Hong Kong Pharmaceutical Holdings Limited
香港藥業集團有限公司

Stock Code : 182

Annual Report
2007

Contents

Corporate Information

BOARD OF DIRECTORS

Chairman
Mr. Ko Chun Shun, Johnson

Executive Directors
Mr. Chan Kam Kwan, Jason
Mr. Tsoi Tong Hoo, Tony
Mr. Wong Fan, Frank
Mr. Yeung Heung Yeung

Non-executive Director
Mr. Kelvin Edward Flynn

Independent non-executive Directors
Mr. Ho Tak Man, Billy
Mr. Yap Fat Suan
Dr. Wong Yau Kar, David

COMPANY SECRETARY

Mr. Chan Kam Kwan, Jason

QUALIFIED ACCOUNTANT

Mr. Jim Pak Keung, Patrick

INDEPENDENT AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

PRINCIPAL BANKER

Bank of China (Hong Kong)

SOLICITORS

Baker & McKenzie

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Units 4306-07,
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE

www.irasia.com/listco/hk/hkpharma

Chairman's Statement

2006 was a year of reform for the Group. Thanks to the constructive efforts it had paid for the past two years to restore its financial viability, the Group successfully turned over a new leaf. A series of debt and capital restructuring ("Restructuring") acted as the right dose of medicine needed to end the prolonged uncertainty caused by a winding-up petition and then, the appointment of the provisional liquidators. I was appointed as the Chairman of the Board with effect from 6 December 2006, and was pleased to see trading in shares of the Group resumed on the following day. Now, what more encouraging is that the Group has, since the Restructuring, made significant progress in both securing the viability of existing business and starting a new business — wind power in China. The recent acquisition of a wind power business has established the foundation for the Group's rapid growth in the future.

After a thorough assessment of the existing traditional "Sum Yung" business under the long-standing and well-known brand of "Nam Pei Hong", the Group has not only decided to carry the business but also become determined to expand it. A total of four new retail outlets have commenced operation since the Restructuring. The number of outlets in Hong Kong will increase to 17 by August 2007.

As part of our long-term strategy to diversify business risks including those associated with the volatility of rental expenses facing the Hong Kong retail sector, the Group has decided to expand into Mainland China. Our products will be sold through a selection of reputable supermarkets or stores in Guangdong Province. Aiming to capture the huge market potentials in China, we will take a strategic approach to develop our distribution network.

Meanwhile, the wind power industry in China presents unprecedented growth prospects, thanks to robust demand for power from the country's rapidly growing economy as well as the government policy in favor of renewable power generation. Global warming caused by the burning of fossil fuels to generate electricity power has raised concerns of political leaders worldwide, who, in response, urge leading industrial countries to drastically reduce the consumption of fossil fuels in the coming decade. The Chinese Government has been introducing new laws and regulations in support of renewable energies.

Clean, fuel-free, a clear victor among renewable energy sources, wind power will play an important role in the power industry.

In April 2007, the Group signed an agreement to acquire a wind power group in China, which is engaged in the manufacture of wind power equipment, the engineering of wind power technology, the procurement and construction of wind farms as well as the maintenance of and the investment in wind farms in China. The Group aims to become the largest non-state owned and non-state affiliated wind power company in China, and, with this new focus, deliver to shareholders promising returns in the future.

I wish to thank to each member of our staff for his/her efforts and patience in the past two years full of challenges. I also wish to thank our suppliers and customers for their support, which has helped the Group survive and come along even more strongly than before. I believe that given the prospects for wind power in China, we can look forward to an optimistic future of sustainable growth.

Ko Chun Shun, Johnson
Chairman

Hong Kong, 27 June 2007

Management Discussion And Analysis

BUSINESS AND FINANCIAL REVIEW

The trading performance for the year ended 31 March 2007 recorded a consolidated revenue of approximately HK$58.4 million, representing approximately 18% increase from that of HK$49.3 million recorded last year. The increase was mainly due to the general economic conditions and the increased price of the products.

The level of gross profit margin attained this year, though dropped by approximately 3% due to price competition and escalating product costs, remains stable at 36% during the year compared to 39% last year.

Selling and distribution costs increased by approximately 23% compared to that of last year. This increase was primarily attributable to the increasing effort in deployment of operational resources and the increase in the number of staffs in light of opening of new retail outlets and to cope with our anticipated expansion.

Administrative expenses increased by two folds compared to that of last year. The increase seemingly substantial when compared to last year as the Company has now resumed its normal course of operation both on corporate and operating levels after the Restructuring. Other factors for the increase were the inclusion of liquidation expenses and a provision for settlement of a rental dispute with a previous landlord amounting to approximately HK$5 million.

As a result of the Restructuring, the overall profit from operating activities reported for the year has significantly increased, which was mainly attributable to the gains arising from the waived and discharged liabilities under the schemes of arrangements dated 7 September 2005 (as part of the debt restructuring), of approximately HK$44.5 million, and also from the disposal of subsidiaries that are non-strategic and non-integral to the Group's current and future corporate structure and requirements, of approximately HK$35.5 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its short term funding requirements with cash generated from operation and credit facilities from suppliers.

The Group had no bank and other borrowing as at the balance sheet date. During the year, the Group did not engage in the use of any other financial instruments for hedging purposes, and there was no hedging instrument outstanding as at 31 March 2007.

As part of the Restructuring, all claims by the pre-existing creditors against the Company were discharged and waived by way of schemes of arrangements, sanctioned by the courts under section 166 of the Hong Kong Companies Ordinance and section 99 of the Bermuda Companies Act ("Schemes").

As at the balance sheet date, current ratio measured at 2.98 times for the year compared to 0.28 time of last year. Similarly, the gearing ratio (Total liabilities over total assets) for the year measured at 0.59 time compared to 3.49 times recorded last year. Also the consolidated net asset value stood at approximately HK$17.5 million as at the year end date compared to the consolidated net deficit of approximately HK$77.8 million as of last year.

CAPITAL STRUCTURE

During the year, the Company has following movements in the share capital:

(a) The previous authorised share capital of the Company before the Restructuring was HK$300,000,000 divided into 3,000,000,000 shares, of which 1,403,796,698 shares were in issue. Pursuant to the Restructuring, the share capital of the Company had been restructured in the following manner:

1. **Capital Reduction**

   The par value of every issued share had been reduced from HK$0.10 to HK$0.001 and the credit of approximately HK$139.0 million arising from such reduction had been applied to eliminate the accumulated losses of the Company.

2. **Share Consolidation**

   Every 10 issued shares of HK$0.001 each had been consolidated into one new share of HK$0.01 each.

3. **Capital Cancellation**

   The unissued share capital in the previous authorised share capital of HK$300,000,000 had after the Capital Reduction and the Share Consolidation, been cancelled and diminished resulting in an authorised and issued share capital of the Company becoming HK$1,403,796.69.

4. **Authorised Share Capital Increase**

   Immediately upon the Capital Cancellation becoming effective, the Company's authorised share capital had been increased from HK$1,403,796.69 to HK$60,000,000 divided into 3,500,000,000 new shares of HK$0.01 each and 2,500,000,000 Preference Shares of HK$0.01 each.

(b) Upon the Completion of the Restructuring, 810 million new shares of HK$0.01 each and 2,160 million preference shares of HK$0.01 each were issued to Gain Alpha Finance Limited, for a cash subscription price of HK$0.027 each.

CHARGE OF ASSETS

At the balance sheet date, the Group did not have any charges of assets.

CONTINGENT LIABILITIES

At the balance sheet date, the Group did not have any significant contingent liabilities.

STAFF AND REMUNERATION

As at 31 March 2007, the Group employed approximately 102 full time employees, of which approximately 5 were in the Mainland China. The remuneration of employees includes salary and discretionary bonus. The Group also adopted a share option scheme to provide an incentive to the employees.

The remuneration policy and package, include the share options, of the Group's employees are maintained at market level and reviewed annually by the management.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Ko Chun Shun, Johnson, aged 55, is the Chairman and controlling shareholder of the Company. He is also the executive director of Asian Union New Media (Group) Limited, the chairman of DVN (Holdings) Limited and the co-chairman of Varitronix International Limited, the securities of these companies are listed on the Main Board of the Stock Exchange. Mr. Ko has more than 30 years of experience in international trade and investment, in particular, in manufacturing and distribution of electronic products and in the media and technology industries.

Mr. Chan Kam Kwan, Jason, aged 33, is the company secretary of the Company. He graduated from the University of British Columbia with a Bachelor of Commerce degree. Mr. Chan is a member of the American Institute of Certified Public Accountant and has more than 10 years of experience in accounting and corporate finance. Mr. Chan is currently the company secretary of Asian Union New Media (Group) Limited and DVN (Holdings) Limited, and is also an independent non-executive director of Jackin International Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange.

Mr. Tsoi Tong Hoo, Tony, aged 42, graduated from the Ivey Business School of the University of Western Ontario, Canada with an Honours degree in Business Administration. He is a member of the Listing Committees of the Growth Enterprise Market and Main Board of the Stock Exchange. Since March 2005, Mr. Tsoi has been appointed as an executive director and chief executive officer of Varitronix International Limited, and also is a non-executive director of Asian Union New Media (Group) Limited, the securities of both companies being listed on the Main Board of the Stock Exchange.

Mr. Wong Fan, Frank, aged 42, has over 13 years of experience in the retail operations in both Hong Kong and the PRC, especially in the food and beverage market. Mr. Wong graduated from The Chinese University of Hong Kong, with a major in Mathematics, and worked for numerous well-known regional companies and was responsible for retail, wholesale and market promotion of products in the PRC from 1993 to 1996. Mr. Wong was also responsible for setting up representative offices of these companies in Dalian, Wuhan and Chengdu to handle sales and marketing activities. From 1996 to 1998, Mr. Wong helped set up Southsea Oils and Fats Industrial (Chiwan) Ltd. ("**SOFIL**"), a subsidiary of Kuok Oils and Grains Pte. Ltd. in the PRC. SOFIL's main business operation is in cooking oil refinery with production and wholesale of its products in the PRC market. SOFIL is the PRC's largest company in the production of cooking oil. With vast experience gained in the expansion and setting up of different ventures in the food and beverage industries, Mr. Wong joined Nam Pei Hong Sum Yung Drugs Company Limited ("Nam Pei Hong"), a wholly-owned subsidiary of the Company, in 1998. Mr. Wong has been working as the general manager of Nam Pei Hong for 7 years, and during his tenure of service, Nam Pei Hong has opened more than 12 new shops. Mr. Wong is also responsible for the expansion and development of Nam Pei Hong's products in Mainland China including the promotion of the "Double Swallow" range of products, a popular range of ready-to-consume health food.

