1. CORPORATE INFORMATION

During the year, the Group was involved in the trading of proprietary Chinese medicines and the manufacture and distribution of pharmaceutical products.

In the opinion of the directors, the Company's ultimate holding company is Oriental Chinese Medicines Limited, which is incorporated in the British Virgin Islands.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

SSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of SSAP 12 on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised relating to the fair value adjustments arising from the acquisition of a subsidiary.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 24 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes arising from them are included in the accounting policy for deferred tax in note 4 and in note 24 to the financial statements.

3. BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 17 May 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 September 2002. The Company became the holding company of the Group on 22 August 2002 through a reorganisation of the Group (the "Reorganisation"). Particulars of the Reorganisation are set out in the prospectus of the Company dated 27 August 2002.

In the opinion of the directors, the Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the financial statements for the prior year had been prepared on the basis of merger accounting, under which the Company had been treated as the holding company of the Group for the prior year presented, rather than from 22 August 2002. In the circumstances, the results of the Group for the year ended 31 March 2003 include the results of the Company and its subsidiaries with effect from 1 April 2002 or since their respective dates of incorporation, whichever is the shorter period. In the opinion of the directors, the financial statements for the prior year prepared on the abovementioned basis present more fairly the results of the Group as a whole.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

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

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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

Related parties

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

Impairment of assets

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

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

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

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

Fixed assets and depreciation

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

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

Leasehold land	Over the lease terms
Buildings	5%
Furniture, fixtures and equipment	30%
Computer equipment	20%
Plant and machinery	30%
Motor vehicles	30%

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease terms and the rate of 20% per annum.

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

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction and installation, and is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Research and development costs

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

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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

Inventories

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

Cash and cash equivalents

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

For the purpose of the balance sheet, cash and cash equivalents, comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

Income tax *(Continued)*

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

Revenue recognition

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

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

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

Employee benefits

Pension schemes

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

The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC" or "Mainland China") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of the payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

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

Employee benefits *(Continued)*

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date or which lapse are deleted from the register of outstanding options.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

5. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because it is more relevant to the Group's internal financial reporting.

(a) Business segment

The Group has only one business segment, which is the trading of proprietary Chinese medicines and the manufacture and distribution of pharmaceutical products and therefore, no business segment information is presented.

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

The following table presents revenue, certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Mainland China		Japan		Southeast Asia		Others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**46,866**	68,106	**883**	–	**–**	14,616	**12,547**	8,473	**273**	–	**60,569**	91,195
Other segment information:												
Segment assets	**59,561**	92,821	**42,709**	–	**–**	–	**–**	–	**–**	–	**102,270**	92,821
Capital expenditure	**7,477**	1,782	**14,516**	–	**–**	–	**–**	–	**–**	–	**21,993**	1,782

6. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of turnover and other revenue is as follows:

	2004 HK$'000	2003 HK$'000
Turnover		
Sale of goods	**60,569**	91,195
Other revenue		
Interest income	**235**	611
Advertising income	**379**	329
Others	**1,022**	586
	1,636	1,526

7. PROFIT FROM OPERATING ACTIVITIES

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

	Note	2004 HK$'000	2003 HK$'000
Cost of inventories sold		**16,861**	22,335
Depreciation	*15*	**1,874**	1,176
Research and development costs		**500**	6,183
Minimum lease payments under operating leases on land and buildings		**2,452**	2,458
Auditors' remuneration		**600**	921
Staff costs (excluding directors' remuneration in note 9):			
Wages and salaries		**10,433**	9,303
Pension scheme contributions (defined contribution scheme)		**409**	319
		10,842	9,622
Loss/(gain) on disposal of fixed assets		**(80)**	119

8. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest on finance leases	**19**	139
Other finance costs	**–**	23
	19	162

9. DIRECTORS' REMUNERATION

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**144**	88
	144	88
Other emoluments:		
Salaries, allowances and benefits in kind	**3,300**	1,766
Discretionary bonuses	**186**	933
Pension scheme contributions	**48**	37
	3,534	2,736
	3,678	2,824

9. DIRECTORS' REMUNERATION *(Continued)*

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

	Number of directors	
	2004	2003
Nil to HK$1,000,000	**4**	5
HK$1,000,001 – HK$1,500,000	**2**	1
	6	6

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value in respect of the share options granted during the prior year had been charged to the profit and loss account in the prior year, or is otherwise included in the above directors' remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,190**	1,574
Discretionary bonuses	**176**	254
Pension scheme contributions	**24**	36
	1,390	1,864

10. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
	HK$'000	*HK$'000*
Nil to HK$1,000,000	**2**	3

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004.

