2009	2.34	–	10,500
14.3.2000	14th March, 2000 to 13th March, 2010	6.60	–	10,000
			–	27,300

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

35. ACQUISITION OF SUBSIDIARIES

In September 2005 and October 2005, the Group acquired 100% of the issued share capital of China-HK International Finance Limited and 100% of the issued share capital of Well Cycle Limited for cash considerations of HK$35,000 and HK$1,266,000, respectively. The transactions have been accounted for using the purchase method of accounting.

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

The effect of the acquisition is summarised as follows:

	Acquiree's carrying amount and fair value	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
NET ASSETS ACQUIRED		
Property, plant and equipment	**1,264**	70,127
Prepaid lease payments	**–**	1,422
Intangible assets	**–**	1,264
Inventories	**–**	60,353
Debtors, deposits and prepayments	**33**	26,205
Tax recoverable	**–**	14
Bank balances and cash	**4**	23,274
Creditors and accrued charges	**–**	(48,613)
Obligations under a finance lease	**–**	(149)
Bank and other borrowings	**–**	(82,698)
	1,301	51,199
Goodwill	**–**	22,936
Total consideration	**1,301**	74,135
SATISFIED BY		
Cash	**1,301**	42,000
Promissory notes	**–**	13,000
Convertible notes	**–**	15,000
Legal and professional fees	**–**	4,135
	1,301	74,135
Net cash outflow arising on acquisition		
Cash consideration	**(1,301)**	(42,000)
Legal and professional fees	**–**	(4,135)
Bank balances and cash acquired	**4**	23,274
	(1,297)	(22,861)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

35. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

The subsidiaries acquired during the year ended 31st March, 2006 did not make any significant contribution to the turnover or the results of the Group. Had the acquisitions been completed on 1st April, 2005, the contribution to the turnover and the results of the Group from these subsidiaries would be insignificant. The proforma information is for illustrative purposes only and was not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1st April, 2005, nor it is intended to be a projection of future results.

The subsidiaries acquired during the year ended 31st March, 2005 contributed HK$275,952,000 to the Group's turnover and a profit of HK$2,888,000 to the Group's results for the period between the date of acquisitions and the balance sheet date.

36. CONTINGENT LIABILITIES

At 31st March, 2006 and 2005, the Group had given an indemnity to the purchaser relating to unrecorded taxation liabilities, if any, and warranties relating to the affairs and businesses of a subsidiary disposed of in the previous year. The maximum aggregate liability of the Group in respect of all claims for breach of the warranties shall, when taken together with the aggregate liability of the Group in respect of all claims under the indemnity, not exceed the sum of HK$60,000,000. All related claims may be brought against the Group up to the expiry of 10 years from 31st March, 1998.

37. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment	**612**	2,550
– acquisition of subsidiaries *(Note)*	**135,000**	–
– loan to a subsidiary to be acquired *(Note)*	**80,000**	–
– loan to an associate to be acquired *(Note)*	**645,000**	–
	860,612	2,550
Capital expenditure authorised but not contracted for in respect of:		
– acquisition of property, plant and equipment	**194**	–
	860,806	2,550

Note: Details of the acquisitions of subsidiaries and associates are set out in notes 20 and 42(a) and (b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

38. OPERATING LEASE COMMITMENTS

The Group as lessee

	2006	2005
	HK$'000	*HK$'000*
Property rentals paid by the Group during the year in respect of:		
Minimum lease payments	**23,799**	19,162
Contingent rents	**8,011**	3,811
	31,810	22,973

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**29,697**	19,280
In the second to fifth year inclusive	**21,401**	18,710
Over five years	**16**	–
	51,114	37,990

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

The Group as lessor

The property rental income earned during the year was HK$2,198,000 (2005: HK$98,000).