Mr. Yeung Heung Yeung, aged 44, graduated from the Tsinghua University in the PRC with a Master's degree in Applied Mathematics in 1987. Mr. Yeung has over 6 years of experience in the management of pharmaceutical and biotechnology companies in the PRC. He has been the chief executive officer of Tsinghua Yuanxing Bio-Pharm Co. Ltd. ("THYX") since 2000. THYX is engaged in the investment, research and development, manufacture and commercialisation of biological therapeutics chemical therapeutics, natural product-based therapeutics as well as nanotechnology-based materials and medical products.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Kelvin Edward Flynn, aged 37, is an executive director in the Asian Special Situations Group in Hong Kong of Goldman Sachs (Asia) L.L.C and was a managing director of Alvarez & Marsal Asia Limited. He has over 15 years of corporate recovery experience, including appointments as adviser to troubled companies in workout situations and to major groups of syndicated lenders and bondholders in complex debt restructuring assignments. Mr. Flynn has handled various appointments as liquidator, receiver and administrator and complex workouts in Hong Kong, Malaysia and Australia. He has also undertaken turnaround, workout, restructuring and due diligence assignments in Hong Kong, Japan, Korea, the PRC, Taiwan, Singapore and the Philippines.

Mr. Flynn's primary industry experience includes telecommunications, retail and manufacturing. He also has experience in power generation and distribution, infrastructure, shipbuilding, hospitality, property, construction, mining, timber, plantations and commercial vehicle distribution.

Mr. Flynn has been involved in the restructuring of a number of listed companies in Hong Kong, Malaysia, the Philippines and Australia and was one of the provisional liquidators of the Company before 6 December 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Tak Man, Billy, aged 59, holds a Bachelor of Medicine and Bachelor of Surgery degree from the University of Hong Kong and is a general practitioner in Hong Kong.

Dr. Wong Yau Kar, David, aged 49, holds a doctor's degree in economics from University of Chicago. Dr. Wong has extensive experience in direct investments and corporate finance. Currently, Dr. Wong is the managing director of United Overseas Investments Limited and an independent non-executive director of Asian Union New Media (Group) Limited, a company listed on the Stock Exchange. Dr. Wong has also been actively participated in public services and to name a few, he has been a council member of the Hong Kong Institute of Directors since 1999 and a vice-president of the Chinese Manufacturers' Association of Hong Kong.

Mr. Yap Fat Suan, aged 61, holds a Master of Business Administration degree from the University of Strathclyde, Glasgow. Mr. Yap is a Chartered Accountant in England and Wales and is a Fellow Member of the Institute of Chartered Accountants in England and Wales and an Associate Member of Hong Kong Institute of Certified Public Accountants. Mr. Yap has over 16 years of experience in finance and accounting. Mr. Yap is currently the managing director of Johnson Matthey Hong Kong Limited and prior to that appointment he was the general manager of Sun Hung Kai China Development Limited. Since September 2004, Mr. Yap is an independent non-executive director of DVN (Holdings) Limited, a company listed on the Stock Exchange.

SENIOR MANAGEMENT

Mr. Jim Pak Keung, Patrick, aged 40, joined the Group in 1999 and is the Financial Controller and Qualified Accountant responsible for the overall financial matters of the group. Mr. Jim is a fellow member of the Association of Chartered Certified Accountants in the U.K. and the Hong Kong Institute of Certified Public Accountants and has more than 15 years in finance and accounting.

Report of the Directors

The directors submit their report together with the audited financial statements of the Group for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 17 to the financial statements. An analysis of the Group's income and contribution to operating profit for the year ended 31 March 2007 is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 25.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 29 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 March 2007 are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 72.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the year.

SHARE OPTIONS

The Company has adopted a new share option scheme (the "New Share Option Scheme") on 16 April 2007 and the old share option scheme was terminated accordingly.

The purpose of the New Share Option Scheme is to recognize and acknowledge the contributions of the Qualified Persons (as defined in the New Share Option Scheme, including but not limit to, the directors, employees, partners and associates of the Group) to the Group.

Pursuant to this 10-year term New Share Option Scheme, the Company can grant options to the Qualified Persons for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Pursuant to a resolution passed on the annual general meeting of the Company, dated 16 April 2007, the Company can grant up to 95,037,966 share options to the Qualified Persons.

Subscription price in relation to each option pursuant the New Share Option Scheme shall be not less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the option is offered to an Qualified Person; or (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares. The options are exercisable within the option period as determined by the Board of directors of the Company.

The Company did not grant any share options under the New Share Option Scheme since the New Share Option Scheme adopted by the Company on 16 April 2007. All the share options granted pursuant to the old share option scheme were lapsed. Details of the share option schemes of the Company during the year are set out in note 28 to the financial statements.

Report of the Directors

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors

Ko Chun Shun, Johnson *(Chairman)*	(Appointed on 6 December 2006)
Chan Kam Kwan, Jason	(Appointed on 6 December 2006)
Tsoi Tong Hoo, Tony	(Appointed on 6 December 2006)
Wong Fan, Frank	(Appointed on 6 December 2006)
Yeung Heung Yeung	(Appointed on 6 December 2006)
Sun Hiu Lu	(Removed on 6 December 2006)
Huang Shuyun	(Removed on 6 December 2006)
Chu Kwan	(Removed on 6 December 2006)
Zhao Dake	(Removed on 6 December 2006)
Zhang Ke, Winston	(Removed on 6 December 2006)

Non-executive directors

Kelvin Edward Flynn	(Appointed on 6 December 2006)

Independent non-executive directors

Ho Tak Man, Billy	(Appointed on 6 December 2006)
Yap Fat Suan	(Appointed on 6 December 2006)
Wong Yau Kar, David	(Appointed on 6 December 2006)
Ng Wing Hang	(Removed on 6 December 2006)
Melvin Wong	(Removed on 6 December 2006)
Chu Yu Lin, David	(Removed on 6 December 2006)

All independent non-executive directors ("INEDs") have entered into a letter of appointment with the Company for a term of two years since the Completion of the Restructuring. Mr. Kelvin Edward Flynn has entered into a letter of appointment with the Company for a term of 6 months since the Completion of the Restructuring. They are all subject to the retirement by rotation and re-election at the annual general meeting of the Company.

The Company has received from each of the INEDs an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules since the Completion of the Restructuring and the Company considered that they are independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 March 2007, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code contained in the Listing Rules, were as follows:

Interests and short positions in the shares and the underlying shares of the preference shares of the Company as at 31 March 2007

(i) Long positions in the shares of the Company:

	Number of shares held and nature of interest				
Name of the Director	**Personal**	**Family**	**Corporate**	**Total**	**Approximate percentage of the total issued share capital** *(%)*
Mr. Ko Chun Shun, Johnson	—	—	610,000,000	610,000,000	64.18

Mr. Ko Chun Shun, Johnson is deemed to be interested in 610,000,000 shares held by Gain Alpha Finance Limited ("Gain Alpha"). Gain Alpha is wholly-owned by Mr. Ko Chun Shun, Johnson.

(ii) Long positions in the underlying shares of the preference shares of the Company:

Mr. Ko Chun Shun, Johnson	—	—	2,160,000,000	2,160,000,000	227.28

Gain Alpha held 2,160,000,000 preference shares which were convertible into 2,160,000,000 new shares based on their prevailing price, subject to adjustments.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

Save as disclosed above, as at 31 March 2007, none of the directors and the chief executive of the Company and/or any of their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors and Chief Executives' Interests and/or Short Positions in the Shares, Underlying shares and Debentures of the Company or any Associated Corporation" above, at no time during the year was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the directors of the Company (including their respectively spouse and children under the age of 18) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, save as disclosed under the section "Directors' and Chief Executives' Interests and/or Short Positions in the shares, Underlying shares and Debentures of the Company or any Associated Corporation" above, no other person had registered any substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, sales to the Group's largest 5 customers accounted for less than 30% of the total sales for the year.

Purchases from the Groups' five largest suppliers accounted for 70% of the total purchases for the year, and the largest supplier included therein amounted to 27%.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owns more than 5% of the Company's share capital, had an interest in the major suppliers or customers noted above.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the date of this annual report under the Listing Rules.

SUBSEQUENT EVENTS

Details of significant post balance sheet events are set out in note 34 to the financial statement.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

PricewaterhouseCoopers were appointed auditors of the Company on 16 April 2007 in place of the resignation of Moore Stephens who acted as the auditors of the Company until 23 February 2007.

On behalf of the Board

Ko Chun Shun, Johnson
Chairman

Hong Kong, 27 June 2007

Corporate Governance Report

The board of Directors of the Company (the "Board") is committed in achieving high standards of corporate governance. It believes that high standard of corporate governance provides a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency and meeting the expectations of all the Group's various shareholders.

The principles of corporate governance adopted by the Group emphasis a quality board, sound internal control, and transparency and accountability to all the shareholders.

On 13 October 2004, the High Court of Hong Kong appointed Mr. Cosimo Borrelli and Mr. Kelvin Edward Flynn as joint and several provisional liquidators to, inter alia, exercise the powers of the board of the Company, to take into their custody and protect the assets of the Company and carry on and stabilise the operations of the Company and its subsidiaries, including facilitating a debt and capital restructuring ("Restructuring") of the Company. The Restructuring of the Company was completed on 6 December 2006 ("Completion").