	2004	2003
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**1,072**	2,829
Under/(over) provision in prior years	**108**	(24)
Deferred *(note 24)*	**170**	–
Total tax charge for the year	**1,350**	2,805

11. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries, are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2004

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	5,723		(1,061)		4,662	
Tax at the statutory tax rate	1,002	17.5	(159)	(15.0)	843	18.1
Tax effect of tax losses not recognised	27	0.5	159	15.0	186	4.0
Adjustments in respect of current tax of previous periods	108	1.9	–	–	108	2.3
Income not subject to tax	(47)	(0.8)	–	–	(47)	(1.0)
Expenses not deductible for tax	260	4.5	–	–	260	5.6
Tax charge at the Group's effective rate	1,350	23.6	–	–	1,350	29.0

Group – 2003

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	18,356		–		18,356	
Tax at the statutory tax rate	2,937	16.0	–	–	2,937	16.0
Tax effect of tax losses not recognised	40	0.2	–	–	40	0.2
Adjustments in respect of current tax of previous periods	(24)	(0.1)	–	–	(24)	(0.1)
Income not subject to tax	(207)	(1.1)	–	–	(207)	(1.1)
Expenses not deductible for tax	59	0.3	–	–	59	0.3
Tax charge at the Group's effective rate	2,805	15.3	–	–	2,805	15.3

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK$5,000 (2003: profit of HK$94,000) (note 27(b)).

13. DIVIDENDS

	2004	2003
	HK$'000	*HK$'000*
Interim – Nil (2003: HK1 cent) per ordinary share	–	6,000
Proposed final – Nil (2003: HK0.33 cent) per ordinary share	–	2,000
	–	8,000

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$3,312,000 (2003: HK$15,551,000) and 600,000,000 (2003: weighted average of 535,479,452) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$3,312,000 (2003: HK$15,551,000). The weighted average number of ordinary shares used in the calculation is 600,000,000 (2003: 535,479,452) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 1,522,179 (2003: 1,136,642) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

15. FIXED ASSETS

Group

	Leasehold land and buildings	Leasehold improve-ments	Furniture, fixtures and equipment	Computer equipment	Plant and machinery	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:								
At beginning of year	–	1,645	1,195	1,103	1,045	846	–	5,834
Additions	4,956	904	82	222	368	1,295	14,166	21,993
Acquisition of a subsidiary *(note 28(b))*	11,458	–	279	–	1,112	507	6,760	20,116
Disposals	–	–	–	(9)	–	(484)	–	(493)
Transfer	13,729	–	–	–	6,660	–	(20,389)	–
Exchange realignment	92	–	2	–	9	4	55	162
At 31 March 2004	**30,235**	**2,549**	**1,558**	**1,316**	**9,194**	**2,168**	**592**	**47,612**
Accumulated depreciation:								
At beginning of year	–	967	612	497	715	644	–	3,435
Provided during the year	219	453	254	258	349	341	–	1,874
Disposals	–	–	–	(8)	–	(450)	–	(458)
At 31 March 2004	**219**	**1,420**	**866**	**747**	**1,064**	**535**	**–**	**4,851**
Net book value:								
At 31 March 2004	**30,016**	**1,129**	**692**	**569**	**8,130**	**1,633**	**592**	**42,761**
At 31 March 2003	–	678	583	606	330	202	–	2,399

The Group's leasehold land and buildings with aggregate costs of HK$4,956,000 and HK$25,279,000 are situated in Hong Kong and the Mainland China, respectively, and are held under medium term leases.

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2004, amounted to HK$933,000 (2003: Nil).

16. GOODWILL

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

	Group
	HK$'000
Cost:	
Acquisition of a subsidiary during the year *(note 28(b))* and 31 March 2004	1,366
Accumulated amortisation:	
At beginning of year and 31 March 2004	–
Net book value:	
At 31 March 2004	**1,366**
At 31 March 2003	–

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**54,999**	54,999
Less: Return of capital *(note)*	**(25,000)**	(25,000)
	29,999	29,999

Note: Return of capital represents an interim dividend declared by a subsidiary from its profits prior to the Reorganisation.