At 31st March, 2005 and 2006, the Group had no operating lease commitment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

39. PLEDGE OF ASSETS

At 31st March, 2006, the Group's bank and other borrowings were secured by the following:

(a) legal charges over the property, plant and equipment of Jean-Marie Pharmacal Company Limited, a subsidiary of the Company with a carrying value of HK$2,902,000 (2005: HK$11,959,000);

(b) bank deposits of HK$3,000,000 (2005: HK$3,000,000); and

(c) legal charges over the Group's properties held for sale with a carrying value of HK$58,536,000 (2005: HK$58,536,000).

40. RETIREMENT BENEFITS SCHEMES

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

41. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

Pursuant to the announcement on 20th April, 2005 and the circular dated 23rd May, 2005, on 8th April, 2005, the Company entered into seven subscription agreements with seven subscribers. On 20th April, 2005, the Company entered into another two subscription agreements and a placing agreement with two subscribers and a placing agent, respectively. The nine subscribers and the placing agent agreed to subscribe or place the HK$956 million and HK$44 million unsecured zero coupon convertible notes due 2010, respectively. Each of the subscription agreements and the placing agreement were not inter-conditional on each other. Kopola, one of the subscribers, was a connected person of the Company had subscribed HK$150 million of the notes. Details are set out in note 30.

Kopola had not converted any of its Subscription Convertible Notes during the year ended 31st March, 2006.

Compensation of key management personnel

The remuneration of directors during the year was as follows:

	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**3,990**	366

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

42. POST BALANCE SHEET EVENTS

Subsequent to 31st March, 2006, the Group has the following significant post balance sheet events:

(a) As stated in the announcement on 7th February, 2006 and the circular dated 26th April, 2006, the Group entered into an acquisition agreement dated 2nd February, 2006 to acquire the entire interest in Everight and loan owed by the Everight Group to Green Label for an aggregate consideration of HK$140 million as set out in note 20(i), of which HK$80 million was satisfied by cash and HK$60 million by the issue of zero coupon convertible notes due on 11th August, 2010. Upon full conversion of the 2010 convertible notes at an initial conversion price of HK$0.44 per share (subject to adjustment), a total of 136,363,636 new ordinary shares would be issued. The acquisition was approved by shareholders in a special general meeting held on 23rd May, 2006 and was completed on 8th June, 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

42. POST BALANCE SHEET EVENTS *(Cont'd)*

(b) As stated in the announcement dated 3rd April, 2006 and the circular dated 29th May, 2006, the Group entered into an acquisition agreement to acquire 40% of the issued share capital of Orient Town for a cash consideration of HK$280. Pursuant to the acquisition agreement, the Group undertook to advance to Orient Town a loan in the amount of HK$885 million. As further consideration for the Group agreeing to enter into the said acquisition agreement, the vendor of Orient Town had granted the Group an option to purchase all or any of 70 shares of Orient Town (the "Option Shares"), representing 10% of its issued share capital as at 24th May, 2006 as set out in note 20(ii). The acquisition was approved by shareholders in a special general meeting held on 15th June, 2006 and was completed on 15th June, 2006.

Further to the above-mentioned and the announcement dated 26th June, 2006, the Group has given a consent on 19th June, 2006 to Pacific Wish, which holds 60% of the issued share capital of Orient Town (the "Orient Town Shares"), to dispose of 15% of the Orient Town Shares, with an option to acquire a further 10% of the Orient Town Shares (the "Purchaser Option"), to an independent third party and to cancel half of the Option Shares, representing 35 Shares of Orient Town or 5% of its issued share capital. By consenting to the said disposal and cancellation, the Group will be compensated for approximately HK$32.3 million upon exercise of the Purchaser Option.

(c) As stated in the announcement on 28th April, 2006 and the circular dated 22nd May, 2006 (the "Circular"), on 27th April, 2006, the Company entered into seventeen conditional subscription agreements with different subscribers. On the same date, the Company entered into a placing agreement with a placing agent. Each of the subscription agreements and the placing agreement are not inter-conditional on each other.