The existing Board does not have sufficient information and records to make comments on the corporate governance practice before the Completion of the Restructuring.

However, since the Completion of the Restructuring, the Board has reviewed the Group's corporate governance practices after the existing directors of the Company were appointed and is satisfied that the Company has complied with the code provisions in the Code on Corporate Governance Practices ("the Code") set out in Appendix to the Listing Rules, except with the following deviations:

Code Provision A.2.1

There is no separation of the role of chairman ("Chairman") and chief executive officer ("CEO") as set out in the code provision A.2.1. Mr. Ko Chun Shun, Johnson currently assumes the role of both the Chairman and the CEO of the Company. After the Restructuring, the Board has been reviewing the existing business and future direction of the Group. As the Board has decided to develop the wind power business as the main focus the Group, the Board is now seeking a right candidate with relevant experience and exposure in the wind power business to be the chief executive officer of the Group.

THE BOARD

The Board is responsible for the oversight of the management of the Company's business and affairs of the organization with the objective of enhancing shareholdings value.

The Board, led by the Chairman, is responsible for the approval and monitoring of Group wide strategies and policies, approval of annual budgets and business plans, and is responsible for the day-to-day operations of the Group.

As at 31 March 2007, the Board comprised nine Directors, including Chairman, four Executive Directors, three Independent Non-executive Directors and one Non-executive Director. Biographical details of the Directors appear under the Directors and Senior Management Section on page 7.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules since the Completion of the Restructuring.

THE BOARD *(Continued)*

The Chairman is responsible for providing leadership to, and overseeing, the functioning of the Board to ensure that the Board acts in the best interests for the Group so that Board meeting are planned and conducted effectively. The Chairman is primarily responsible for approving the agenda for each Board meeting, taking into account, where appropriate, matters proposed by other Directors for inclusion in the agenda. With the support of the Executive Director and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner. The Chairman also actively encourages Directors to be fully engaged in the Board's affair and make contribution to the Board's functions. The Board, under the Chairman's leadership, have adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

The Board meets regularly, and has met 3 times since the Completion of the Restructuring. Between scheduled meetings, senior management of the Group provides to Directors information on a timely basis on the activities and development in the businesses of the Group and when required, additional Board meetings are held. In addition, Directors have full access to information on the Group and independent professional advice whenever deemed necessary by the Directors.

The Board held 3 meetings since the Completion of the Restructuring.

	Name of Director	Attended/Eligible to attend
Chairman	Ko Chun Shun, Johnson	3/3
Executive Directors	Chan Kam Kwan, Jason	3/3
	Tsoi Tong Hoo, Tony	3/3
	Wong Fan, Frank	2/3
	Yeung Heung Yeung	3/3
Non-executive Director	Kelvin Edward Flynn	2/3
Independent Non-Executive Directors	Ho Tak Man, Billy	3/3
	Dr. Wong Yau Kar David	3/3
	Yap Fat Suan	3/3

All Directors are subject to re-election by shareholders at the annual general meeting following their appointment. The directors shall retire and shall be eligible to offer himself for re-election not longer than at every three years on a rotation basis. None of the Directors has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation). Where vacancies exist at the Board, candidates are proposed and put forward to the Board for consideration and approval, with a view of appointing to the Board individuals with leadership capabilities so as to enable the Company to retain as well as improve its competitive position.

All Directors confirmed that they have complied with the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules (the "Model Code") in their securities transactions since the Completion of the Restructuring.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statements, which set out the responsibilities of the Directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's report on page 23 which acknowledges the reporting responsibilities of the Group's Auditors.

Annual Report and Financial Statements

The Directors acknowledge their responsibilities to prepare financial statements for each financial year which give a true and fair view of the state of the Group.

Accounting Policies

The Directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

Accounting Records

The Directors are responsible for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance and the applicable accounting standards.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Going Concern

The Directors, having made appropriate enquires, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

COMPANY SECRETARY

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and that activities of the Board are efficient and effective by assisting the Chairman to prepare agendas for meeting and by preparing and disseminating Board papers to the Directors and Board Committees in a timely and comprehensive manner.

The Company Secretary is responsible for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regard to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the Listing Rules and Codes on Takeovers and Mergers and Share Repurchases, including publication and dissemination of Report and Financial Statements and interim reports within the period laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of directors' dealings in securities of the Group.

The Company Secretary also advises the Directors on their obligations for disclosure of interests in securities, connected transactions and price-sensitive information and ensure that the standards and disclosures required by the Listing Rules are observed and, where required, reflected in the annual report of the Directors.

With respect to the secretarial function of the Group, the Company Secretary maintains formal minutes for Board and other meetings.

AUDITORS' REMUNERATION

A summary of fees for audit and non-audit services is as follows:

Nature of the services	**2007**	2006
	HK'000	*HK'000*
Audit services	**738**	286
Other services	**—**	105
	738	391

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors who possess the appropriate business and financial experience and skills to understand financial statements. The Audit Committee is chaired by Mr. Yap Fat Suan and the other members of the Audit Committee are Dr. Wong Yau Kar, David and Mr. Ho Tak Man, Billy.

Under its terms of reference, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's preliminary results, interim results and annual financial statements, to monitor compliance with statutory and listing requirements, to review the scope, extent and effectiveness of the Group's internal control system, to engage independent legal or other advisers as it determined necessary and to perform investigations.

The terms of reference of the Audit Committee adopted by the Board.

The Audit Committee held 2 meetings since the Completion of the Restructuring.

Name of Member	Attended/Eligible to attend
Ho Tak Man, Billy	2/2
Dr. Wong Yau Kar David	2/2
Yap Fat Suan	2/2

There are no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the interim financial statements and the annual consolidated financial statements, so as to ensure that an effective control environment is maintained.

Financial Statements

The Audit Committee meets and holds discussions with the Executive Directors and other senior management of the Group on the interim results, preliminary results announcement and Annual Report. The Audit Committee reviews and discusses the management's report and representations with a view to ensure that the Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong. It also considers reports from the Group's principal external auditors, PricewaterhouseCoopers ("PwC"), on the scope and outcome of their annual audit of the consolidated financial statements.

External Auditors

The Audit Committee reviews each year a letter from PwC confirming their independence and objectivity and holds meetings with PwC to discuss the scope of their audit.

The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditors.

AUDIT COMMITTEE *(Continued)*

Review of Risk Management and Internal Control

The Audit Committee reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. In reliance on these reviews, the Audit Committee makes a recommendation to the Board for approval of the consolidated financial statements for the year.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members with expertise in human resources and personnel emoluments. The Remuneration Committee is chaired by Mr. Ko Chun Shun, Johnson, Chairman and Executive Director, with Messrs. Ho Tak Man, Billy, Yap Fat Suan and Dr. Wong Yau Kar, David, Independent Non-executive Director, as members. The Remuneration Committee meets for the determination of the remuneration packages of Directors and senior management of the Group. In addition, the Remuneration Committee also meets as and when required to consider remuneration related matters.

The responsibilities of the Remuneration Committee are to assist the Board in achieving its objective of attracting, retaining and motivating people of the highest caliber and experience needed to shape and execute strategy across the Group's operations. The Remuneration Committee assists the Group in the administration of the fair and transparent procedures for setting policies on the remuneration of Directors and senior management of the Group and for determining their remuneration packages. Terms of reference of the Remuneration Committee which have been adopted by the Board.

The Remuneration Committee held 1 meeting since the Completion of the Restructuring.

Name of Member	Attended/Eligible to attend
Ko Chun Shun, Johnson	1/1
Ho Tak Man, Billy	1/1
Yap Fat Suan	1/1
Dr. Wong Yau Kar, David	1/1

REMUNERATION COMMITTEE *(Continued)*

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2007 are as below:

Name of director	Fees	Basic Salaries, Allowances and Benefits-in-kind	Discretionary Bonuses	Provident Fund Contributions	Total Emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Ko Chun Shun, Johnson	—	—	—	—	—
Chan Kam Kwan, Jason	—	—	—	—	—
Tsoi Tong Hoo, Tony	—	—	—	—	—
Wong Fan, Frank	—	458	—	21	479
Yeung Heung Yeung	—	—	—	—	—
Kelvin Edward Flynn	115	—	—	—	115
Ho Tak Man, Billy	46	—	—	—	46
Yap Fat Suan	46	—	—	—	46
Dr. Wong Yau Kar, David	46	—	—	—	46

INTERNAL CONTROL AND GROUP RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and for the assessment and management of the risk. The Board has conducted a review of and is satisfied with the effectiveness of the system of internal control of the Company and its subsidiaries.

In meeting its responsibility, the Board seeks to increase risk awareness across the Group's business operations and has put in place policies and procedures, including the parameters of delegated authority, which provide a framework for the identification and management of risk. Reporting and review activities include the review and approval by the Board of detailed operational and financial reports, budgets and plans provided by the management of the business operations, the review by the Board of actual results against the budgets, the reviews by the Board of the internal control system of the Company and its subsidiaries, as well as the regular business reviews by Executive Directors and the senior management.

The Board is responsible for monitoring the overall operations of the businesses within the Group. Directors are appointed to the boards of all significant material operation subsidiaries and associates to attend their board meetings and to oversee the operations of those companies. Monitoring activities include the review and approval of business strategies, budgets and plans, and the setting of key business performance targets. The senior management is accountable for the performance within the agreed strategies and is accountable for its conduct and performance.

The Financial Controller of the Company, reporting directly to the Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations and derives the annual audit plan. The plan is reviewed by the Audit Committee, and reassessed during the year as needed to ensure that adequate resources are deployed and the plan's objectives are met. In addition, a regular dialogue is maintained with the Group's external auditors so that both are aware of the significant factors which may affect their respective scope of work.

INTERNAL CONTROL AND GROUP RISK MANAGEMENT *(Continued)*

Reports from the external auditors on internal controls and relevant financial reporting matter are to be presented to the Audit Committee, and, as appropriate to the Board. These reports are reviewed and appropriate actions are taken.

