

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

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1. GENERAL

The Company was incorporated in Bermuda on 12th August 1994 under the Companies Act 1981 of Bermuda as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 44.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) "Income Taxes" is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary and associate at the date of acquisition. Goodwill arising on the acquisition of subsidiaries and associates is capitalised and is amortised on a straight line basis over its estimated useful economic life.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Goodwill (continued)**

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on acquisition of subsidiaries is presented separately in the balance sheet.

Interests in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill in so far as it has not already been written off/amortised/released to income less any identified impairment loss.

Revenue recognition

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

Service fee income is recognised when services are provided.

Rental income, including rental invoiced in advance, from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

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

Franchise fee income is recognised on a straight line basis over the franchise period.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

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

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

Land held on medium-term leases	2% or the terms of the leases, if shorter
Buildings	2% or the terms of the leases, if shorter
Leasehold improvements	20 – 33 $\frac{1}{3}$ %
Plant and machinery	20%
Furniture and equipment	20 – 33 $\frac{1}{3}$ %
Motor vehicles	20%
Computer system	20 – 33 $\frac{1}{3}$ %

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group.

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

Trademarks

Trademarks are stated at cost less amortisation and accumulated impairment losses. Amortisation is calculated to write off the cost of trademarks over a period of ten years, their estimated useful lives, using the straight line method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Assets held under finance leases**

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

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

Inventories

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

Convertible loan stock

Convertible loan stock are separately disclosed and regarded as liabilities unless conversion actually occurs. The costs incurred in connection with the issue of convertible loan stock are deferred and amortised on a straight line basis over the lives of the convertible loan stock from the date of issue of the loan stock to their final redemption date. If any of the loan stock are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Deferred franchise income

Deferred franchise income represents initial franchise fee received which is recognised as income over the franchise period.

Research and development

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

Taxation

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Taxation (continued)**

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

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

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

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

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

Retirement benefit scheme

Payments to defined contribution retirement benefit scheme are charged to the income statement as they fall due.

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FOR THE YEAR ENDED 31ST MARCH 2004

4. TURNOVER

Turnover represents net amounts received and receivable from outside customers, during the year; less returns and allowances, and is summarised as follows:

	2004 HK\$'000	2003 HK\$'000
Sales of pharmaceutical products	189,329	83,340
Assembly of watches and manufacture of cases	88,941	109,298
Retail of complete watches and bags	70,829	67,148
Property investments and property holding	126	38
	349,225	259,824

5. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

Prior to February 2004, the Group, through its interest in Great Prime International Holdings Limited ("Great Prime") and its subsidiaries, was also involved in the assembly of watches and manufacture of cases, retail of complete watches and bags, property investments and property holding ("Watch and Property Business"). Upon disposal of Great Prime on 26th February 2004, the Watch and Property Business was discontinued (see note 8).

Subsequent to the disposal of Great Prime, the Group solely engaged in the production and sale of Chinese and western pharmaceutical products in Hong Kong and all the identifiable assets of the Group are mainly located in Hong Kong.

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

An analysis of the Group's turnover and contribution to operating results and segment assets and liabilities by business segments is presented as follows:

For the year ended 31st March 2004

	Continuing operations		Discontinued operations			Elimination	Total
	Production and sale of Chinese pharmaceutical products	Production and sale of western pharmaceutical products	Assembly of watches and manufacture of cases	Retail of complete watches and bags	Property investments and property holding		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity							
TURNOVER							
External sales	151,940	37,389	88,941	70,829	126	-	349,225
Inter segment sales*	-	-	31,593	242	198	(32,033)	-
	<u>151,940</u>	<u>37,389</u>	<u>120,534</u>	<u>71,071</u>	<u>324</u>	<u>(32,033)</u>	<u>349,225</u>
RESULTS							
Segment results	<u>5,001</u>	<u>7,257</u>	<u>(3,711)</u>	<u>(6,378)</u>	<u>(219)</u>		1,950
Amortisation of goodwill	(9,336)	(4,168)	-	-	-		(13,504)
Unallocated corporate expenses							<u>(16,315)</u>
Loss from operations							(27,869)
Finance costs							(8,206)
Share of results of associates	195	-	-	-	-		195
Gain on disposal of discontinued operations							<u>7,632</u>
Loss before taxation							(28,248)
Taxation							<u>(1,738)</u>
Loss before minority interests							(29,986)
Minority interests							<u>(20)</u>
Loss for the year							<u>(30,006)</u>

* Inter segment sales are charged on terms determined and agreed between group companies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	Continuing operations		
	Production and sale of Chinese pharmaceutical products HK\$'000	Production and sale of western pharmaceutical products HK\$'000	Total HK\$'000
ASSETS AND LIABILITIES AT 31ST MARCH 2004			
ASSETS			
Segmental assets	98,013	19,750	117,763
Goodwill	172,962	120,817	293,779
Interests in associates			30,575
Unallocated corporate assets			27,239
			<u>469,356</u>
LIABILITIES			
Segmental liabilities	67,423	12,953	80,376
Unallocated corporate liabilities			35,075
			<u>115,451</u>

	Continuing operations		Discontinued operations			
	Production and sale of Chinese pharmaceutical products HK\$'000	Production and sale of western pharmaceutical products HK\$'000	Assembly of watches and manufacture of cases HK\$'000	Retail of complete watches and bags HK\$'000	Property investments and property holding HK\$'000	Total HK\$'000
OTHER INFORMATION FOR THE YEAR ENDED 31ST MARCH 2004						
Amortisation of trademarks	68	-	13	-	-	81
Capital expenditure	6,360	1,015	929	1,764	-	10,068
Depreciation and amortisation of property, plant and equipment	2,695	227	2,768	1,786	184	7,660
Goodwill arising on acquisition of subsidiaries	2,668	124,985	-	-	-	127,653
Recognition of deferred franchise income	437	-	-	-	-	437

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

For the year ended 31st March 2003

	Continuing operations	Discontinued operations				
	Production and sale of Chinese pharmaceutical products	Assembly of watches and manufacture of cases	Retail of complete watches and bags	Property investments and property holding	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity						
TURNOVER						
External sales	83,340	109,298	67,148	38	–	259,824
Inter segment sales*	–	26,862	14,764	216	(41,842)	–
	<u>83,340</u>	<u>136,160</u>	<u>81,912</u>	<u>254</u>	<u>(41,842)</u>	<u>259,824</u>
RESULTS						
Segment results	<u>15,469</u>	<u>(4,797)</u>	<u>(7,345)</u>	<u>(734)</u>		2,593
Amortisation of goodwill	(7,002)	–	–	–		(7,002)
Unallocated corporate expenses						<u>(13,566)</u>
Loss from operations						(17,975)
Finance costs						(8,651)
Share of results of associates	11	–	–	–		<u>11</u>
Loss before taxation						(26,615)
Taxation						<u>(2,302)</u>
Loss before minority interests						(28,917)
Minority interests						<u>(29)</u>
Loss for the year						<u>(28,946)</u>