Of the seventeen subscribers, four of them were fund subscribers who were funds managed by Stark Investments (Hong Kong) Limited ("Stark Investments"), a manager of the fund subscribers (the "Stark Funds"), with the remaining thirteen subscribers being Hanny, ITC Corporation Limited ("ITC") and eleven other note subscribers. Pursuant to the subscription agreements, the Stark Funds, Hanny, ITC and eleven other note subscribers had in aggregate conditionally agreed to subscribe by cash for HK$1,000 million 1% convertible notes due 2011 proposed to be issued by the Company pursuant to the subscription agreements (the "2011 Subscription Convertible Notes") with principal amount of HK$123 million, HK$270 million, HK$30 million and HK$577 million, respectively (the "2011 Subscription"). ITC is a company incorporated in Bermuda with limited liability and its shares are listed on the Stock Exchange. ITC, through its subsidiary, held approximately 24.28% of the issued share capital of Hanny as at 18th May, 2006, the latest practicable date of the Circular. Hanny and the Stark Funds are connected persons of the Company pursuant to the Listing Rules by virtue of its approximately 20.71% and 17.26% interest in the total issued ordinary shares of HK$0.01 each in the share capital of the Company, respectively, as at the date of the subscription agreements entered. Therefore, the subscription of the 2011 Subscription Convertible Notes by Hanny and Stark Funds constituted connected transactions of the Company under the Listing Rules.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

42. POST BALANCE SHEET EVENTS *(Cont'd)*

Pursuant to the placing agreement, the placing agent would procure, on a best effort basis, no less than six placees to subscribe by cash for up to 833,332,000 new ordinary shares of HK$0.01 each in the share capital of the Company at HK$0.60 per share. The aggregate amount of the placing would be approximately HK$500 million before expenses.

Upon full conversion of the 2011 Subscription Convertible Notes at initial conversion price of HK$0.70 per share (subject to adjustment), a total of 1,428,571,428 new ordinary shares will be issued.

The total gross proceeds from the 2011 Subscription Convertible Notes and the placing mentioned above would be HK$1,000 million and HK$500 million, respectively. Net proceeds of approximately HK$1,468 million will be used to finance the expansion of the investment property portfolio and the existing property development projects of the Company.

The placing and the 2011 Subscription were approved by shareholders in a special general meeting held on 8th June, 2006 and were completed on 14th June, 2006 and 15th June, 2006, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

43. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company at 31st March, 2006 is as follows:

	Note	**2006**	2005
		HK$'000	*HK$'000*
			(restated)
Non-current assets			
Property, plant and equipment		**–**	3
Investment in subsidiaries		**–**	–
		–	3
Current assets			
Debtors and prepayments		**1,139**	221
Loan receivable		**10,500**	10,500
Amounts due from subsidiaries		**1,228,937**	104,428
Bank balances and cash		**1,018**	153,190
		1,241,594	268,339
Current liabilities			
Creditors and accrued charges		**1,382**	1,421
Promissory note payables		**–**	6,500
Convertible note payables		**221**	180
Other borrowings – due within one year		**–**	7,940
		1,603	16,041
Net current assets		**1,239,991**	252,298
Total assets less current liabilities		**1,239,991**	252,301
Non-current liability			
Convertible note payables		**838,241**	84,803
		401,750	167,498
Capital and reserves			
Share capital		**6,314**	3,610
Reserves	*(a)*	**395,436**	163,888
		401,750	167,498

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

43. BALANCE SHEET OF THE COMPANY *(Cont'd)*

Note:

(a) Reserves

	Share premium HK$'000	Capital redemption reserve HK$'000	Convertible loan notes equity reserve HK$'000	Contribution surplus HK$'000 (Note)	Deficit HK$'000	Total HK$'000
THE COMPANY						
At 31st March, 2004	2,071	646	–	206,177	(144,173)	64,721
Exercise of share options	227	–	–	–	–	227
Recognition of equity component of convertible notes	–	–	3,466	–	–	3,466
Issue of shares	78,500	–	–	–	–	78,500
Conversion of convertible notes	24,182	–	(346)	–	–	23,836
Expenses incurred in connection with issue of shares	(2,623)	–	–	–	–	(2,623)
Loss for the year	–	–	–	–	(4,239)	(4,239)
At 31st March, 2005	102,357	646	3,120	206,177	(148,412)	163,888
Recognition of equity component of convertible notes	–	–	160,914	–	–	160,914
Conversion of convertible notes	110,867	–	(6,981)	–	–	103,886
Loss for the year	–	–	–	–	(33,252)	(33,252)
At 31st March, 2006	**213,224**	**646**	**157,053**	**206,177**	**(181,664)**	**395,436**

Note: The contribution surplus of the Company represents:

(i) the difference between the underlying net assets of the subsidiaries acquired by the Company at the date of the group reorganisation in 1994 less any dividends distributed from the pre-reorganisation reserves and the nominal amount of the Company's share capital issued as consideration for the acquisition; and

(ii) net balance from capital reduction, cancellation of share premium and set-off against the deficit pursuant to the capital reorganisation on 15th April, 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

44. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st March, 2006 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Advance Tech Limited	Hong Kong	HK$1 ordinary share	–	100	Securities investment
Asia Progress Investments Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Cheung Tai Hong (B.V.I.) Limited	British Virgin Islands	US$50,000 ordinary shares	100	–	Investment holding
Cheung Tai Hong, Limited	Hong Kong	HK$2,000 ordinary shares	–	100	Securities investment and investment holding
		HK$500,000 non-voting deferred shares *(note 1)*	–	–	
Cheung Tai Hong Management Group Limited	British Virgin Islands	US$1 ordinary share	100	–	Investment holding
Cheung Tai Hong Property Group Limited	British Virgin Islands	US$1 ordinary share	100	–	Investment holding
Cheung Tai Hong Holdings (Motor Vehicle) Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Trading of motorcycles and spare parts
Champion Palace Development Limited	Hong Kong	HK$2 ordinary shares	–	100	Properties holding in the PRC
China-HK International Finance Limited	Hong Kong	HK$2 ordinary shares	–	100	Money lending

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

44. SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Exalt Investment Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Investment holding
Handsworth Investments Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Jean-Marie Pharmacal Company Limited	Hong Kong	HK$812,600 ordinary shares	–	100	Manufacture and sales of pharmaceutical products
Jean-Marie Pharmacal Management Limited	Hong Kong	HK$2 ordinary shares	–	100	Investment holding
Jumbo Ever Limited	Hong Kong	HK$2 ordinary shares	–	100	Investment holding
Master Super Development Limited	Hong Kong	HK$100 ordinary shares	–	100	Property holding and sale
Million Orient Limited	Hong Kong	HK$1 ordinary share	–	100	Investment holding
New Smarten Limited	Hong Kong	HK$1 ordinary share	–	100	Investment holding
Pacific Essence Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Pacific Wins Development Ltd.	British Virgin Islands	US$1,000 ordinary shares	–	100	Investment holding
Sound Advice Investments Limited	British Virgin Islands	US$100 ordinary shares	–	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

44. SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company Directly %	Indirectly %	Principal activities
South Step Limited	Hong Kong	HK$1 ordinary share	–	100	Property investment and development
Teamate Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Tung Fong Hung Investment Limited	British Virgin Islands	US$10,000 ordinary shares	–	100	Investment holding
Tung Fong Hung Nominees Limited	British Virgin Islands	US$2 ordinary shares	–	100	Provision of nominee services
Tung Fong Hung (China) Limited	Hong Kong	HK$2 ordinary shares	–	100	Distribution of Chinese medicine and health food
Tung Fong Hung Foods Limited	Hong Kong	HK$2 ordinary shares	–	100	Distribution of health food
Tung Fong Hung Foods Company, B.C. Limited	Canada	CAD360 common	–	100	Distribution of health food
Tung Fong Hung Medicine (BVI) Limited	British Virgin Islands	HK$0.2 ordinary share	–	100	Investment holding
Tung Fong Hung Medicine Company, Limited	Hong Kong	HK$1,001 ordinary shares	–	100	Retailing of Chinese medicine and foodstuffs
Tung Fong Hung Medicine Company (Macau) Limited	Macau	MOP100,000 quota capital	–	100	Retailing of Chinese medicine and foodstuffs
TFH Management Limited	Hong Kong	HK$2 ordinary shares	–	100	Provision of management services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

44. SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company Directly %	Indirectly %	Principal activities
TFH Manufacturing Company Limited	Hong Kong	HK$2 ordinary shares	–	100	Processing, packaging and distribution of Chinese medicine and foodstuffs
TFH (China) Holdings Limited	Hong Kong	HK$2 ordinary shares	–	100	Investment holding
Top Century International Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Total Pacific Limited	Hong Kong	HK$2 ordinary shares	–	100	Investment holding
Universal Focus Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Well Cycle Limited	Hong Kong	HK$2 ordinary shares	–	100	Letting of motor vehicles
廣州市東方紅保健品有限公司	PRC *(note 2)*	HK$2,500,000	–	100	Distribution of Chinese medicine and health food
深圳市東方紅保健品有限公司	PRC *(note 3)*	RMB1,000,000	–	100	Distribution of Chinese medicine and health food
深圳市東方聖恒貿易有限公司	PRC *(note 2)*	RMB2,000,000	–	51	Distribution of Chinese medicine and health food

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

44. SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation or registration/ operations	Issued and fully paid share/ registered capital	Percentage of issued share/ registered capital held by the Company Directly %	Indirectly %	Principal activities
東方紅(中山)保健食品廠有限公司	PRC *(note 2)*	US$1,000,000	–	100	Processing and wholesaling of health food
黑龍江金保華農業有限公司	PRC *(note 2)*	HK$14,000,000	–	100	Cultivation and sales of potatoes
哈爾濱東方綠種業有限公司	PRC *(note 3)*	RMB1,100,000	–	100	Sales of potatoes seeds

Notes:

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

(2) The subsidiaries are wholly-owned foreign enterprises.

(3) The subsidiaries are wholly-owned domestic enterprises.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

45. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into four (2005: three) operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Medicine and health food	–	manufacture and trading of medicine and health food
Motorcycles	–	trading of motorcycles and spare parts
Property	–	property development and investment
Securities investment	–	trading of securities

During the year, the Group has classified securities investment as its operating division.

Segment information about these businesses is presented below:

	Medicine and health food *HK$'000*	**Motorcycles** *HK$'000*	**Property** *HK$'000*	**Securities investment** *HK$'000*	**Consolidated** *HK$'000*
INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2006					
Turnover	**324,800**	**11,756**	**2,198**	**503,502**	**842,256**
SEGMENT RESULTS	**(30,527)**	**471**	**1,545**	**(3,440)**	**(31,951)**
Unallocated corporate income					**19,323**
Unallocated corporate expenses					**(20,984)**
Share of results of an associate	**(5)**	**–**	**–**	**–**	**(5)**
Finance costs					**(36,818)**
Loss before taxation					**(70,435)**
Taxation					**(2,657)**
Loss for the year					**(73,092)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

45. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Medicine and health food *HK$'000*	Motorcycles *HK$'000*	Property *HK$'000*	Securities investment *HK$'000*	Consolidated *HK$'000*
BALANCE SHEET AT 31ST MARCH, 2006					
ASSETS					
Segment assets	**144,202**	**1,750**	**210,264**	**9,043**	**365,259**
Unallocated corporate assets					**1,035,955**
Consolidated total assets					**1,401,214**
LIABILITIES					
Segment liabilities	**61,789**	**312**	**3,109**	**–**	**65,210**
Unallocated corporate liabilities					**890,171**
Consolidated total liabilities					**955,381**