Whilst these procedures are designed to identify and manage risks that could adversely impact the achievement of the Group's business objectives, they do not provide absolute assurance against material misstatement or loss.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

The Board is committed to providing clear and full performance information of the Group to shareholders through the publications and annual reports. In addition to dispatching circular, notices and financial reports to shareholders, additional information is also available to shareholders through Investor Relations on the Group's website.

Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman and Directors are available to answer questions on the Group's businesses at the meeting. All shareholders have statutory rights to call for special general meetings and put forward agenda items for consideration by shareholders. All substantive resolutions at the general meeting are decided on a poll. The poll is conducted by the Group's Registrars. Financial and other information is made available on the Group's website, which is regularly updated.

The Group values feedback from shareholders on its effort to promote transparencies and foster investor relationships. Comments and suggestions are always welcomed.

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central, Hong Kong

To the shareholders of Hong Kong Pharmaceutical Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Hong Kong Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 25 to 71, which comprise the consolidated and Company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Group as at 31 March 2006, were audited by another auditor whose report dated 17 August 2006 expressed a disclaimer of opinion due to the various limitations in evidence available to the previous auditor. These limitations include:

i. the provisional liquidators of the Company were appointed by the High Court of Hong Kong on 13 October 2004, and had not been able to provide the previous auditor with all information that required in relation to the audit for the year ended 31 March 2006. In consequence, the previous auditor was unable to carry out all of the auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements as at 31 March 2006; and

ii. the previous auditor was not instructed to attend the stocktake on 31 March 2006. In consequence, the previous auditor was unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories, appearing in the balance sheet as at 31 March 2006 at HK$5,810,000. There were no other satisfactory audit procedures that the previous auditor could adopt to obtain sufficient evidence regarding the existence and value of inventories.

In addition, the fundamental uncertainties related to whether the restructuring proposal could be successfully implemented and the possible existence of unrecorded claims as at 31 March 2006 formed part of the overall disclaimer given by the previous auditor on the view given by the financial statements for the year ended 31 March 2006.

The previous auditor also expressed disagreement with the non-provision for restructuring costs but was unable to quantity the effect of this failure to comply with accounting standards.

Independent Auditor's Report

Except as discussed below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR DISCLAIMER OF OPINION

The evidence available to us was limited due to the following reasons:

i. We were appointed as auditors on 16 April 2007 and accordingly we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories of HK$5,810,000 stated in the consolidated balance sheet as at 1 April 2006. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the existence of inventories as at 1 April 2006.

ii. We have not been provided with details of the estimated unprovided restructuring expenses as at 31 March 2006 referred to above. Accordingly, we are unable to satisfy ourselves that the provision for restructuring costs as at 1 April 2006 and the restructuring costs recorded for the year ended 31 March 2007 are free from material misstatement.

iii. As discussed in Note 24, a convertible bond was issued by the Company to a bank in April 2000 and such convertible bond was subsequently settled and discharged on 6 December 2006. This convertible bond was accounted for as borrowings in the consolidated and Company balance sheets as at 31 March 2006. This accounting treatment was not in accordance with HKAS 32 — Financial Instruments: Disclosure and Presentation and HKAS 39 — Financial Instruments: Recognition and Measurement as the equity and liability elements of the convertible bond were not separated and the liability element was not accounted for at amortised costs as at 31 March 2006. As a result, the interest expenses recorded for the years ended 31 March 2006 and 2007 were misstated. As we have not been provided with the details of the convertible bond, we were not able to quantify the effect of this failure to comply with the relevant accounting standards on the current year's income statement and accumulated losses as at 1 April 2006.

Since the opening inventories, restructuring expenses and interest expenses of the convertible bond enter into the determination of the results of operations, we were unable to determine whether adjustments to the opening balances of assets, liabilities and accumulated losses as at 1 April 2006 and the results of operations for the year ended 31 March 2007 might be necessary. Our auditor's report on the financial statements for the year ended 31 March 2007 was modified accordingly.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the financial statements have been properly prepared in accordance with disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 June 2007

Consolidated Income Statement

For the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	5, 6	**58,416**	49,323
Cost of revenue	8	**(37,352)**	(30,333)
Gross profit		**21,064**	18,990
Selling and distribution costs	8	**(19,432)**	(15,768)
Administrative expenses	8	**(12,441)**	(5,663)
Other income	6	**1,067**	765
Other gains, net	7	**44,693**	16,992
Operating profit		**34,951**	15,316
Finance costs	9	**(1,353)**	(5,903)
Profit before income tax		**33,598**	9,413
Income tax expense	11	**—**	—
Profit for the year		**33,598**	9,413
Attributable to:			
Equity holders of the Company	13	**33,598**	9,413
		33,598	9,413
Earnings per share for profit attributable to the equity holders of the Company during the year			
— basic	14	**2.67 cents**	0.67 cents
— diluted	14	**2.24 cents**	0.67 cents

The notes on pages 30 to 71 form part of these financial statements.

Consolidated Balance Sheet

As at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**1,880**	716
Investment property	16	**—**	835
		1,880	1,551
Current assets			
Inventories	18	**9,124**	5,810
Trade receivables, net	19	**2,030**	368
Prepayments, deposits and other receivables	20	**3,518**	22,695
Financial assets at fair value through profit or loss	21	**3,124**	—
Cash and cash equivalents		**22,669**	751
		40,465	29,624
Current liabilities			
Trade payables	23	**8,109**	9,771
Tax payable		**—**	651
Other payables and accruals		**5,376**	55,714
Borrowings	24	**—**	42,401
Provision for long service payments	26	**96**	88
		13,581	108,625
Net current assets/(liabilities)		**26,884**	(79,001)
Total assets less current liabilities		**28,764**	(77,450)
Non-current liabilities			
Convertible preference shares	25	**10,790**	—
Provision for long service payments	26	**511**	308
		11,301	308
Net assets/(liabilities)		**17,463**	(77,758)
Capital and reserves attributable to the Company's equity holders			
Share capital	27	**9,503**	140,379
Reserves		**7,960**	(218,137)
Total equity/(deficit)		**17,463**	(77,758)

Ko Chun Shun, Johnson
Director

Chan Kam Kwan, Jason
Director

The notes on pages 30 to 71 form part of these financial statements.

Balance Sheet

As at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Interests in subsidiaries	17	—	—
Current assets			
Amounts due from subsidiaries	17	29,687	—
Prepayments, deposits and other receivables	20	362	19,909
Cash and cash equivalents		1	1
		30,050	19,910
Current liabilities			
Other payables and accruals		1,897	39,887
Amounts due to subsidiaries		—	1,130
Borrowings	24	—	38,000
		1,897	79,017
Net current assets/(liabilities)		28,153	(59,107)
Total assets less current liabilities		28,153	(59,107)
Non-current liabilities			
Convertible preference shares	25	10,790	—
Net assets/(liabilities)		17,363	(59,107)
Capital and reserves attributable to the Company's equity holders			
Share capital	27	9,503	140,379
Reserves	29	7,860	(199,486)
Total equity/(deficit)		17,363	(59,107)

Ko Chun Shun, Johnson
Director

Chan Kam Kwan, Jason
Director

The notes on pages 30 to 71 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Share capital HK$'000	Share premium account HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	140,379	140,694	13,051	80,933	6	297	(462,531)	(87,171)
Profit for the year	—	—	—	—	—	—	9,413	9,413
At 31 March 2006	140,379	140,694	13,051	80,933	6	297	(453,118)	(77,758)
Capital reduction	(138,976)	—	—	—	—	—	138,976	—
Issuance of ordinary shares	8,100	13,770	—	—	—	—	—	21,870
Issuance of convertible preference shares	—	—	—	—	—	46,933	—	46,933
Disposal of subsidiaries	—	—	(13,051)	(2,123)	(6)	—	—	(15,180)
Deemed contribution *(Note)*	—	8,000	—	—	—	—	—	8,000
Profit for the year	—	—	—	—	—	—	33,598	33,598
At 31 March 2007	9,503	162,464	—	78,810	—	47,230	(280,544)	17,463

Note:

Pursuant to a restructuring agreement, dated 7 September 2005, Gain Alpha Finance Limited ("Gain Alpha"), the substantial shareholder of the Company agreed to pay fees, costs and expenses in connection with the implementation of the restructuring proposal of up to HK$8,000,000. Upon the completion of the restructuring on 6 December 2006, the amount was deemed to be an addition to the share premium under equity of the Company.

The notes on pages 30 to 71 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Net cash used in operating activities	*31(a)*	**(59,765)**	(19,778)
Cash flows from investing activities			
Purchases of property, plant and equipment	*15*	**(1,867)**	(646)
Proceeds from disposal of subsidiaries	*31(b)*	**—**	18,000
Disposal of subsidiaries	*31(b)*	**(33)**	—
Interest received		**249**	—
Net cash (used in)/generated from investing activities		**(1,651)**	17,354
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**21,870**	—
Proceeds from issuance of convertible preference shares	*25*	**58,320**	—
Contribution from a substantial shareholder		**8,000**	—
Proceeds from borrowings		**2,310**	1,400
Repayment of borrowings		**(6,710)**	(1,000)
Interest paid		**(454)**	(381)
Interest element on finance lease payments		**(1)**	(4)
Capital element of finance lease payments		**(1)**	(14)
Net cash generated from financing activities		**83,334**	1
Net increase/(decrease) in cash and cash equivalents		**21,918**	(2,423)
Cash and cash equivalents at beginning of year		**751**	3,174
Cash and cash equivalents at end of year		**22,669**	751
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**22,669**	751

The notes on pages 30 to 71 form part of these financial statements.

1. CORPORATE INFORMATION

Hong Kong Pharmaceutical Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda.

The head office and its principal place of business is located at Suite 4306-07, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong.

During the year, the Company and its subsidiaries (together the "Group") were involved in the following principal activities:

- Wholesale and retail of Chinese and other medicines, health products and dried seafood products
- Provision of Chinese clinical services
- Treasury and securities investments

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 June 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(i) Amendments to published standards and interpretation effective in 2006

The following amendments to published standards and interpretation are mandatory for financial year ended 31 March 2007. The Group adopted those which are relevant to its operations.