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			2004	2003	
Long Far Pharmaceutical (BVI) Limited ("Long Far Pharmaceutical")	British Virgin Islands/ Hong Kong	US$200	100	100	Investment holding
Long Far Herbal Medicine Manufacturing (Hong Kong) Limited ("LFHK")	Hong Kong	Ordinary shares HK$10 and deferred shares *HK$100,000	100	100	Trading of proprietary Chinese medicines
Hong Kong Health Journal Limited	Hong Kong	HK$100,000	100	100	Publishing of health journals
International Health Association (Hong Kong) Limited	Hong Kong	HK$100,000	100	100	Operating a healthcare association and provision of healthcare consultancy services
Winlead Investment Limited	British Virgin Islands/ Hong Kong	US$1	100	100	Investment holding
Long Far Health Products Limited	Hong Kong	HK$2	100	–	Trading of health products

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company 2004	2003	Principal activities
雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Co., Ltd.)# ("Yunnan Long Far") (formerly 楚雄雁塔葯業有限責任公司 (Chuxiong Yanta Pharmaceutical Company Limited))	PRC	RMB25,700,000	**100**	–	Manufacture and distribution of pharmaceutical products

* In accordance with the articles of association of LFHK, shareholders of non-voting deferred shares are not entitled to any dividend, any participation in the profits or (unless the distribution of the net assets for the first $100,000 billion is made to the ordinary shareholders), assets of LFHK and are also not entitled to vote at any general meeting.

Acquired during the year (note 28(b)).

Except for Long Far Pharmaceutical, all the above subsidiaries are indirectly held by the Company.

18. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Trading goods	**3,172**	7,938
Finished goods	**1,868**	–
Goods in transit	**–**	273
Work in progress	**425**	–
Raw materials	**345**	–
Packaging materials	**958**	703
	6,768	8,914

No inventories were carried at net realisable value at the balance sheet date (2003: Nil).

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 20 days to 3 months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Current	**8,417**	11,179
1 to 3 months overdue	**5,228**	3,968
More than 3 months overdue but less than 12 months overdue	**2,363**	–
Over 12 months overdue	**77**	53
	16,085	15,200

20. DUE FROM PRIOR SHAREHOLDERS

The amounts at 31 March 2003 represented receivables from prior shareholders of the Group under a tax indemnity in respect of the years of assessment prior to the listing of the Group and were settled during the year.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**15,209**	5,159	**190**	601
Time deposits	**15,787**	57,523	**8,206**	36,209
	30,996	62,682	**8,396**	36,810
Less: Pledged time deposits	**(4,388)**	(4,350)	**–**	–
Cash and cash equivalents	**26,608**	58,332	**8,396**	36,810

22. TRADE PAYABLES

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
Current	**237**	2,098
1 to 3 months overdue	**4,086**	–
More than 3 months overdue but less than 12 months overdue	**213**	–
	4,536	2,098

23. FINANCE LEASE PAYABLES

The Group leases its motor vehicle for its business. The lease is classified as a finance lease and has a remaining lease term of three years.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments	Minimum lease payments	**Present value of minimum lease payments**	Present value of minimum lease payments
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**244**	–	**215**	–
In the second year	**244**	–	**225**	–
In the third to fifth years, inclusive	**285**	–	**273**	–
Total minimum finance lease payments	**773**	–	**713**	–
Future finance charges	**(60)**	–		
Total net finance lease payables	**713**	–		
Portion classified as current liabilities	**215**	–		
Long term portion	**498**	–		

24. DEFERRED TAX

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

Deferred tax liabilities

Group

	Accelerated tax depreciation
	2004
	HK$'000
At 1 April 2003	–
Deferred tax charged to the profit and loss account during the year *(note 11)*	170
Gross deferred tax liabilities at 31 March 2004	170

Deferred tax assets

Group

	Fair value adjustments arising from acquisition of a subsidiary
	2004
	HK$'000
At 1 April 2003	–
Deferred tax adjusted to goodwill *(note 28(b))*	240
Gross deferred tax assets at 31 March 2004	240
Net deferred tax assets at 31 March 2004	70

24. DEFERRED TAX *(Continued)*

The Group has tax losses arising in Hong Kong of HK$403,000 (2003: HK$250,000) and tax losses arising in the Mainland China of HK$1,061,000 (2003: Nil) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

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

SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 March 2004 by HK$170,000. As a consequence, the consolidated net profit attributable to shareholders for the year ended 31 March 2004 has been decreased by HK$170,000.