* Inter segment sales are charged on terms determined and agreed between group companies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

	Continuing operations		Discontinued operations		
	Production and sale of Chinese pharmaceutical products	Assembly of watches and manufacture of cases	Retail of complete watches and bags	Property investments and property holding	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
AT 31ST MARCH 2003					
ASSETS					
Segmental assets	67,208	29,131	30,782	6,208	133,329
Goodwill	179,630	–	–	–	179,630
Interests in associates					1,968
Unallocated corporate assets					4,758
					<u>319,685</u>
LIABILITIES					
Segmental liabilities	24,540	32,001	19,643	114	76,298
Unallocated corporate liabilities					<u>157,259</u>
					<u>233,557</u>
OTHER INFORMATION FOR THE					
YEAR ENDED 31ST MARCH 2003					
Amortisation of trademarks	31	14	–	–	45
Capital expenditure	2,411	1,534	3,264	–	7,209
Depreciation and amortisation of property, plant and equipment	1,700	3,732	2,546	204	8,182
Deficit on revaluation of investment properties	–	–	–	400	400
Goodwill arising on acquisition of subsidiaries	186,632	–	–	–	186,632
Impairment losses recognised	–	3,000	–	–	3,000
Recognition of deferred franchise income	<u>175</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>175</u>

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

An analysis of the Group's turnover by geographical market, irrespective of the origin of the goods and services, is presented below:

	2004 HK\$'000	2003 HK\$'000
United States of America	43,068	69,253
The PRC, other than Hong Kong	92,778	75,168
Hong Kong	171,543	82,443
Others	41,836	32,960
	349,225	259,824

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

	Carrying amount of assets		Capital additions	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
United States of America	–	1,897	–	–
The PRC, other than Hong Kong	13,846	44,919	2,487	3,884
Hong Kong	455,510	272,392	7,581	3,325
Others	–	477	–	–
	469,356	319,685	10,068	7,209

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

6. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs		
– Directors' remuneration (<i>Note 9</i>)	1,683	1,750
– Other staff costs	53,070	43,873
– Retirement benefit scheme contributions, other than directors	1,423	1,731
Total staff costs	56,176	47,354
Amortisation of goodwill, included in administrative expenses	13,504	7,002
Amortisation of trademarks, included in administrative expenses	81	45
Auditors' remuneration	655	668
Depreciation and amortisation		
– assets owned by the Group	7,367	8,060
– assets held under finance leases	293	122
Impairment losses recognised in respect of property, plant and equipment	–	3,000
Loss on disposal of property, plant and equipment	–	540
Revaluation decrease on revaluation of investment properties	–	400
Management fee paid to a shareholder	960	960
Research and development expenses	1,125	1,000
and after crediting:		
Dividend income from associates	12	–
Gain on disposal of property, plant and equipment	42	–
Interest income	24	47
Recognition of deferred franchise income	437	175
Rental income, net of outgoings of HK\$27,000 (2003: HK\$28,000)	126	17

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7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Amortisation of issue cost of convertible loan stock	–	31
Interest on:		
Bank borrowings wholly repayable within five years	805	606
Convertible notes	2,240	2,258
Convertible loan stock	1	4
Loans from a shareholder	4,535	5,028
Loan from a director	557	621
Finance leases	68	103
	8,206	8,620
	8,206	8,651

8. DISCONTINUED OPERATION

In January 2004, the Group entered into a sale and purchase agreement to dispose of a wholly owned subsidiary, Great Prime. Great Prime and its subsidiaries ("Great Prime Group") are principally engaged in the Watch and Property Business in Hong Kong and the PRC. The disposal was completed on 26th February 2004.

The results for the period up to date of disposal and the carrying amounts of the assets and liabilities of Great Prime Group at the date of disposal are disclosed in notes 5 and 34, respectively.

During the year, Great Prime Group used HK\$1,853,000 (2003: contributed HK\$2,001,000) of the Group's net operating cash flows, paid HK\$2,567,000 (2003: HK\$2,680,000) in respect of investing activities and contributed HK\$1,922,000 (2003: HK\$30,000) in respect of financing activities.

A gain of approximately HK\$7.6 million arose on the disposal of Great Prime, being the proceeds of disposal less the carrying amount of net assets of Great Prime Group. No tax charge or credit arose from the transaction.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

9. DIRECTORS' REMUNERATION

	2004 HK\$'000	2003 HK\$'000
Fees:		
Independent non-executive	420	420
Non-executive	2	–
	<u>422</u>	<u>420</u>
Other emoluments:		
Executive directors:		
Salaries and other benefits	1,231	1,300
Retirement benefit scheme contributions	30	30
	<u>1,261</u>	<u>1,330</u>
Total directors' emoluments	<u>1,683</u>	<u>1,750</u>

For the year ended 31st March 2004, directors' emoluments disclosed above have not included the use of rent free accommodation with an estimated rateable value of HK\$185,680 (2003: HK\$203,000) per annum provided by the Group to one (2003: one) of the directors.

The aggregate emoluments of each of the directors during the year ended 31st March 2004 were within the band of Nil to HK\$1,000,000 (2003: Nil to HK\$1,000,000).

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10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group did not include any directors of the Company whose emoluments are set out in note 9 above (2003: Nil). The aggregate emoluments of these five (2003: five) individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	6,676	6,456
Retirement benefit scheme contributions	131	198
	<u>6,807</u>	<u>6,654</u>

The emoluments of the individuals were within the following bands:

	2004 Number of employees	2003 Number of employees
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	4	3
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>1</u>	<u>1</u>

11. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	1,657	2,184
PRC Income Tax	101	118
	<u>1,758</u>	<u>2,302</u>
Overprovision in prior years		
Hong Kong Profits Tax	(158)	–
Deferred tax (Note 33)		
Current year	118	–
Attributable to change in tax rate	20	–
	<u>138</u>	<u>–</u>
	<u>1,738</u>	<u>2,302</u>

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FOR THE YEAR ENDED 31ST MARCH 2004

11. TAXATION *(continued)*

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) on the estimated assessable profit for the year.