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The amendments to published standards and interpretation above do not have material impacts to the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2007 but the Group has not early adopted.

HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations would be in the period of initial application, but not yet in a position to state whether these amendments, new standards and new interpretations would have a significant impact on the Group's results of operations and financial position.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 March.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(i) ***Subsidiaries*** *(Continued)*

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(f)). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) ***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the lease terms of 1 to 3 years
Furniture, fixtures and equipment	9%-33.33%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(f)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains — net, in the income statements.

(f) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivable. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Financial assets (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2(i)).

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within other (losses)/gains — net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. Impairment testing of trade receivables is described in Note 2(i).

(h) Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(k) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Convertible preference shares

Convertible preference shares 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 of similar non-convertible debts. The difference between the proceeds of the issue of the convertible preference shares and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (other reserves).

In subsequent periods, the liability component of the convertible preference shares 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 other reserves until the embedded option is exercised (in which case the balance stated in other reserves will be transferred to share premium).

Transaction costs that relate to the issue of the convertible preference shares 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 component are included in the carrying amount of the liability portion and amortised over the period of the convertible preference shares using the effective interest method.

(o) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits

(i) Pension obligations

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

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentage of the payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

(ii) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(iii) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year and prior years by the employees and carried forward.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(iv) Employment Ordinance long service payments

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

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

(q) Provisions

Provisions for legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(r) Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer and the goods are accepted by the customers and collectibility of the related receivable is reasonably assured.

(ii) from the rendering of services, when the services are rendered;

(iii) rental income, on a time proportion basis over the lease terms;

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue recognition *(Continued)*

(v) dividend income, when the shareholders' right to receive payment has been established.

(vi) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged or the settlement dates when the securities are delivered.

(s) Leases

(i) Operating lease

Accounting by lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk and price risk), credit risk, and liquidity risk.

The Group does not have any written risk management policies and guidelines. The Directors monitor the financial risk management of the Group and take such measures as considered necessary from time to time to minimise such financial risks.

(a) Market risk

(i) Interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

(b) Credit risk

Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions. The Group performs ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for doubtful trade and other accounts receivable based upon the expected collectibles of all trade and other accounts receivable.

At the balance sheet date, there were no major concentrations of credit risk.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset as stated in the balance sheet.

Cash is held with financial institutions of good standing.

(c) Liquidity risk

It is the policy of the Group to regularly monitor current and expected liquidity requirements and to ensure that adequate funding is available for operating, investing and financing activities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets

At each balance sheet date, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— investments in subsidiaries and

— financial assets.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amounts.

The sources utilised to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date.

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. The Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the sum yung and pharmaceutical products segment sells Chinese and other medicines, pharmaceutical products, health products and dried seafood products to wholesalers and retailers;

(b) the others segment comprises the provision of Chinese clinical services, property investment and the trading of marketable securities.

5. SEGMENT INFORMATION *(Continued)*

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at cost or with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following table presents revenue, profit/ (loss) and certain assets, liabilities and expenditures information for the Group's business segments.

2007	Sum yung and pharmaceutical products *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Segment revenue:				
Sales to external customers	58,147	269	—	58,416
Intersegment sales	325	—	(325)	—
Total revenue	58,472	269	(325)	58,416
Segment results	(1,334)	(1,075)		(2,409)
Interest income				1,018
Gain on restructuring, net *(Note 12)*				44,830
Unallocated corporate expenses				(8,488)
Operating profit				34,951
Finance costs				(1,353)
Profit before income tax				33,598
Income tax expense				—
Profit for the year				33,598
Segment assets	38,526	3,456		41,982
Unallocated assets				363
Total assets				42,345
Segment liabilities	11,824	372		12,196
Unallocated liabilities				12,686
Total liabilities				24,882
Other segment information:				
Capital expenditures	1,862	5		
Depreciation	696	1		
Significant non-cash expenses (excluding depreciation)	21	47		

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

2006	Sum yung and pharmaceutical products *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Segment revenue:				
Sales to external customers	48,978	345	—	49,323
Intersegment sales	274	—	(274)	—
Total revenue	49,252	345	(274)	49,323
Segment results	824	(945)		(121)
Interest income				708
Gain on disposal of subsidiaries *(Note 31(b))*				17,589
Unallocated corporate expenses				(2,860)
Operating profit				15,316
Finance costs				(5,903)
Profit before income tax				9,413
Income tax expense				—
Profit for the year				9,413
Segment assets	9,787	1,245		11,032
Unallocated assets				20,143
Total assets				31,175
Segment liabilities	6,575	401		6,976
Unallocated liabilities				101,957
Total liabilities				108,933
Other segment information:				
Capital expenditures	643	—		
Depreciation	512	23		
Significant non-cash expenses (excluding depreciation)	144	123		

5. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain assets and expenditures information for the Group's geographical segments.

2007	**Hong Kong** *HK$'000*	**The PRC** *HK$'000*	**Eliminations** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue:				
Sales to external customers	**58,369**	**—**	**—**	**58,369**
Rental income from investment property *(Note)*	**—**	**47**	**—**	**47**
Other segment information:				
Segment assets	**41,982**	**—**	**—**	**41,982**
Capital expenditures	**1,867**	**—**	**—**	**1,867**

2006	Hong Kong *HK$'000*	The PRC *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Segment revenue:				
Sales to external customers	49,200	—	—	49,200
Rental income from investment property *(Note)*	—	123	—	123
Other segment information:				
Segment assets	10,194	838	—	11,032
Capital expenditures	646	—	—	646

Note: The investment property was disposed of during the year as part of the restructuring.

6. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from disposed investment property during the year.

An analysis of revenue and other income is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Revenue		
Sale of sum yung and pharmaceutical products	**58,147**	48,978
Rental income	**47**	123
Service income from provision of Chinese clinical services	**222**	222
	58,416	49,323
Other income		
Interest income	**1,018**	708
Others	**49**	57
	1,067	765

7. OTHER GAINS, NET

An analysis of other gains, net is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Gain on disposal of subsidiaries	—	17,589
Gain on restructuring, net *(Note 12)*	44,830	—
Loss on disposal of property, plant and equipment	(1)	(10)
Provision for impairment of:		
— Trade receivables	(87)	(24)
— Other receivables	(47)	(229)
— Amount due from former intermediate holding company	—	(708)
Reversal of provision for impairment of amount due from former intermediate holding company	—	374
Others	(2)	—
	44,693	16,992

8. EXPENSES BY NATURE

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold	36,986	29,989
Cost of services provided	366	344
Employee benefit expense, excluding directors emoluments *(Note 10)*	10,119	8,688
Depreciation *(Note 15)*	700	543
Operating lease payments in respect of land and buildings	10,672	5,604
Liquidation expenses	1,434	297
Auditors' remuneration	738	286
Exchange losses, net	20	7
Others	8,190	6,006
	69,225	51,764

9. FINANCE COSTS

	Group 2007 HK$'000	2006 HK$'000
Interest on bank loans and other borrowings wholly repayable within five years	**1,030**	5,898
Interest on convertible preference shares	**322**	—
Interest on finance leases	**1**	5
	1,353	5,903

10. EMPLOYEE BENEFIT EXPENSE AND DIRECTORS' EMOLUMENTS

(a) Employee benefit expense

	Group 2007 HK$'000	2006 HK$'000
Wages and salaries	**9,651**	8,260
Pension costs — defined contribution plans *(Note i)*	**468**	428
	10,119	8,688

Notes:

(i) Pensions costs — defined contribution plans

At 31 March 2007, the Group had no significant forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil).

10. EMPLOYEE BENEFIT EXPENSE AND DIRECTORS' EMOLUMENTS *(Continued)*

(b) Directors' emoluments

Details of directors' emoluments are set out below:

	Group 2007				
	Fees HK$'000	Basic salaries, allowance and benefits HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Executive directors					
Ko Chun Shun, Johnson[1]	—	—	—	—	—
Tsoi Tong Hoo, Tony[1]	—	—	—	—	—
Chan Kam Kwan, Jason[1]	—	—	—	—	—
Wong Fan, Frank[1]	—	458	—	21	479
Yeung Heung Yeung[1]	—	—	—	—	—
Sun Hiu Lu[2]	—	—	—	—	—
Huang Shuyun[2]	—	—	—	—	—
Chu Kwan[2]	—	—	—	—	—
Zhao Dake[2]	—	—	—	—	—
Zhang Ke, Winston[2]	—	—	—	—	—
Non-executive directors					
Kelvin Edward Flynn[3]	115	—	—	—	115
Independent non-executive directors					
Ho Tak Man, Billy[1]	46	—	—	—	46
Yap Fat Suan[1]	46	—	—	—	46
Wong Yau Kar, David[1]	46	—	—	—	46
Ng Wing Hang[2]	—	—	—	—	—
Melvin Wong[2]	—	—	—	—	—
Chu Yu Lin[2]	—	—	—	—	—
	253	458	—	21	732

	Group 2006				
	Fees HK$'000	Basic salaries, allowance and benefits HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Sun Hiu Lu[2]	—	—	—	—	—
Huang Shuyun[2]	—	—	—	—	—
Chu Kwan[2]	—	—	—	—	—
Zhao Dake[2]	—	—	—	—	—
Zhang Ke, Winston[2]	—	—	—	—	—
	—	—	—	—	—

10. EMPLOYEE BENEFIT EXPENSE AND DIRECTORS' EMOLUMENTS *(Continued)*

(b) Directors' emoluments *(Continued)*

Notes:

1. Appointed as a director at 6 December 2006
2. Resigned as a director at 6 December 2006
3. Appointed as a director at 6 December 2006 and was the provisional liquidator

Other than as presented above, no other fees or emoluments were paid to the independent non-executive directors during the year (2006: Nil).