	Medicine and health food *HK$'000*	Motorcycles *HK$'000*	Property *HK$'000*	Securities investment *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
OTHER INFORMATION						
Depreciation of property, plant and equipment	10,017	–	–	–	229	10,246
Amortisation of intangible assets	171	–	–	–	–	171
Amortisation of prepaid lease payments	30	–	–	–	–	30
Loss arising from change in fair value of financial assets through profit or loss	–	–	–	1,645	–	1,645
Impairment recognised in respect of goodwill arising from acquisition of subsidiaries	21,885	–	–	–	–	21,885
Impairment loss of property, plant and equipment	25,851	–	–	–	–	25,851
Loss on disposal of property, plant and equipment	544	–	–	–	–	544
Decrease in fair value of investments held-for-trading	–	–	–	4,401	–	4,401
Written-off of intangible assets	299	–	–	–	–	299
Capital additions	9,165	–	–	–	1,116	10,281
Development cost incurred	1,441	–	–	–	–	1,441
Reversal of amount due from an associate	–	–	–	–	(3)	(3)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

45. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Medicine and health food *HK$'000*	Motorcycles *HK$'000*	Property *HK$'000*	Consolidated *HK$'000* (restated)
INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2005				
Turnover	275,952	11,737	91,707	379,396
SEGMENT RESULTS	2,888	542	27,160	30,590
Unallocated corporate income				2,139
Unallocated corporate expenses				(11,090)
Finance costs				(7,554)
Profit before taxation				14,085
Taxation				(1,823)
Profit for the year				12,262
BALANCE SHEET AT 31ST MARCH, 2005				
ASSETS				
Segment assets	218,491	2,019	62,156	282,666
Unallocated corporate assets				195,847
Consolidated total assets				478,513
LIABILITIES				
Segment liabilities	57,986	753	1,636	60,375
Unallocated corporate liabilities				169,334
Consolidated total liabilities				229,709

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

45. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

	Medicine and health food HK$'000 (restated)	Motorcycles HK$'000	Property HK$'000	Unallocated HK$'000	Consolidated HK$'000 (restated)
OTHER INFORMATION					
Depreciation of property, plant and equipment	8,625	–	–	184	8,809
Amortisation of prepaid lease payments	27	–	–	–	27
Amortisation of intangible assets	71	–	–	–	71
Amortisation of goodwill	1,051	–	–	–	1,051
Write-off of intangible assets	645	–	–	–	645
Capital additions	73,205	–	–	3	73,208
Development cost incurred	2,731	–	–	–	2,731
Goodwill	22,936	–	–	–	22,936
Doubtful debt provided (recovered)	1,741	–	–	(12)	1,729
Loss on disposal of investment properties	–	–	3,217	–	3,217
Unrealised holding loss of other investments	–	–	–	4,226	4,226
Release of negative goodwill	–	–	(2,224)	–	(2,224)

Geographical segments

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

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

	Sales revenue by geographical market	
	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**754,026**	288,326
PRC	**59,818**	60,687
Other countries	**28,412**	30,383
	842,256	379,396

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

45. SEGMENT INFORMATION *(Cont'd)*

Geographical segments *(Cont'd)*

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

	Carrying amount of segment assets		Additions to property, plant and equipment, intangible assets and goodwill	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
				(restated)
Segment assets				
Hong Kong	**890,371**	387,351	**4,634**	97,926
PRC	**225,079**	78,351	**6,091**	857
Macau	**18,923**	–	**–**	–
Other countries	**12,877**	12,811	**997**	92
	1,147,250	478,513	**11,722**	98,875
Other assets	**253,964**	–	**–**	–
	1,401,214	478,513	**11,722**	98,875