1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- marketing and distribution of pharmaceutical products
- development, manufacture and sale of pharmaceutical products
- commercial exploitation of gene inventions
- research on genome related technology and development and manufacture of genechips

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements and has had a significant impact thereon.

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 the revision of this SSAP 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 generally 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.

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 9 and 28 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense/credit for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in notes 3 and 28 to the financial statements.

3. 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 all of 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 have been eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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 interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Joint venture companies (Cont'd)

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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;

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

(c) from the assignment of technical knowhow, when the technology is transferred to the buyer; and

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

Goodwill

Goodwill arising on the acquisition of subsidiaries, jointly-controlled entities and associates 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 a period up to a maximum of 20 years. In the case of jointly-controlled entities and associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separate identifiable asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 which permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the goodwill accounting policy above.

On disposal of subsidiaries, jointly-controlled entities or associates, 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. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill (Cont'd)

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, 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.

Fixed assets and depreciation

Fixed assets 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:

Medium and short term leasehold land and buildings outside Hong Kong	Over the lease terms
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 30%
Motor vehicles	20%

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.

Intangible assets

Intangible assets, which comprise rights to technical knowhow and rights to commercially exploit certain gene inventions, are stated at cost less accumulated amortisation and any impairment losses.

General pharmaceutical products

The cost of acquiring the rights to technical knowhow for the development and production of new pharmaceutical products is amortised on the straight-line basis over the estimated economic lives of the knowhow of a maximum of five years commencing in the year when the new pharmaceutical products are put into commercial production.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (Cont'd)

Genome related technology
The cost of acquiring the rights to technical knowhow for the development and production of genome related products is amortised on the straight-line basis over the estimated economic lives of the knowhow of a period up to a maximum of 20 years.

Gene inventions rights
The cost of acquiring the rights to commercially exploit certain gene inventions is amortised over the lives of the rights granted for the gene inventions of a period up to a maximum of 20 years.

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.

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 estimated costs to be incurred to completion and disposal.

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 in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets (Cont'd)

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 in the period in which it arises.

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.

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 the initial recognition of an asset or liability 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, jointly-controlled entities and associates, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

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 the initial recognition of an asset or liability 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, jointly-controlled entities and associates, 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.

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.

Operating leases

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 operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits

Employment Ordinance long service payments

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

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, as at 31 March 2004 and 2003.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the 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 Company's subsidiaries established in the People's Republic of China (the "PRC") are members of the state-managed retirement benefits scheme operated by the government of the PRC. The retirement scheme contributions, which are based on a certain percentage of the salaries of the relevant subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to this scheme.

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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling 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 into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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 bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

Detailed segment information is presented by way of the Group's primary segment reporting basis, which is by business segment. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

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

(a) the manufacturing segment engages in the development, manufacture and sale of pharmaceutical products;

(b) the trading segment engages in the marketing and distribution of imported pharmaceutical products, and healthcare and nutritional products; and

(c) the gene development segment engages in the commercial exploitation of certain gene inventions, the research on genome related technology, and the development and manufacture of genechips.

4. SEGMENT INFORMATION (Cont'd)

Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

	Manufacturing		Trading		Gene development		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
								(Restated)
Segment revenue								
Sales to external customers	**83,567**	66,882	**128,579**	125,257	**3,485**	23,384	**215,631**	215,523
Segment results	**12,983**	5,976	**30,974**	32,611	**(69,307)**	24,727	**(25,350)**	63,314
Interest income							**749**	1,231
Net unallocated expenses							**(7,132)**	(7,189)
Profit/(loss) from operating activities							**(31,733)**	57,356
Finance costs							**(2,375)**	(3,078)
Share of loss of an associate					**(1,727)**	(635)	**(1,727)**	(635)
Profit/(loss) before tax							**(35,835)**	53,643
Tax							**(1,103)**	178
Profit/(loss) before minority interests							**(36,938)**	53,821
Minority interests							**51,579**	(6,393)
Net profit from ordinary activities attributable to shareholders							**14,641**	47,428

4. SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

	Manufacturing		Trading		Gene development		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment assets	**183,956**	157,138	**82,108**	80,449	**193,724**	272,429	**459,788**	510,016
Interest in an associate	**–**	–	**–**	–	**7,247**	8,974	**7,247**	8,974
Unallocated assets							**63,297**	75,073
Bank overdrafts included in segment assets							**–**	7,073
Total assets	**183,956**	157,138	**82,108**	80,449	**200,971**	281,403	**530,332**	601,136
Segment liabilities	**54,316**	54,687	**24,976**	24,411	**20,415**	31,943	**99,707**	111,041
Unallocated liabilities							**7,367**	15,773
Bank overdrafts included in segment assets							**–**	7,073
Total liabilities							**107,074**	133,887
Other segment information:								
Capital expenditure	**4,102**	5,616	**302**	476	**21,701**	119,488	**26,105**	125,580
Unallocated capital expenditure							**53**	559
							26,158	126,139
Depreciation and amortisation	**7,300**	4,382	**273**	316	**16,492**	11,711	**24,065**	16,409
Unallocated depreciation and amortisation							**511**	660
							24,576	17,069
Impairment losses recognised in the profit and loss account	**–**	–	**–**	–	**68,887**	–	**68,887**	–
Other non-cash expenses	**4,788**	9,892	**104**	46	**–**	–	**4,892**	9,938
Unallocated other non-cash expenses							**4**	649
							4,896	10,587