For 2006 and 2007, there were no arrangement under which a director waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

Details of share options granted to directors are set out in Note 28 to the consolidated financial statements.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one director (2006: nil) whose emoluments are reflected in the analysis above. The emolument payable to the remaining four (2006: five) individuals during the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**1,252**	1,679
Bonuses	**—**	—
Compensation for loss of office	**—**	—
	1,252	1,679

Their emoluments fell within nil to HK$1,000,000 band.

11. INCOME TAX EXPENSE

No Hong Kong profits tax and overseas taxation has been provided as the Group had sufficient tax losses as brought forward to set off against the assessable profits for the year (2006: Nil).

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Profit before income tax	**33,598**	9,413
Tax at the applicable tax rates of 17.5% (2006: 17.5%)	**5,880**	1,647
Income not subject to tax	**(13,072)**	(3,223)
Expenses not deductible for tax	**7,596**	228
Tax loss not recognised	**675**	1,348
Utilisation of previously unrecognised tax losses	**(843)**	—
Others	**(236)**	—
Tax charge	**—**	—

12. GAIN ON RESTRUCTURING, NET

On 13 October 2004, the High Court of Hong Kong appointed Mr. Cosimo Borrelli and Mr. Kelvin Flynn as joint and several provisional liquidators ("Provisional Liquidators") to, inter alia, exercise the powers of the board of the Company, to take into their custody and protect the assets of the Company and carry on and stabilise the operations of the Company and its subsidiaries, including facilitating a debt and capital restructuring ("Restructuring") of the Company. The Restructuring of the Company was completed on 6 December 2006 ("Completion").

Upon the Completion, the following gains/ (losses) were resulted from the Restructuring:

	Group
	2007
	HK$'000
Net gain from transfer of financial assets and extinguishment of financial liabilities *(Note i)*	**44,574**
Gain on disposal of subsidiaries *(Note ii)*	**35,469**
Restructuring costs	**(35,213)**
	44,830

12. GAIN ON RESTRUCTURING, NET *(Continued)*

Notes:

(i) As part of the Restructuring, all the claims by the creditors admitted by the Restructuring ("Scheme Creditors") against the Company were discharged and waived by way of schemes of arrangements under section 166 of the Hong Kong Companies Ordinance and section 99 of the Bermuda Companies Act ("Schemes"). The Schemes for the Scheme Creditors were sanctioned by the Orders of the Supreme Court of Bermuda and the High court of Hong Kong on 3 November 2006 and 21 November 2006 respectively.

Pursuant to Clause 6.1(d) of the restructuring agreement, dated 7 September 2005, on the date of completion of the restructuring the Company assigns and transfers all its rights, title and interest to or in any of the receivables together with any balance of the investor's injected funds and proceeds from realisation of assets being kept in escrow by the Provisional Liquidators will be transferred to the trustee of the Schemes for the settlement and discharge of claims against the Company by the creditors in accordance with the terms of the Schemes. Upon the successful Completion of the Restructuring, all liabilities existing at the date of appointment of the provisional liquidators of the Company ("pre-existing creditors") were compromised and discharged through the Schemes and/or by specific agreement. The excess of the amount of liabilities over the amount of assets transferred to the Schemes was recognised as gain arising on restructuring in the consolidated income statement.

(ii) Integral to the Restructuring was the disposal of subsidiaries that were non-strategic to the future development of the Group. The gain from disposal of the subsidiaries was recognised in the consolidated income statement for the year.

13. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 March 2007 dealt with in the financial statements of the Company is approximately HK$333,000 (2006: profit of HK$9,822,000).

14. EARNINGS PER SHARE

(a) Basic

The calculation of earning per share is based on the profit attributable to the equity holders of HK$33,598,000 (2006: HK$9,413,000) and the weighted average of 1,259,697,000 shares (2006: 1,403,797,000 shares) in issue during the year.

14. EARNINGS PER SHARE *(Continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible preference shares and share options. The convertible preference shares are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expenses less the tax effect.

However, the conversion of all potential ordinary shares arising from share options would have an anti-dilutive effect on the earnings per share for the years ended 31 March 2007 and 2006.

There were no potential ordinary shares from convertible note as 31 March 2006.

	2007 ***HK$'000***	2006 *HK$'000*
Profit attributable to equity holders of the Company	**33,598**	9,413
Interest expenses on convertible preference shares, net of tax	**266**	—
Profit used to determine diluted earnings per share	**33,864**	9,413
Weighted average number of ordinary shares in issue (thousands)	**1,259,697**	1,403,797
Adjustment for		
— assumed conversion of convertible preference shares (thousands)	**254,247**	—
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,513,944**	1,403,797
Diluted earnings per share	**2.24 cents**	0.67 cents

15. PROPERTY, PLANT AND EQUIPMENT

	Group			
	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost				
At 1 April 2005	6,394	3,270	85	9,749
Additions	444	202	—	646
Disposals	(1,744)	(80)	—	(1,824)
At 31 March 2006	5,094	3,392	85	8,571
Accumulated depreciation				
At 1 April 2005	6,317	2,792	17	9,126
Charge during the year	134	392	17	543
Disposals	(1,744)	(70)	—	(1,814)
At 31 March 2006	4,707	3,114	34	7,855
Net book value				
At 31 March 2006	387	278	51	716
At 31 March 2005	77	478	68	623
Cost				
At 1 April 2006	5,094	3,392	85	8,571
Additions	1,320	547	—	1,867
Disposals	(1,739)	(10)	—	(1,749)
Disposal of subsidiaries *(Note 31(b))*	(10)	(220)	—	(230)
At 31 March 2007	4,665	3,709	85	8,459
Accumulated depreciation				
At 1 April 2006	4,707	3,114	34	7,855
Charge during the year	527	156	17	700
Disposals	(1,739)	(9)	—	(1,748)
Disposal of subsidiaries *(Note 31(b))*	(10)	(218)	—	(228)
At 31 March 2007	3,485	3,043	51	6,579
Net book value				
At 31 March 2007	1,180	666	34	1,880
At 31 March 2006	387	278	51	716

Depreciation expense of HK$566,000 (2006: HK$296,000) has been charged in selling and distribution costs and HK$134,000 (2006: HK$247,000) in administrative expenses.

The net book value of the Group's office equipment held under finance lease as at 31 March 2007 amounted to approximately HK$nil (2006: HK$1,000).

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Company Furniture and fixtures *HK$'000*
Cost	
At 1 April 2005	—
Additions	3
Disposals	(3)
At 31 March 2006	—
Accumulated depreciation	
At 1 April 2005	—
Charge during the year	—
Disposals	—
At 31 March 2006	—
Net book value	
At 31 March 2006	—
At 31 March 2005	—

There was no movement for the Company's property, plant and equipment during the year ended 31 March 2007.

16. INVESTMENT PROPERTY

	Group	
	2007 *HK$'000*	2006 *HK$'000*
At 1 April	**835**	835
Disposal of subsidiary *(Note 31(b))*	**(835)**	—
At 31 March	**—**	835

The investment property was disposed of as part of the Restructuring, which was completed on 6 December 2006.

17. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost *(Note i)*	—	29,344
Less: Provisions for impairment	—	(29,344)
	—	—
Amounts due from subsidiaries — current *(Note ii)*	**160,197**	340,822
Less: Provisions for amounts due from subsidiaries	**(130,510)**	(340,822)
	29,687	—

Notes:

(i) As at 31 March 2007, particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Healthy Form Investments Limited	British Virgin Islands	US$1	100%	—	Investment holding
Nam Pei Hong Sum Yung Drugs Company Limited ("Sum Yung")	Hong Kong	HK$1,200,000	—	100%	Wholesale and retail of Chinese medicines, dried seafood and health products
N P H Sino-Meditech Limited	Hong Kong	HK$2	—	100%	Provision of Chinese clinical services

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

(ii) The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

18. INVENTORIES

	Group 2007 HK$'000	2006 HK$'000
Merchandised goods	**9,124**	5,810

As at 31 March 2007, no inventories are carried at net realisable value (2006: nil).

19. TRADE RECEIVABLES, NET

	Group 2007 HK$'000	2006 HK$'000
Trade receivables	**2,304**	15,172
Less: provision for impairment of receivables	**(274)**	(14,804)
Trade receivables — net	**2,030**	368

The Group's credit terms granted to customers of Chinese and other medicines, health products and dried seafood products range between 30 and 90 days. The credit terms granted to customers of pharmaceutical products range between 60 and 180 days.

An aged analysis of the trade receivables as at the balance sheet date, net of provisions, is as follows:

	Group 2007 HK$'000	2006 HK$'000
Within 3 months	**1,909**	325
4 to 6 months	**100**	23
7 to 12 months	**—**	—
13 to 24 months	**1**	—
Over 24 months	**20**	20
	2,030	368

The carry amounts of trade receivables are approximate their fair value and are denominated in Hong Kong dollars.

19. TRADE RECEIVABLES, NET *(Continued)*

Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 April	**14,804**	14,780
Provision for receivable impairment *(Note 7)*	**87**	24
Disposal of subsidiaries	**(14,617)**	—
At 31 March	**274**	14,804

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The carry amounts of deposits and other receivables are approximate their fair value and are denominated in Hong Kong dollars.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Listed securities:		
— Equity securities — Hong Kong	**3,124**	—
Market value of listed securities	**3,124**	—

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement (Note 31(a)).

Changes in fair values of financial assets at fair value through profit or loss are recorded in other gains, net, in the income statement.

The fair value of all equity securities is based on their current bid prices in an active market.

22. AMOUNTS DUE FROM FORMER INTERMEDIATE HOLDING COMPANIES

	Group and Company	
	2007	2006
	HK$'000	*HK$'000*
Amounts due from Tin Ming	—	13,454
Amounts due from Hong Tau	—	1,202
	—	14,656
Less: Provisions for impairment	—	(14,656)
	—	—

Tin Ming Management Limited ("Tin Ming") and Hong Tau Investment Ltd ("Hong Tau"), were the intermediate holding companies of the Company upto the date of the completion of Restructuring on 6 December 2006.