Of the charge to income tax, approximately HK\$101,000 (2003: HK\$118,000) was related to the discontinued operations, as detailed in note 8 to the financial statements. There was neither charge nor credit arising on the loss on discontinuance of Great Prime Group.

PRC Income Tax is calculated at 27% of the estimated assessable profit for the year.

The tax charge for the year can be reconciled to the loss before taxation per the income statements as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Loss before taxation	28,248		26,615	
Tax at the domestic income tax rate of 17.5% (2003: 16%)	(4,943)	(17.5)	(4,259)	(16.0)
Tax effect of share of results of associates	(34)	(0.1)	(2)	–
Tax effect of expenses not deductible for tax purpose	4,586	16.2	4,432	16.6
Tax effect of income not taxable for tax purpose	(1,336)	(4.7)	(1)	–
Tax effect of tax losses not recognised	4,778	16.9	2,983	11.2
Underprovision in prior years	(158)	(0.6)	–	–
Utilisation of tax losses not recognised	(460)	(1.6)	–	–
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	20	0.1	–	–
Income tax on concessionary rate	363	1.3	196	0.7
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,078)	(3.8)	(1,047)	(3.9)
Taxation and effective tax rate of the year	1,738	6.2	2,302	8.6

Details of deferred taxation are set out in note 33.

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12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$30,006,000 (2003: HK\$28,946,000) and on the weighted average number of 295,234,589 (2003: 102,762,254) ordinary shares of HK\$0.10 in issue during the year.

The computation of diluted loss per share for each of the two years ended 31st March 2003 and 2004 does not assume (i) the conversion of the outstanding convertible bonds of the Company since their exercise would result in a decrease in net loss per share for the continuing operations; and (ii) the exercise of the outstanding options of the Company as the exercise price of those options is higher than the average market price of the shares of the Company on the Stock Exchange.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31st March 2003 has been retrospectively adjusted for the effect of the Share Consolidation as detailed in note 28 to the financial statements.

13. INVESTMENT PROPERTIES

THE GROUP

HK\$'000

At 1st April 2003	3,600
Eliminated on disposal of subsidiaries	(3,600)
	<hr/>
At 31st March 2004	—
	<hr/>

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14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer system <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
COST							
At 1st April 2003	39,334	26,503	23,654	27,116	3,455	9,559	129,621
Additions	–	4,019	1,008	3,423	–	1,618	10,068
Acquired on acquisition of subsidiaries	–	724	88	342	–	22	1,176
Disposal of subsidiaries	(31,628)	(24,490)	(18,002)	(16,543)	(3,223)	(6,949)	(100,835)
Disposals	–	(30)	(13)	(376)	(232)	(17)	(668)
At 31st March 2004	7,706	6,726	6,735	13,962	–	4,233	39,362
DEPRECIATION AND AMORTISATION AND IMPAIRMENT LOSSES							
At 1st April 2003	23,818	22,944	17,906	25,052	2,074	7,826	99,620
Provided for the year	1,215	2,315	1,375	1,565	328	862	7,660
Eliminated on disposal of subsidiaries	(23,761)	(23,257)	(15,411)	(14,588)	(2,170)	(6,625)	(85,812)
Eliminated on disposals	–	(3)	(1)	(47)	(232)	(17)	(300)
At 31st March 2004	1,272	1,999	3,869	11,982	–	2,046	21,168
NET BOOK VALUE							
At 31st March 2004	6,434	4,727	2,866	1,980	–	2,187	18,194
At 31st March 2003	15,516	3,559	5,748	2,064	1,381	1,733	30,001

The net book value of leasehold land and buildings shown above comprises:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Properties held under medium term leases in Hong Kong	6,434	13,875
Properties held under medium term land use rights in the PRC	–	1,641
	6,434	15,516

At 31st March 2003, the net book value of plant and machinery included an amount of approximately HK\$1,904,000 in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

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15. GOODWILL

THE GROUP

HK\$'000

COST

At 1st April 2003	186,632
Arising on acquisition of subsidiaries (Note 35)	127,653

At 31st March 2004	314,285
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AMORTISATION

At 1st April 2003	7,002
Provided for the year	13,504

At 31st March 2004	20,506
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NET BOOK VALUE

At 31st March 2004	293,779
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At 31st March 2003	179,630
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The goodwill is amortised, on a straight-line basis, over its useful life of 3 or 20 years.

16. INTERESTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1	151,227
Less: Impairment loss recognised	–	(134,508)
	1	16,719
Amounts due from subsidiaries	421,925	227,070
	421,926	243,789
Amounts due to subsidiaries	9,997	4,468

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, except for the amounts due to subsidiaries, the balance from the subsidiaries are unlikely to be repaid within twelve months from the balance sheet date and are therefore shown as non-current.

Details of the Company's principal subsidiaries at 31st March 2004 are set out in note 44.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

17. INTERESTS IN ASSOCIATES/AMOUNTS DUE FROM ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	9,204	1,968
Goodwill on acquisition (<i>Note</i>)	14,371	–
	23,575	1,968
Amount due from an associate	7,000	–
	30,575	1,968
Amounts due from associates	11,976	1,855

Note: The goodwill of associate arose on the acquisition of China Field Enterprises Limited ("China Field") on 31st March 2004 and the goodwill is to be amortised, on a straight line basis, over its estimated useful life of 10 years.

The amounts due from the associates are unsecured, interest-free and are repayable on demand, except for an amount of HK\$7,000,000 (2003: Nil). Of the HK\$7,000,000, the amount is interest bearing at 4% per annum and HK\$4,000,000 is repayable on 31st January, 2005. In the opinion of the directors, the remaining balance of HK\$3,000,000 is unlikely to be repaid within twelve months from the balance sheet date and is therefore shown as non-current.

Details of the Group's principal associates at 31st March 2004 are set out in note 45.

18. LOAN RECEIVABLE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Principal	–	890
Interest accruals	–	47
	–	937
<i>Less:</i> Amount due with one year shown under current assets	–	(129)
	–	808

The loan was unsecured, interest-bearing at 5.25% per annum and was fully repaid during the year.

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FOR THE YEAR ENDED 31ST MARCH 2004

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19. TRADEMARKS

THE GROUP

HK\$'000

COST	
At 1st April 2003	667
Addition	370
Disposal of subsidiaries	(139)

At 31st March 2004	898
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AMORTISATION	
At 1st April 2003	164
Provided for the year	81
Estimated on disposal of subsidiaries	(138)

At 31st March 2004	107
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NET BOOK VALUE

At 31st March 2004	791
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At 31st March 2003	503
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The trademark is amortised, on a straight line basis, over its useful life of 10 years.