25. SHARE CAPITAL

Shares

	2004	2003
	HK$'000	*HK$'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.05 each	**250,000**	250,000
Issued and fully paid:		
600,000,000 ordinary shares of HK$0.05 each	**30,000**	30,000

Share options

Details of the Company's share option scheme and the share options granted under the scheme are included in note 26 to the financial statements.

26. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the holders of securities of the Group. The Scheme became effective on 5 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme is 60,000,000 shares, representing 10% of the shares of the Company in issue as at the date of listing of the Company and as at the date of the Company's annual report 2004, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issued and to be issued under share options to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of the offer of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average 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 of the Company on the date of offer.

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

As at the date of this annual report, the total number of shares available for issue under the Scheme is 54,500,000 shares, representing 9.08% of the total issued share capital of the Company on that date.

26. SHARE OPTION SCHEME *(Continued)*

Details of the share options under the Scheme during the year as required by the Listing Rules to be disclosed are as follows:

Name of option holder	Number of share option at 1 April 2003	Date of grant of share option	Exercise period of share option	Exercise price of share option	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Number of share option at 31 March 2004
Mr. Jiao Shaoliang, Executive Director	1,100,000	9.9.2002	See note below	HK$0.375 per share	–	–	–	**1,100,000**
Mr. Lan Daoying, Executive Director	1,200,000	9.9.2002	See note below	HK$0.375 per share	–	–	–	**1,200,000**
Continuous contract employees in aggregate	3,200,000	9.9.2002	See note below	HK$0.375 per share	–	–	–	**3,200,000**
Total	5,500,000				–	–	–	**5,500,000**

Note: The exercise period is 9 years from 9 September 2003 to 8 September 2012 (a "Year" shall mean the period from 9 September to 8 September of the next year) provided that subject to the option that the grantee is entitled to exercise but has not yet exercised and the shares of the Company that may be subscribed by the grantee in respect of such unexercised options in the previous relevant Year(s), no more than 10% of the total number of shares under the options granted (the "Total Number") may be subscribed in each Year; that the remaining 10% of the Total Number may be subscribed at any time during the period commencing on 9 September 2007 to 8 September 2012; that where any part of the option has not been exercised during the relevant Year(s), the part of the option which the grantee is entitled to exercise but has not yet exercised may be carried forward and that no option can be exercised after 8 September 2012.

At the balance sheet date, the Company had 5,500,000 shares subject to options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 5,500,000 additional ordinary shares of the Company and additional share capital of HK$275,000 and share premium of HK$1,787,500 (before issue expenses).

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 2002, over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

		Share premium account	Contributed surplus	Retained profits	Total
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2002		–	–	–	–
Reorganisation adjustment		–	54,999	–	54,999
Issue of shares		43,500	–	–	43,500
Capitalisation issue		(22,500)	–	–	(22,500)
Share issue expenses		(12,280)	–	–	(12,280)
Net profit for the year	*12*	–	–	94	94
Interim 2003 dividend	*13*	–	(6,000)	–	(6,000)
Proposed 2003 final dividend	*13*	–	(2,000)	–	(2,000)
At 31 March 2003 and at 1 April 2003		8,720	46,999	94	55,813
Net profit for the year	*12*	–	–	(5)	(5)
At 31 March 2004		**8,720**	**46,999**	**89**	**55,808**

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 2002, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of its contributed surplus in certain circumstances.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

During the year, the Group entered into a finance lease arrangement in respect of a fixed asset with a capital value at the inception of the lease of HK$1,088,000 (2003: Nil).

(b) Acquisition of a subsidiary

	2004
	HK$'000
Net assets acquired:	
Fixed assets	**20,116**
Inventories	**527**
Prepayments, deposits and other receivables	**165**
Cash and cash equivalents	**338**
Deferred tax assets	**240**
Other payables and accruals	**(8,354)**
	13,032
Goodwill on acquisition	**1,366**
	14,398
Satisfied by:	
Cash consideration	**13,500**
Legal and professional fees incurred in connection with the acquisition	**898**
	14,398

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

(b) Acquisition of a subsidiary *(Continued)*

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

	2004
	HK$'000
Cash consideration	**14,398**
Cash and cash equivalents acquired	**(338)**
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**14,060**

On 8 October 2003, the Group acquired a 100% interest in Yunnan Long Far, which is engaged in the manufacture and distribution of pharmaceutical products. Further details of the transaction are included in note 31(c) to the financial statements. The purchase consideration for the acquisition was in the form of cash being paid during the year.