As mentioned in Note 12, the amounts due from former intermediate holding companies were transferred to the trustees of the Schemes for the settlement and discharge of claims against the Company by the creditors upon the completion of the Restructuring on 6 December 2006.

23. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 3 months	**6,967**	2,924
4 to 6 months	**927**	420
7 to 12 months	**28**	6
13 to 24 months	**1**	—
Over 24 months	**186**	6,421
	8,109	9,771

The carrying amount of trade payable are approximate their fair value and are denominated in Hong Kong dollars.

24. BORROWINGS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current				
Convertible note, secured *(Note i)*	—	38,000	—	38,000
Other loan, secured *(Note ii)*	—	4,400	—	—
Finance lease payables	—	1	—	—
	—	42,401	—	38,000

At 31 March 2007, the borrowings were repayable as follows:

	Group				Company			
	Convertible note		Other loan		Finance lease payables		Convertible note	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year	—	38,000	—	4,400	—	1	—	38,000
Between 1 and 2 years	—	—	—	—	—	—	—	—
Between 2 and 5 years	—	—	—	—	—	—	—	—
	—	38,000	—	4,400	—	1	—	38,000

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Convertible note	—	4%
Other loan	—	5%
Finance lease payables	—	7.25%

The carrying amounts of the borrowings are denominated in Hong Kong dollars.

Notes:

(i) Convertible note

As mentioned in Note 12, all the claims by the Scheme Creditors against the Company shall be discharged and waived by way of the Schemes, pursuant to the terms of the Restructuring scheme.

The convertible note of HK$38,000,000 was settled and discharged in accordance with the terms of the Schemes upon the completion of the Restructuring on 6 December 2006.

24. BORROWINGS *(Continued)*

Notes: (Continued)

(ii) Other loan

	2007 HK$'000	2006 HK$'000
Secured — Gain Alpha	—	4,400

In 2005, one of the Company's subsidiaries entered into an agreement with Gain Alpha, being the then substantial shareholder of the Company. Pursuant to the agreement, Gain Alpha agreed to provide a loan facility of up to HK$8,000,000 to the Company's subsidiary for working capital. As at 31 March 2006, a total amount of HK$4,400,000 was drawn down by the subsidiary and further drawn downs were made, totalling HK$2,310,000, during the year, giving rise to a total amount outstanding of HK$6,710,000. The full amount of the loan, plus interest, was repaid on 8 December 2006.

25. CONVERTIBLE PREFERENCE SHARES

	Number of shares '000's	Nominal amount HK$'000
Convertible preference shares of HK$0.01 each:		
Authorised		
Increase in authorised preference share capital and balance at 31 March 2007	2,500,000	25,000
Issued and fully paid:		
Issued during the year and balance at 31 March 2007	2,160,000	21,600

On 6 December 2006, the Company issued 2,160,000,000 convertible preference shares with a par value of HK$0.01 each at a price of HK$0.027 each to raise a total of approximately HK$58,320,000 for the Company.

The convertible preference shares of HK$0.01 each are convertible into new ordinary shares of HK$0.01 each in the share capital of the Company after the date of their issuance but before the fifth anniversary and shall be automatically converted on the fifth anniversary, subject to an adjustment, at a conversion price of HK$0.027 per ordinary share.

The holders of the convertible preference shares of HK$0.01 each shall be entitled to receive a fixed cumulative dividend of 5% per annum of the issue price of each preference share.

The fair value of the liability component included in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible loan. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity in other reserves (Note 29).

The fair value of the liability component of the convertible preference shares at 31 March 2007 amounted to HK$10,790,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 9%.

26. PROVISION FOR LONG SERVICE PAYMENTS

	2007	2006
	HK$'000	*HK$'000*
At 1 April	**396**	528
Charged/(credited) to the consolidation income statement		
Additional provisions	**257**	—
Unused amounts reversed	**—**	(132)
Used during the year	**(46)**	—
At 31 March	**607**	396
Analysis of total provision		
Non-current	**511**	308
Current	**96**	88
	607	396

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as explained in Note 2(p) to the consolidated financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

27. SHARE CAPITAL

	2007	2006
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each	**—**	300,000
3,500,000,000 ordinary shares of HK$0.01 each	**35,000**	—
Issued and fully paid:		
1,403,796,698 ordinary shares of HK$0.10 each	**—**	140,379
950,379,669 ordinary shares of HK$0.01 each	**9,503**	—

During the year, the Company has following movements in the share capital:

(a) Pursuant to the terms of the Restructuring scheme, which became effective on 6 December 2006:

(i) The nominal value of the existing shares was reduced from HK$0.10 each to HK$0.001 by cancelling HK$0.099 on each paid up share. The credit arising as a result of the capital reduction of approximately HK$138,976,000 was applied to partially eliminate the accumulated losses of the Company by the same amount.

27. **SHARE CAPITAL** *(Continued)*

(a) *(Continued)*

(ii) The issued and unissued shares of HK$0.001 each of the Company were consolidated into one new share on the basis of every ten issued shares of HK$0.10 into one consolidated new share of HK$0.01 each.

(iii) The authorised, but un-issued ordinary shares of approximately 1,596,200,000 shares of amount HK$159,620,000 were cancelled.

(iv) The Company's authorised share capital, after the capital cancellation, reduction and the share consolidation, was increased to HK$35,000,000 by creation of approximately 3,359,620,000 new consolidated shares of HK$0.01 each.

(b) Upon the completion of the restructuring on 6 December 2006, 810 million new shares of HK$0.01 each were issued to Gain Alpha for a cash subscription price of HK$0.027 each.

A summary of the transactions during the year with reference to the movements of the Company's ordinary share capital is as follows:

	No. of shares *'000's*	Nominal value *HK$'000*
Authorised:		
At 1 April 2006: 3,000,000,000 ordinary shares of HK$0.10 each	**3,000,000**	300,000
Capital reduction	**(1,263,420)**	(138,976)
Capital cancellation	**(1,596,200)**	(159,620)
Increase in authorised share capital	**3,359,620**	33,596
As at 31 March 2007: 3,500,000,000 new ordinary shares of HK$0.01 each	**3,500,000**	35,000
Issued and fully paid:		
At 1 April 2006: 1,403,796,698 ordinary shares of HK$0.10 each	**1,403,797**	140,379
Capital reduction	**—**	(138,976)
Consolidation of existing shares	**(1,263,417)**	—
Subscription of new ordinary shares at HK$0.01 each	**810,000**	8,100
At 31 March 2007: 950,379,669 ordinary shares of HK$0.01 each	**950,380**	9,503

28. SHARE OPTION SCHEMES

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The share option scheme previously adopted by the Company (the "Old Scheme") expired on 5 November 2001. Despite that no further options shall be granted under the Old Scheme, the provisions of the Old Scheme shall remain in full force and effect in all other respects to govern all outstanding options granted prior to termination.

At the Company's annual general meeting held on 25 September 2001 (the "Adoption Date"), a new share option scheme (the "New Scheme") was approved and adopted and became effective on 6 November 2001 and, unless otherwise cancelled and amended, will remain in force for 10 years from that date. Eligible participants of the New Scheme include any executive director, non-executive director, employee, agent, consultant or representative of the Group who satisfies the selection criteria prescribed by the rules of the New Scheme.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the New Scheme and any other share option scheme of the Company must not exceed 10% of the shares of the Company in issue as at the Adoption Date. The total number of shares issued and to be issued upon exercise of the options (whether exercised or outstanding) under the New Scheme in any 12-month period granted to each eligible participant must not exceed 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options under the New Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Options granted will entitle the holders to subscribe for shares during such period as may be determined by the directors, which shall not be more than 10 years from the date of issue of the relevant options.

The exercise price of the share options under the New Scheme is determinable by the directors, but may not be less than the higher of (i) the Hong Kong Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Hong Kong Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share.

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

No share options were granted by the Company under the New Scheme during the year and up to the date of approval of these financial statements. All outstanding options of the Company vested prior to 1 January 2005. The Company has taken advantage of the transitional provisions in HKFRS 2 and not recognised the fair value of the outstanding options within equity.

The New Scheme was terminated and the share options granted under the New Scheme lapsed on 16 April 2007, when the Company adopted a new share option scheme (the "New Share Option Scheme") on the same day.

28. SHARE OPTION SCHEMES *(Continued)*

The following share options were outstanding during the year:

Name or category of participant	Number of share options: At 1 April 2006[4]	Granted during the year	Lapsed during the year[2, 4]	At 31 March 2007[4]	Date of grant of share options	Exercise period of share options	Price of Company's share[1]: Exercise price of share options[3] HK$	At grant date of options HK$	At exercise date of options HK$
Directors									
Ms. Huang Shuyun	25,000,000	—	(25,000,000)	—	16-5-2000	16-05-2000 to 15-05-2010	0.639	0.81	—
	2,000,000	—	(2,000,000)	—	30-10-2000	30-10-2000 to 29-10-2010	0.460	0.61	—
	27,000,000	—	(27,000,000)	—					
Mr. Chu Kwan	25,200,000	—	(25,200,000)	—	16-5-2000	16-05-2000 to 15-05-2010	0.639	0.81	—
	1,000,000	—	(1,000,000)	—	30-10-2000	30-10-2000 to 29-10-2010	0.460	0.61	—
	26,200,000	—	(26,200,000)	—					
Mr. Sun Hiu Lu	27,000,000	—	(27,000,000)	—	16-5-2000	16-05-2000 to 15-05-2010	0.639	0.81	—
Mr. Zhao Dake	27,000,000	—	(27,000,000)	—	16-5-2000	16-05-2000 to 15-05-2010	0.639	0.81	—
Mr. Zhang Ke, Winston	3,000,000	—	(3,000,000)	—	10-7-2001	10-07-2001 to 09-07-2011	1	1.20	—
	1,500,000	—	(1,500,000)	—	22-2-2002	22-02-2005 to 21-02-2012	0.88	0.88	—
	1,500,000	—	(1,500,000)	—	22-2-2002	22-02-2005 to 21-02-2012	0.88	0.88	—
	6,000,000	—	(6,000,000)	—					
Mr. Melvin Wong	300,000	—	(300,000)	—	27-5-2003	27-05-2003 to 01-05-2013	0.38	0.355	—
Mr. Ng Wing Hang	300,000	—	(300,000)	—	27-5-2003	27-05-2003 to 01-05-2013	0.38	0.355	—
Other employees									
In aggregate	1,500,000	—	(500,000)	1,000,000	16-5-2000	16-05-2000 to 15-05-2010	0.639	0.81	—
	40,000	—	(40,000)	—	30-10-2000	30-10-2000 to 29-10-2010	0.460	0.61	—
	1,100,000	—	(400,000)	700,000	22-2-2002	22-02-2002 to 21-02-2012	0.88	0.88	—
	2,640,000	—	(940,000)	1,700,000					
	116,440,000	—	(114,740,000)	1,700,000					

28. SHARE OPTION SCHEMES *(Continued)*

Notes:

1. The price of the Company's shares disclosures as at the date of the grant of the share options is the Hong Kong Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Hong Kong Stock Exchange closing prices over all of the exercises of options within the disclosure category.