20. INVENTORIES

THE GROUP

	2004	2003
	HK\$'000	HK\$'000
Raw materials and consumables	22,510	13,731
Work-in-progress	20	8,583
Finished goods	10,628	25,665
	33,158	47,979

All the inventories, excluding those fully provided for, are carried at cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

21. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. Included in trade and other receivables are trade receivables of HK\$36,834,000 (2003: HK\$23,706,000) and their aged analysis is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	20,996	13,337
31 – 60 days	7,406	7,363
61 – 120 days	7,703	2,915
Over 120 days	729	91
	36,834	23,706
Other receivables	11,469	7,962
	48,303	31,668

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$12,430,000 (2003: HK\$24,339,000) and their aged analysis is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	6,665	7,751
31 – 60 days	3,340	4,971
61 – 120 days	2,425	5,827
Over 120 days	–	5,790
	12,430	24,339
Other payables	17,106	31,660
	29,536	55,999

**23. LOANS FROM AND INTEREST PAYABLE TO A DIRECTOR/A SHAREHOLDER
THE GROUP AND THE COMPANY**

The loans were unsecured and interest-bearing at prime rate plus 2% per annum. The loan from and interest payable to a director, was fully set off with the consideration receivable on the disposal of Great Prime and the loan from and interest payable to a shareholder was fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

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24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	–	681	–	614
In the second to fifth year inclusive	–	940	–	887
	<u>–</u>	<u>1,621</u>	<u>–</u>	<u>1,501</u>
Less: Future finance charges	–	(120)	–	–
	<u>–</u>	<u>1,501</u>	<u>–</u>	<u>1,501</u>
Present value of lease obligations	–	1,501	–	1,501
Less: Amount due within one year shown under current liabilities			–	(614)
			<u>–</u>	<u>887</u>
Amount due after one year			–	887

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

25. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank loans	14,421	11,175
Trust receipt loan	–	6,104
Bank overdrafts	5,000	–
	19,421	17,279
The maturity profile of the above bank borrowings is as follows:		
On demand or within one year	12,964	13,947
More than one year, but not exceeding two years	6,044	1,668
More than two years, but not exceeding five years	413	1,664
	19,421	17,279
Less: Amount due within one year shown under current liabilities	(12,964)	(13,947)
Amount due after one year	6,457	3,332
Secured	–	6,104
Unsecured	19,421	11,175
	19,421	17,279

26. DEFERRED FRANCHISE INCOME

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
At beginning of the year	775	–
Acquisition of subsidiaries	–	722
Additions	381	228
Less: Recognised in the current year	(437)	(175)
At end of the year	719	775
Less: Amount due within one year shown under current liabilities	(364)	(240)
	355	535

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

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27. CONVERTIBLE LOAN STOCK

	THE GROUP AND THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
£590 (2003: £590) 9.5% convertible unsecured loan stock 2008 ("CL Stock")	6	6
Less: Issue cost	–	6,032
Accumulated release on redemption	–	(4,348)
Accumulated release on conversion	–	(13)
Accumulated amortisation of issue cost	–	(1,671)
	–	–
	6	6

On 12th January 1999, the Company issued CL Stock with a nominal value of £3,807,552 divided into 3,807,552 stock units. The CL Stock bear interest at the rate of 9.5% per annum, payable every half year on 31st March and 30th September of each year, and are redeemable at par on 30th September 2008 or, if later, the date falling 30 days after the final conversion date in respect of the year 2008.

Holders of the CL Stock are entitled to convert their units biannually at any time within 30 calendar days after the despatch of the interim report or final report of the Company up to and including 29th September 2008 on the following bases, subject to adjustment:

- (a) in respect of any conversion in any of the years 1999 to 2001 (both years inclusive), 25 ordinary shares for every stock unit (i.e. a theoretical conversion price of HK\$0.50 for each ordinary share (taking an exchange rate of £1 = HK\$12.5)); or
- (b) in respect of any conversion in any of the years 2004 to 2008 (both years inclusive), 14.286 ordinary shares for every stock unit (i.e. a theoretical conversion price of HK\$87.00 for each ordinary share (taking an exchange rate of £1 = HK\$12.5)), adjusted for Share Consolidation as detailed in note 28.

During the year ended 31st March 2004, the Company had no repayment of CL Stock (2003: £28,416) and the balance of CL Stock outstanding at 31st March 2004 which amounted to £590 (2003: £590) has been classified as a current liability.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

28. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At 1st April 2002, ordinary shares of HK\$0.10 each	800,000,000	80,000
Adjustment of nominal value	–	(72,000)
Cancellation	(610,080,136)	(6,101)
Additions	59,810,080,136	598,101
At 31st March 2003, ordinary shares of HK\$0.01 each	60,000,000,000	600,000
Consolidation of shares (<i>Note a</i>)	(59,400,000,000)	–
Adjustment of nominal value (<i>Note a</i>)	–	(540,000)
Additions (<i>Note a</i>)	5,400,000,000	540,000
At 31st March 2004, ordinary shares of HK\$0.1 each	6,000,000,000	600,000
Issued and fully paid:		
At 1st April 2002, ordinary shares of HK\$0.10 each	131,899,864	13,190
Private placement of shares	58,020,000	5,802
Adjustment of nominal value	–	(17,093)
Ordinary shares of HK\$0.01 each	189,919,864	1,899
Issue of shares in consideration for the acquisition of subsidiaries	13,600,000,000	136,000
Issue of shares upon conversion of convertible notes	2,000,000,000	20,000
At 31st March 2003, ordinary shares of HK\$0.01 each	15,789,919,864	157,899
Issue of shares in consideration for the acquisition of subsidiaries (<i>Note b</i>)	5,972,464,700	59,725
Issue of shares upon conversion of convertible notes (<i>Note c</i>)	8,450,000,000	84,500
Consolidation of shares (<i>Note a</i>)	(29,910,260,719)	–
Adjustment of nominal value (<i>Note a</i>)	–	(271,912)
Ordinary shares of HK\$0.10 each	302,123,845	30,212
Private placements of shares (<i>Note d</i>)	224,400,000	22,440
Exercise of share options (<i>Note e</i>)	26,250,000	2,625
At 31st March 2004, ordinary shares of HK\$0.1 each	552,773,845	55,277

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

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28. SHARE CAPITAL (continued)*Notes:*