Since its acquisition, the subsidiary contributed HK$883,000 to the Group's turnover and a loss of HK$1,061,000 to the consolidated profit after tax for the year ended 31 March 2004.

29. CONTINGENT LIABILITIES

As at 31 March 2004, the Group had 348,151 (2003: 459,030) outstanding coupons issued to the members of the International Health Association, established by a subsidiary of the Group, which entitle the coupon holders to purchase products of the Group from certain retailing outlets in Hong Kong at a discounted price for a period up to 31 October 2005. These retailing outlets would be entitled to recoup from the Group for the amount of discounts given to the coupon holders upon the presentation of the coupons received. As at 31 March 2004, the maximum value of these outstanding coupons, subject to recoup by these retailing outlets, amounted to approximately HK$9,226,000 (2003: HK$13,771,000).

30. COMMITMENTS

(a) Operating lease commitments

The Group leases its office and warehouse properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years, with an option to renew the lease when the terms are renegotiated.

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

	2004	2003
	HK$'000	*HK$'000*
Within one year	**2,172**	1,404
In the second to fifth years, inclusive	**676**	381
	2,848	1,785

(b) Capital commitments

At the balance sheet date, the Group had the following contracted capital commitments:

	2004	2003
	HK$'000	*HK$'000*
Research and development project	**500**	–
Acquisition of fixed assets	**581**	–
	1,081	–

31. RELATED PARTY TRANSACTIONS

(a) During the year, the Group outsourced the manufacturing of certain goods to 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) ("YPYP"), and purchased certain goods from 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited) ("YLRP"). YPYP is a company in which a director of the Company, Mr. Chiu Ka Leung, held a 51% interest. YLRP is a wholly-owned subsidiary of Long Run Pharmaceuticals Group Limited, which is beneficially owned as to 90% and 10% by Mr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

	2004	2003
	HK$'000	*HK$'000*
Goods outsourced to YPYP for manufacturing	**8,015**	21,398
Purchases of goods from YLRP	**1,406**	–

Pursuant to the outsourcing agreement with YPYP, the outsourcing cost is determined based on the market price of similar services prevailing at the beginning of each year and the actual purchase costs of raw materials and other costs incurred during the manufacturing process of the goods.

The purchases of goods from YLRP are determined at prices mutually agreed between the Group and YLRP.

The balances due to YPYP and YLRP at the balance sheet date amounting to HK$3,456,000 (2003: HK$2,097,000) and HK$148,000 (2003: Nil), respectively, are included in trade payables.

(b) During the year, the Group made advances amounting to approximately HK$965,000 and HK$171,000 to Mr. Chiu Ka Leung and Ms. Yeh Shu Ping, directors of the Company, respectively. The advances were unsecured, interest-free and had no fixed terms of repayment. The maximum outstanding amount due from Mr. Chiu Ka Leung and Ms. Yeh Shu Ping during the year was approximately HK$965,000 and HK$171,000, respectively. All outstanding amounts were repaid by the directors during the year.

31. RELATED PARTY TRANSACTIONS *(Continued)*

(c) On 5 August 2003, Winlead Investment Limited ("Winlead"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with YLRP pursuant to which Winlead conditionally agreed to purchase and YLRP conditionally agreed to sell the entire equity interest in Yunnan Long Far for a total cash consideration of HK$13,500,000 (the "Acquisition"). Yunnan Long Far is a company incorporated in the PRC with limited liability and its principal activities include the provision of research, development, manufacture and distribution of pharmaceutical products in the PRC. The Acquisition constituted a discloseable and connected transaction for the Company under the Listing Rules and was approved by the independent shareholders of the Company at an extraordinary general meeting held on 22 September 2003. Further details of the Acquisition are set out in the Company's circular to shareholders dated 5 September 2003. The Acquisition was completed on 8 October 2003.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 July 2004.