2. Share options lapsed upon their termination of employments and their resignations as directors of the Company upon the completion of the Restructuring on 6 December 2006.

3. The disclosed exercise price of share options has not reflected the price adjustment impact from share consolidation as mentioned in Note 27(a).

4. The movements in the number of share options have not been adjusted for the share consolidation as mentioned in Note 27(a).

29. RESERVES

The details of movements in the Group's reserves are set out in the consolidated statement of changes in equity on page 28.

The details of the movements in the Company's reserves are set out as follows:

	Share premium account HK$'000	Contributed surplus *(Note i)* HK$'000	Other reserves HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 March 2005	140,694	78,810	297	(429,109)	(209,308)
Profit for the year	—	—	—	9,822	9,822
At 31 March 2006	140,694	78,810	297	(419,287)	(199,486)
Capital reduction	—	—	—	138,976	138,976
Issuance of ordinary shares	13,770	—	—	—	13,770
Issuance of convertible preference shares	—	—	46,933	—	46,933
Deemed contribution *(Note ii)*	8,000	—	—	—	8,000
Loss for the year	—	—	—	(333)	(333)
At 31 March 2007	162,464	78,810	47,230	(280,644)	7,860

Notes:

(i) The Company's contributed surplus represented the excess of the fair value of the shares of the former holding company acquired pursuant to the group reorganisation in the prior year, over the nominal value of the Company's shares issued in exchange therefor.

(ii) Pursuant to a restructuring agreement, dated 7 September 2005, Gain Alpha, the substantial shareholder of the Company agreed to pay fees, costs and expenses in connection with the implementation of the restructuring proposal of HK$8,000,000. Upon the completion of the restructuring on 6 December 2006, the amount was deemed to be an addition to the share premium under equity of the Company.

30. DEFERRED INCOME TAX

Deferred taxation is calculated in full on temporary differences under the liability method using the principal taxation rate of 17.5% (2006: 17.5%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets are recognised for tax losses carry forward purposes only to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group recognises deferred tax assets to the extent of recognised deferred tax liabilities and has unrecognised tax losses of HK$103,683,000 (2006: HK$196,187,000) to carry forward against future taxable income. The tax losses mentioned above are subject to final approval by the Inland Revenue Department in Hong Kong and can be carried forward indefinitely.

Details of unrecognised deferred tax assets at the balance sheet date are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Excess of tax allowance over depreciation	**(575)**	(143)
Tax losses	**(18,144)**	(34,333)
	(18,719)	(34,476)

No deferred tax asset has been recognised due to the unpredictability of future profit streams.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to net cash used in operating activities

	2007 *HK$'000*	2006 *HK$'000*
Operating activities		
Profit before income tax	**33,598**	9,413
Adjustments for:		
Interest expenses *(Note 9)*	**1,353**	5,903
Interest income *(Note 6)*	**(1,018)**	(708)
Depreciation *(Note 15)*	**700**	543
Unrealised fair value loss on financial assets at fair value through profit or loss	**2**	—
Realised loss on disposal of financial assets at fair value through profit or loss	**1**	—
Provision for impairment of:		
— Trade receivables *(Note 7)*	**87**	24
— Other receivables *(Note 7)*	**47**	229
— Amount due from former intermediate holding company *(Note 7)*	**—**	708
Reversal of provision for impairment of amount due from former intermediate holding company *(Note 7)*	**—**	(374)
Loss on disposal of property, plant and equipment *(Note 7)*	**1**	10
Gain on disposal of subsidiaries *(Note 12)*	**(35,469)**	(17,589)
Net gain from transfer of financial assets and extinguishment of financial liabilities *(Note 12)*	**(44,574)**	—
Operating loss before working capital changes:	**(45,272)**	(1,841)
Increase in inventories	**(3,314)**	(324)
(Increase)/decrease in trade receivables	**(1,749)**	882
Increase in prepayments, deposits and other receivables	**(48,727)**	(18,502)
Increase in financial assets at fair value through profit or loss	**(3,127)**	—
Decrease in amounts due from former intermediate holding companies	**—**	374
Increase/(decrease) in trade payables	**4,572**	(729)
Increase in other payables and accruals	**37,641**	494
Increase/(decrease) in provision for long service payments	**211**	(132)
Net cash used in operating activities	**(59,765)**	(19,778)

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries

	2007 HK$'000	2006 HK$'000
Assets/(liabilities) disposed of:		
Property, plant and equipment	**2**	—
Investment property	**835**	—
Prepayment and other receivables	**170**	2
Investments in securities	**—**	10,460
Cash and cash equivalents	**33**	—
Trade payables	**(6,234)**	—
Other payables and accruals	**(14,444)**	(148)
Amount due to a fellow subsidiary	**—**	(16)
Taxation	**(651)**	—
Reserves	**(15,180)**	—
	(35,469)	10,298
Disposal expenses	**—**	2,367
Gain on disposal of subsidiaries	**35,469**	17,589
	—	30,254
Satisfied by:		
Cash	**—**	18,000
Release of convertible notes	**—**	12,254
	—	30,254

Analysis of the net cashflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2007 HK$'000	2006 HK$'000
Cash consideration	**—**	18,000
Net (outflow)/ inflow of cash and equivalents in respect of the disposal of subsidiaries	**(33)**	18,000

32. COMMITMENT

Operating lease commitment

As lessee

The Group leases certain of its office and retail properties under operating lease arrangements.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
No later than 1 year	**6,085**	6,029
Later than 1 year and no later than 5 years	**2,258**	4,220
	8,343	10,249

33. RELATED PARTY TRANSACTIONS

In the opinion of the Directors, the ultimate holding company is Gain Alpha Finance Limited, which is incorporated in the British Virgin Islands.

(a) The following transactions were carried out with related parties, except for disclosed elsewhere in these consolidated financial statements:

	2007	2006
	HK$'000	*HK$'000*
Interest income from a former intermediate holding company	**769**	708
Finance costs incurred on loan from a substantial shareholder	**194**	225

(b) **Key management compensation**

	2007	2006
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**2,035**	1,883
Termination benefits	**—**	—
Post-employment benefits	**—**	—
Other long-term benefits	**—**	—
Share-based payments	**—**	—
	2,035	1,883

34. EVENTS AFTER THE BALANCE SHEET DATE

(1) On 29 April 2007, the Company entered into a conditional Sale and Purchase Agreement ("the S&P Agreement") with China Wind Power Investment Limited ("Vendor") under which the Company agreed to acquire the entire issued share capital of China Wind Power Holdings Limited ("China Wind Power"), a limited liability company incorporated in the British Virgin Islands. The minimum consideration for the acquisition is HK$100,000,000 and the maximum consideration is HK$200,000,000 depending on the audited net consolidated profit of the China Wind Power and its subsidiaries for the year ended 31 March 2008 or the year immediately following the completion of the S&P Agreement. The consideration will be settled by the issue of the convertible notes. Details of the transactions were disclosed in the Company's announcement dated 21 May 2007.

On 6 June 2007, Century Concord Energy Limited, a subsidiary of China Wind Power and Shanghai Shenhua entered into agreements to form a jointly control entity ("JV") with registered share capital of RMB136 million. Each of Century Concord Energy and Shanghai Shenhua will hold a 50% equity interest in the JV and contribute RMB68 million to the registered capital of JV in cash. Details of the transactions are disclosed in the Company's announcement dated 25 May 2007.

(2) Pursuant to the placing agreement entered on 22 May 2007, the placing agent placed 800,000,000 existing shares held by Gain Alpha at the placing price of HK$0.5 per share. And pursuant to a separate subscription agreement, Gain Alpha has subscribed for the same number of shares at the subscription price of HK$0.5 per share ("Subscription"), subject to independent shareholders' approval. The net proceed of the Subscription is approximately HK$387 million. Immediately prior to the placing, Gain Alpha has converted 1,350,000,000 preference shares held by it into 1,350,000,000 shares. Details of the transactions were disclosed in the Company's announcement dated 23 May 2007.

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**58,416**	49,323	62,929	142,004	108,321
Operating profit/(loss)	**34,951**	15,316	(13,310)	(83,503)	(72,225)
Finance costs	**(1,353)**	(5,903)	(7,098)	(11,517)	(6,683)
Gain on deconsolidation of a subsidiary	**—**	—	16,686	—	—
Profit/(loss) before income tax	**33,598**	9,413	(3,722)	(95,020)	(78,908)
Income tax expense	**—**	—	(1)	(15)	(1)
Minority interests	**—**	—	—	3,121	19,646
Profit/(loss) attributable to the equity holders	**33,598**	9,413	(3,723)	(91,914)	(59,263)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2007	2006	2005	2004	2003
Total assets	**42,345**	31,175	26,276	138,983	249,936
Total liabilities	**(24,882)**	(108,933)	(113,447)	(222,431)	(227,539)
Minority interests	**—**	—	—	—	(13,931)
Net assets/(liabilities)	**17,463**	(77,758)	(87,171)	(83,448)	8,466