- (a) Pursuant to a resolution passed in a special general meeting on 18th September 2003, the Group carried out the following capital reorganization ("Capital Reorganisation") which involved inter-alia:
- Every one hundred issued and unissued shares of HK\$0.01 each were consolidated into one share of HK\$1.00 each ("Share Consolidation").
 - The credit balance in the share premium account of approximately HK\$15,393,000 at 31st March 2003 was transferred to accumulated losses.
 - The nominal value of each issued ordinary share after the Share Consolidation was reduced from HK\$1.00 each to HK\$0.10 by cancellation of the HK\$0.90 of the capital paid up thereon ("Consolidated Shares"). The credit arising therefrom of HK\$271,912,000 was applied (i) as to HK\$144,343,000 to set off the accumulated losses of the Company outstanding as of 31st March 2003; and (ii) as to the balance of HK\$127,569,000 to credit to the general reserve of the Company.
 - All of the authorised but unissued share capital of the Company was cancelled.
 - The authorised share capital of the Company was increased to the original authorised share capital of HK\$600,000,000 by the issue 5,400,000,000 new Consolidated Shares.
- Details of the Capital Reorganisation are set out in a circular to the shareholders of the Company dated 21st August 2003.
- (b) Pursuant to a resolution passed by the shareholders of the Company at a special general meeting on 19th August 2003, the Company issued and allotted 5,972,464,700 ordinary shares of HK\$0.01 each to Wang On Group Limited ("Wang On") at a fair value of HK\$59,724,647 on 20th August 2003 as consideration for the acquisition of Bio Chapter Limited ("Bio Chapter") and Biomore Investments Limited ("Biomore") as detailed in note 35.
- (c) The Company issued and allotted a total of 8,450,000,000 ordinary shares of HK\$0.01 each upon exercise of the conversion rights by the holders of the convertible notes.
- (d) During the year, the Company issued and allotted ordinary shares as a result of the following placing of existing shares and top-up subscription of new shares (the "Placements"):
- (i) 60,000,000 existing Consolidated Shares of the Company held by Rich Time Strategy Limited ("Rich Time"), an indirect wholly owned subsidiary of Wang On, were placed to independent third parties at a price of HK\$0.80 each and 60,000,000 new Consolidated Shares of the Company were issued and allotted to Rich Time at HK\$0.80 per share on 26th November 2003 under a placing and a subscription agreement entered into by the Company on 12th November 2003. These shares were issued under the general mandate granted to the directors of the Company on 18th September 2003. The issued price of HK\$0.80 represented a discount of approximately 13.98% to the closing price of HK\$0.93 on 12th November 2003.

28. SHARE CAPITAL (continued)*Notes: (continued)*

- (ii) 72,400,000 existing Consolidated Shares of the Company held by Rich Time were placed to independent third parties at a price of HK\$0.60 each and 72,400,000 new Consolidated Shares of the Company were issued and allotted to Rich Time at HK\$0.60 per share on 9th January 2004 under a placing and a subscription agreement entered into by the Company on 29th December 2003. These shares were issued under the general mandate granted to the directors of the Company on 17th December 2003. The issued price of HK\$0.60 represented a discount of approximately 14.29% to the closing price of HK\$0.70 on 29th December 2003.
- (iii) 92,000,000 existing Consolidated Shares of the Company held by Rich Time were placed to independent third parties at a price of HK\$0.55 each and 92,000,000 new Consolidated Shares of the Company were issued and allotted to Rich Time at HK\$0.55 per share on 8th March 2004 under a placing and a subscription agreement entered into by the Company on 23rd February 2004. These shares were issued under the general mandate granted to the directors of the Company on 30th January 2004. The issued price of HK\$0.55 represented a discount of approximately 14.06% to the closing price of HK\$0.64 on 23rd February 2004.

The net proceeds of approximately HK\$136.5 million from the above Placements were used for the repayment of bank and other borrowings, expansion of retail network and production facilities and general working capital.

- (e) During the year, 26,250,000 share options were exercised at a subscribing price of HK\$0.64 per share, resulting in the issue of 26,250,000 Consolidated Shares in the Company.

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

29. SHARE OPTION SCHEME**1997 Scheme**

Pursuant to the share option scheme approved and adopted by the Company on 16th October 1997 (the "1997 Scheme") for the purpose of providing incentives to directors and eligible employees, which will expire on 16th October 2007, the Board of Directors of the Company may, at their discretion, grant options to directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company in accordance with the terms of the 1997 Scheme.

Pursuant to an ordinary resolution of the Company passed on 18th September 2003, the 1997 Scheme was terminated and that no further options will be granted under the 1997 Scheme, but in all other respect, the provisions of 1997 Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to such termination.

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FOR THE YEAR ENDED 31ST MARCH 2004

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29. SHARE OPTION SCHEME *(continued)***2004 Scheme**

On 18th September 2003, the Company adopted a new share option scheme (the "2004 Scheme") for the primary purpose of providing incentives to selected eligible persons as incentives or rewards for their contribution or potential contribution to the Company and its subsidiaries. Pursuant to the 2004 Scheme, which will expire on 17th September 2014, the board of directors of the Company may grant options to directors and eligible employees of the Company or its subsidiaries to subscribe for shares in the Company at a consideration equal to the higher of the closing price of the shares of the Company on the Stock Exchange at the date of offer of grant and the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the options.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant.

The maximum number of shares of the Company in respect of which options may be granted, when aggregated with any other share option schemes of the Company, shall not exceed 10% of the issued share capital of the Company from time to time excluding any shares issued upon the exercise of options granted pursuant to the 2004 Scheme. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 Scheme shall not exceed 30% of the shares in issue from time to time.

The total number of shares in respect of which options may be granted to an eligible person under the 2004 Scheme is not permitted to exceed 1% of the aggregate number of shares for the time being issued and issuable under the 2004 Scheme.

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FOR THE YEAR ENDED 31ST MARCH 2004

29. SHARE OPTION SCHEME (continued)**2004 Scheme (continued)**

The following table discloses movement in the 1997 Scheme and the 2004 Scheme during the two years ended 31st March 2004.

Option type	Date of grant	Exercise price	per share	Exercisable period	Outstanding at 1.4.2002 and 31.3.2003 <i>(Note)</i>	Number of options				
		per share	adjusted for the			Granted	Cancelled	Exercised	Outstanding	
		prior to Share Consolidation	effect of Share Consolidation			during the year	during the year	during the year	at 31.3.2004	
1997 Scheme										
Category 1: Employees										
Employees	9.12.1999	0.285	28.50	9.12.1999 to 8.12.2009	39,800	–	(2,200)	–	37,600	
	3.3.2000	0.820	82.00	3.3.2000 to 2.3.2010	20,000	–	–	–	20,000	
					59,800	–	(2,200)	–	57,600	
2004 Scheme										
Category 2: Others										
Franchisees	20.1.2004	–	0.64	20.1.2004 to 19.1.2014	–	26,250,000	–	(26,250,000)	–	
					59,800	26,250,000	(2,200)	(26,250,000)	57,600	

Note: The exercise price per share and the number of share options brought forward from last year have been adjusted to reflect the effect of the Share Consolidation during the year.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised ranges from HK\$0.66 to HK\$0.68.

Total consideration received during the year from employees for taking up the options granted amounted to HK\$7 (2003: Nil).

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30. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note a)	General reserve HK\$'000 (Note b)	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1st April 2002	15,393	18,494	54,589	(148,876)	(60,400)
Reduction in share capital	–	–	–	17,093	17,093
Loss for the year	–	–	–	(27,953)	(27,953)
At 31st March 2003	15,393	18,494	54,589	(159,736)	(71,260)
Reduction in share premium	(15,393)	–	–	15,393	–
Reduction in share capital	–	–	127,569	144,343	271,912
Issue of new shares	133,775	–	–	–	133,775
Share issue expenses	(4,791)	–	–	–	(4,791)
Loss for the year	–	–	–	(22,961)	(22,961)
At 31st March 2004	128,984	18,494	182,158	(22,961)	306,675

Notes:

- (a) The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the ordinary share capital issued by the Company under a group reorganisation in 1995, less capitalisation on bonus issue of shares.
- (b) The general reserve of the Company represents the amount of approximately HK\$54,589,000 (2003: HK\$54,589,000) and HK\$127,569,000 (2003: Nil) which arose from reduction of par value of the ordinary shares of the Company during the year ended 31st March 1999 and 2004, respectively.

Under the Companies Act 1981 of Bermuda (as amended), the Company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

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

At 31st March 2004, the reserve available for distribution to shareholders was approximately HK\$177,691,000 (2003: Nil) which represented the net balance of contributed surplus of approximately HK\$18,494,000 (2003: HK\$18,494,000), general reserves of approximately HK\$182,158,000 (2003: HK\$54,589,000) and accumulated losses of approximately HK\$22,961,000 (2003: HK\$159,736,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

31. CONVERTIBLE NOTES

THE GROUP
AND
THE COMPANY

HK\$'000

At 1st April 2003	64,000
Issued during the year (<i>Note a</i>)	90,000
Converted during the year (<i>Note b</i>)	(84,500)
Redeemed during the year	(13,000)

At 31st March 2004**56,500***Notes:*

- (a) On 20th August 2003, the Company issued convertible notes of HK\$70 million with a conversion price of HK\$0.01 per share as partial consideration for the acquisition of the entire equity interest in Bio Chapter and Biomore. The convertible notes carried interest at 2% per annum and are redeemable on 19th August 2006 unless it was previously converted or redeemed. These convertible notes were fully converted into shares of the Company during the year ended 31st March 2004.

On 30th March 2004, the Company issued convertible notes of HK\$20 million with a conversion price of HK\$0.70 per share as partial consideration for the acquisition of 49% equity interest in China Field. The convertible notes carried interest at 3% per annum and are redeemable on 30th March 2006 unless it was previously converted or redeemed. The holders of the convertible notes have the option to convert the convertible notes into shares of HK\$0.10 per share of the Company at any time during the period from 30th March 2004 to 30th March 2006.

- (b) During the year, the Company issued and allotted 8,450,000,000 ordinary shares of HK\$0.01 each upon the exercise of the conversion rights by the holders of the convertible notes.

At 31st March 2004, convertible notes of HK\$36.5 million with a conversion price of HK\$1.00 per share and convertible notes of HK\$20 million with a conversion price of HK\$0.70 per share, which carried interest at 3.8% per annum and 3% per annum, respectively, were held by Rich Time.

32. LOANS FROM A SHAREHOLDER
THE GROUP AND THE COMPANY

At 31st March 2004, the amounts were unsecured, interest-bearing at 2% per annum (2003: prime rate plus 2%) and repayable in March 2007.

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33. DEFERRED TAXATION

The following are the deferred tax liabilities recognised and movements thereon during the current and prior reporting year:

THE GROUP

	Accelerated tax depreciation <i>HK\$'000</i>	Allowance for bad and doubtful debt <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2002 and 31st March 2003	217	–	217
Charge to the income statement for the year	468	(350)	118
Effect of a change in tax rate	20	–	20
At 31st March 2004	705	(350)	355

At the balance sheet date, the Group had unused tax losses of HK\$55 million (2003: HK\$35 million) available to offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

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34. DISPOSAL OF SUBSIDIARIES

On 26th February 2004, the Group discontinued its Watch and Property Business at the time of disposal of Great Prime, details of which are set out in note 8. The net assets of Great Prime Group at the date of disposal were as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of:		
Investment properties	3,600	—
Property, plant and equipment	15,023	—
Trademark	1	—
Inventories	28,549	—
Trade and other receivables	18,095	—
Tax recoverable	30	—
Bank balances and cash	2,173	—
Trade and other payables	(54,656)	—
Tax payable	(323)	—
Obligation under finance leases	(1,017)	—
Bank borrowings	(8,635)	—
	2,840	—
Net assets	2,840	—
Reserve realised on disposal	(609)	—
Gain on disposal	7,632	—
	9,863	—
Satisfied by:		
Loan from and interest payable to a director	10,200	—
Related expenses paid on disposal	(337)	—
	9,863	—
Net outflow of cash and cash equivalent in respect of disposal of subsidiaries		
Cash consideration paid	(337)	—
Bank balances and cash disposed	(2,173)	—
	(2,510)	—

The subsidiaries disposed of during the year contributed approximately HK\$159,896,000 to the Group's turnover and a loss of approximately HK\$11,250,000 to the Group's loss from operations.

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35. ACQUISITION OF SUBSIDIARIES

On 20th August 2003, the Group acquired the entire equity interests in Bio Chapter and Biomore for a consideration of approximately HK\$130 million which was satisfied by the issue of 5,972,464,700 ordinary shares of HK\$0.01 each in the Company and the issue of convertible notes of HK\$70 million as detailed in note 31.

On 23rd March 2004, the Group also acquired 75% equity interest in Smart Leading Limited for a consideration of HK\$2,530,000.

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Property, plant and equipment	1,176	12,515
Interests in associates	–	2,333
Loan receivable	–	972
Trademarks	–	227
Inventories	4,271	11,779
Trade and other receivables	9,946	17,992
Amounts due from associates	–	3,262
Amount due from a related company	–	954
Bank and cash balances	4,556	3,303
Trade and other payables	(8,963)	(14,480)
Taxation payable	(629)	(2,159)
Bank borrowings	(4,722)	–
Deferred franchise income	–	(722)
Deferred taxation	–	(217)
Minority interests	(110)	(75)
Net assets	5,525	35,684
Goodwill arising on acquisition	127,653	186,632
Total consideration	133,178	222,316
Satisfied by:		
Shares allotted (Note)	59,725	136,000
Convertible notes	70,000	84,000
Expenses paid in cash	923	2,316
Cash consideration paid	2,530	–
	133,178	222,316
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Total cash consideration	(3,453)	(2,316)
Bank balances and cash acquired	4,556	3,303
Net inflow of cash and cash equivalents in respect of acquisition of subsidiaries	1,103	987

35. ACQUISITION OF SUBSIDIARIES *(continued)*

The subsidiaries acquired during the year contributed approximately HK\$37,389,000 (2003: HK\$83,340,000) to the Group's turnover and a profit of approximately HK\$7,000,000 (2003: HK\$15,469,000) to the Group's loss from operations.

Note: The shares were issued at HK\$0.01 per share, which approximated to the closing price of HK\$0.01 per share quoted on the Stock Exchange on 19th August 2003, being the trading day immediately before the completion of the transaction for the acquisition of Bio Chapter and Biomore.

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st March 2004, the major non-cash transactions were as follows:

- (a) Partial consideration for the acquisition of subsidiaries of approximately HK\$129,725,000 was satisfied by the issue of ordinary shares and convertibles notes of HK\$59,725,000 and HK\$70,000,000, respectively.
- (b) The consideration for the acquisition of the 49% equity interest in China Field and shareholders' loan of approximately HK\$7 million were satisfied by the issue of convertible notes of HK\$20 million and loans from a shareholder of HK\$7 million.
- (c) The Company issued and allotted 8,450,000,000 ordinary shares of HK\$0.01 each upon the exercise of the conversion rights by the holders of the convertible notes.
- (d) The consideration of HK\$10.2 million receivable for the disposal of subsidiaries was set off with a loan from and interest payable to a director.

During the year ended 31st March 2003, the major non-cash transactions were as follows:

- (a) The Group acquired approximately 99.79% interest in Wai Yuen Tong Medicine Company Limited at an aggregate consideration of approximately HK\$220 million which was satisfied by the issue of ordinary shares and convertible notes of HK\$136 million and HK\$84 million respectively.
- (b) The Company issued and allotted 2,000,000,000 ordinary shares of HK\$0.01 each upon the exercise of the conversion rights by the holders of the convertible notes.
- (c) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of lease contracts of HK\$789,000.

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37. RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme.

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

At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefit scheme, available to reduce the contribution payable in the future years.

38. PLEDGE OF ASSETS

At 31st March 2004, the Group had no pledge of assets.

At 31st March 2003, the Group had pledged its leasehold land and buildings and investment properties with an aggregate net book value of approximately HK\$10,882,000 to a bank to secure general banking facilities granted to the Group.

39. CAPITAL COMMITMENTS

At 31st March 2004, the Group had capital commitments of approximately HK\$2,193,000 (2003: HK\$377,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements.

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40. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000 (Note)	2003 HK\$'000 (Note)
Bills discounted with recourse	—	1,370	—	—
Guarantees given to bankers in respect of banking facilities granted to				
– subsidiaries	—	—	17,500	7,500
– a third party	2,096	1,489	—	—
	2,096	1,489	17,500	7,500

Note: The Company has also given an unlimited corporate guarantee to a bank in respect of banking facilities granted to its subsidiaries.

The extent of banking facilities utilised by the subsidiaries as at 31st March 2004 amounted to approximately HK\$14.4 million (2003: HK\$5.0 million).

41. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

The Group made minimum lease payments of approximately HK\$11,483,000 (2003: HK\$23,963,000) under operating leases during the year in respect of its office properties and retail shops.

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

	2004 HK\$'000	2003 HK\$'000
Within one year	22,498	8,935
In the second to fifth year inclusive	22,650	9,970
	45,158	18,905

Operating lease payments represent rentals payable by the Group for certain of its office properties and retail shops. Leases are negotiated for a term ranging from 1 to 3 years. Certain lease rentals are based on turnover of the relevant retail shops.

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41. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as lessor:

Property rental income earned during the year was approximately HK\$126,000 (2003: HK\$45,000). The properties held have committed tenants for the next three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2004 HK\$'000	2003 HK\$'000
Within one year	–	72
In the second to fifth year inclusive	–	144
	<hr/>	<hr/>
	–	216
	<hr/>	<hr/>

At the balance sheet date, the Company did not have any operating lease arrangements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2004

42. RELATED PARTY TRANSACTION AND BALANCES

During the year, the Group had the following related party transactions:

Name of related party	Transactions	2004 HK\$'000	2003 HK\$'000
(I) CONNECTED PARTIES			
Wang On and its subsidiaries (the "Wang On Group")	Interest on term loans paid by the Group (Note iii)	4,535	5,028
	Interest on convertible notes paid by the Group (Note iv)	2,240	1,865
	Management fee paid by the Group (Note v)	960	960
	Rental paid by the Group (Note vi)	4,154	–
	Acquisition of subsidiaries (Note vii)	129,725	–
	Acquisition of an associate (Note viii)	27,000	–
Town Health International Holdings Company Limited and its subsidiaries ("Town Health Group") (Note i)	Interest on convertible notes paid by the Group (Note iv)	–	393
	Sales of pharmaceutical products by the Group (Note ix)	1,335	1,750
	Management, advertising and promotion fees received by the Group (Note ix)	125	142
Leung Wai Ho (Note ii)	Interest on terms loans paid by the Group (Note iii)	557	621
	Disposal of subsidiaries (Note x)	10,200	–

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42. RELATED PARTY TRANSACTION AND BALANCES *(continued)*

During the year, the Group had the following related party:

Name of related party	Transactions	2004 HK\$'000	2003 HK\$'000
(II) RELATED PARTIES OTHER THAN CONNECTED PARTIES			
Associates	Sales of Chinese pharmaceutical products by the Group <i>(Note ix)</i>	25,561	9,428
	Management, advertising and promotion fees received by the Group <i>(Note ix)</i>	1,723	572
	Facilities granted by the Group <i>(Note xi)</i>	10,000	—

Notes:

- (i) Town Health Group was a substantial shareholder of the Company for the year ended 31st March 2003 and it ceased to be a substantial shareholder of the Company in November 2003.
- (ii) Leung Wai Ho is a director of the Company.
- (iii) Interest is calculated at 2% above prime rate per annum.
- (iv) Interest is calculated at the respective rates in accordance with the relevant convertible notes.
- (v) Management fee was mutually agreed and determined by the relevant parties.
- (vi) Pursuant to a lease agreement entered into by Wai Yuen Tong Medicine Company Limited, a subsidiary of the Company, with WOD Investments Limited ("WOD"), an indirect wholly owned subsidiary of Wang On, on 25th July 2003, WOD would lease to Wai Yuen Tong Medicine Company Limited certain leasehold land and building situated in Hong Kong. The rental of the properties was equivalent to the open market rental value at the date of entering of the agreements as certified by Vigers Hong Kong Limited, an independent firm of professional valuer in Hong Kong.

In April 2003, Luxembourg Medicine Company Limited entered into a tenancy agreement with WOD in respect of its office premises for a monthly rental of HK\$75,000. Rental expenses of approximately HK\$554,000 was paid to WOD since the Group's acquisition of Luxembourg Medicine Company Limited in August 2003.
- (vii) On 8th July 2003, the Company entered into conditional sales and purchase agreements with Wang On to acquire the entire equity interests in Bio Chapter and Biomore for a consideration of approximately HK\$129,725,000 as detailed in note 35.
- (viii) On 20th February 2004, Bright Leading Limited, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with an indirect wholly owned subsidiary of Wang On for the acquisition of 49% equity interest in China Field and shareholders' loan of HK\$7 million for a total consideration of HK\$27 million.
- (ix) These transactions were entered in accordance with the relevant franchise agreements.

42. RELATED PARTY TRANSACTION AND BALANCES *(continued)**Notes: (continued)*

- (x) On 15th January 2004, the Company disposed of its entire interest in Great Prime to Mr. Leung Wai Ho, an executive director of the Company at the time of the transaction, for a consideration of HK\$10.2 million.
- (xi) On 12th March 2004, the Company had given general facilities of HK\$10,000,000 to China Field. China Field had not utilize the facilities at 31st March 2004.

Details of the balances with related parties as at the balance sheet date are set out in the balance sheets and notes 17, 23, 31 and 32.

43. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to the balance sheet date:

- (a) On 8th April 2004, Source Millennium Limited, a wholly owned subsidiary of the Group, entered into a conditional sales and purchase agreement with Wang On Enterprises (BVI) Limited, a wholly owned subsidiary of Wang On, to acquire the entire interest in WOD for a consideration of approximately HK\$64.5 million, subject to adjustments. WOD is engaged in property holding, with its principal assets being certain leasehold land and building situated in Hong Kong valued at HK\$85 million by Vigers Appraisal & Consulting Limited, an independent firm of professional valuer. The transaction was completed on 30th June 2004.
- (b) On 28th June 2004, a rights issue on the basis of three shares for every one share held ("Rights Share"), together with the bonus shares to be issued on the basis of one bonus share for every fully paid Rights Share held by the shareholders on the register of members on 4th June 2004 at an issue price of HK\$0.16 per Rights Share was completed, resulting in the issue of 1,658,321,535 shares at HK\$0.16 each for a net consideration, after expenses, of approximately HK\$250 million.
- (c) The directors proposed that the share capital of the Company be reorganised, whereby, the paid up capital and nominal value of the issued shares be reduced from HK\$0.10 each into HK\$0.01 each, the authorised but unissued share capital of the Company be cancelled and increased to the original authorised share capital of HK\$600,000,000 and the credit of approximately HK\$49.7 million from the cancellation of HK\$0.09 of the paid up capital will be applied to the general reserve of the Company. The capital reorganisation was completed on 4th June 2004.
- (d) On 31st March 2004, the Company entered into a non-binding letter of intent with independent third parties for the possible acquisition of 75% equity interest in a company engaged in the processing of health food, including bottled packaged bird nests products in Singapore, for a consideration of approximately SG\$3 million (equivalent to approximately HK\$13.9 million). The legal sale and purchase agreement has not been entered into as at the date of this report.
- (e) On 29th June 2004, convertible notes of HK\$56,500,000 and loan from a shareholder of HK\$7,000,000 were fully repaid.

The acquisition of WOD, rights issue and capital reorganization as stated in (a), (b) and (c) were approved by the shareholders of the Company at a special general meeting held on 4th June 2004. Further details of which are set out in a circular to the shareholders of the Company dated 12th May 2004.

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44. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st March 2004 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company		Principal activity
			Directly	Indirectly	
Wai Yuen Tong Medicine Company Limited	Hong Kong	HK\$217,374 Ordinary HK\$17,373,750 non-voting deferred*	–	99.79%	Production and sale of Chinese pharmaceutical products
Luxembourg Medicine Company Limited	Hong Kong	HK\$434,747	–	99.79%	Production and sale of western pharmaceutical and health care products
Billion Good Investment Limited	Hong Kong	HK\$2	–	100%	Property holding company
Source Millennium Limited	British Virgin Islands	USD1	100%	–	Investment holding company
Bright Leading Limited	Hong Kong	HK\$2	–	100%	Investment holding company

* The non-voting deferred shares carry no voting rights or rights to dividends. On the winding-up of the Company, the non-voting deferred shares have a right to repayment in proportion to the amounts paid up on all ordinary and deferred shares after the first HK\$1,000,000,000,000 thereof has been distributed among the holders of the ordinary shares.

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

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45. PRINCIPAL ASSOCIATES

Details of the Group's principal associates at 31st March 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Issued and fully paid share capital	Class of shares held	Attributable proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
Basewin Limited	Incorporated	Hong Kong	HK\$240,000	Ordinary	33%	Retailing of Chinese pharmaceutical products
China Field Enterprises Limited	Incorporated	Hong Kong	HK\$25,000	Ordinary	49%	Investment holding
Chinese Leading Limited	Incorporated	Hong Kong	HK\$600,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Creation Sino Limited	Incorporated	Hong Kong	HK\$2,500,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Global Winner Holdings Limited	Incorporated	Hong Kong	HK\$360,000	Ordinary	40%	Retailing of Chinese pharmaceutical products
Hunan Xiangya Pharmaceutical Co., Limited	Unincorporated	PRC	RMB29,225,000	N/A	39.2%	Production and distribution of pharmaceutical products
Longly Richly Limited	Incorporated	Hong Kong	HK\$650,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Lucky Planning Limited	Incorporated	Hong Kong	HK\$700,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Incorporated	Hong Kong	HK\$2,500,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Venko Limited	Incorporated	Hong Kong	HK\$100	Ordinary	40%	Retailing of Chinese pharmaceutical products