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and proceeds from the assignment of technical knowhow. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Notes	**2004** **HK$'000**	2003 HK$'000
Cost of inventories sold		**135,076**	118,313
Staff costs (excluding directors' remuneration, note 8):			
Wages and salaries		**18,622**	16,976
Pension scheme contributions		**238**	154
		18,860	17,130
Depreciation	12	**11,805**	7,904
Intangible assets:	13		
Amortisation for the year*		**9,933**	8,799
Impairment arising during the year		**59,981**	–
		69,914	8,799
Goodwill:	14		
Amortisation for the year**		**2,838**	366
Impairment arising during the year**		**8,906**	–
		11,744	366
Provision for bad and doubtful debts**		**4,635**	9,797
Auditors' remuneration		**1,100**	950
Minimum lease payments under operating leases for land and buildings		**2,239**	2,918
Research costs**		**4,262**	2,152
Exchange losses, net		**398**	466
Loss on disposal of fixed assets		**261**	790
Gain on disposal of intangible assets		**(3,158)**	(1,508)
Gain on disposal of subsidiaries	32(b)	**–**	(1,897)
Gain on partial disposal of a subsidiary	15	**(20,760)**	(16,373)
Interest income from:			
Cash and bank balances		**(438)**	(587)
Other	21	**–**	(461)
Amount due from a related company	22	**(311)**	(183)

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Cont'd)

Cost of inventories sold includes HK$18,091,000 (2003: HK$11,916,000) relating to staff costs, depreciation, amortisation of trademarks and technical knowhow, and minimum lease payments under operating leases for land and buildings, which is also included in the respective total amounts disclosed separately above for these types of expenses.

* The amortisation of intangible assets for the year is included as to HK$5,183,000 in "Cost of sales" and as to HK$4,750,000 in "Other operating expenses" on the face of the consolidated profit and loss account.

** These items are included in "Other operating expenses" on the face of the consolidated profit and loss account for the current year.

7. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	HK$'000
Interest expense on:		
Bank overdrafts and loans wholly repayable within five years	**2,375**	2,899
Promissory notes	**–**	179
	2,375	3,078

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

Directors' remuneration

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

	Group	
	2004	2003
	HK$'000	HK$'000
Fees:		
Executive directors	**132**	140
Independent non-executive directors	**52**	20
	184	160

8. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES (Cont'd)

Directors' remuneration (Cont'd)

	Group	
	2004	2003
	HK$'000	HK$'000
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	**4,067**	3,198
Pension scheme contributions	**12**	12
	4,079	3,210
	4,263	3,370

The number of directors whose remuneration fell within the bands set out below is as follows:

	Number of directors	
	2004	2003
Nil to HK$1,000,000	**9**	10
HK$1,000,001 to HK$1,500,000	**1**	1
	10	11

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

Five highest paid employees

The five highest paid employees during the year included five directors (2003: four), details of whose remuneration are set out above. The details of the remuneration of the remaining highest paid, non-director employee for the year ended 31 March 2003, which fell within the nil – HK$1,000,000 band are as follows:

	Group
	2003
	HK$'000
Basic salary, housing benefits, other allowances and benefits in kind	520
Pension scheme contributions	12
	532

During the year, no emoluments were paid by the Group to the directors, or the highest paid, non-director employee as an inducement to join or upon joining the Group, or as compensation for loss of office (2003: Nil).

9. 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. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004 HK$'000	2003 HK$'000 (Restated)
Group:		
Current – Hong Kong		
Charge for the year	**90**	126
Overprovision in prior years	**(2,000)**	(996)
Current – Elsewhere	**3,735**	1,784
Deferred (note 28)	**(722)**	(1,092)
Total tax charge/(credit) for the year	**1,103**	(178)

A reconciliation of the tax expense applicable to profit/(loss) 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 is as follows:

	Group	
	2004 HK$'000	2003 HK$'000
Profit/(loss) before tax	**(35,835)**	53,643
Tax at the applicable tax rate	**(22,356)**	6,487
Preferential statutory rate offered	**(4,097)**	(2,552)
Temporary differences not recognised	**74**	6
Adjustments in respect of current tax of previous periods	**(2,000)**	(996)
Income not subject to tax	**(3,431)**	(10,531)
Expenses not deductible for tax	**32,913**	7,408
Tax charge/(credit) at the Group's effective rate	**1,103**	(178)

9. TAX (Cont'd)

The applicable tax rate is calculated based on the Hong Kong Profit Tax rate of 17.5% (2003: 16%), the flat rate of Malaysian income tax of MYR20,000 per annum (2003: MYR20,000 per annum) and the statutory corporate income tax rate and preferential tax rate in the PRC of 33% (2003: 33%) and 18% (2003: 18%), respectively.

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, certain of the Group's PRC subsidiaries are operating in specific development zones of the PRC, and the relevant tax authorities have granted the enterprises a preferential CIT rate of 18%.

In accordance with the relevant tax legislation in Malaysia, enterprises are subject to a profit tax rate of the lower of a flat rate of MYR20,000 per annum or a rate of 3% of their net profits for the year. Certain of the Group's subsidiaries, which were operated in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum for the two years ended 31 March 2003 and 2004.

10. 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 amounted to HK$2,544,000 (2003: HK$2,273,000) (note 31).

11. 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$14,641,000 (2003: HK$47,428,000 (as restated)) and the 2,290,000,000 (2003: weighted average of 2,268,301,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 March 2003 and 2004 have not been calculated as no diluting events existed during these two years.

12. FIXED ASSETS

Group

	Leasehold land and buildings outside Hong Kong HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:					
At 1 April 2003	75,917	54,028	7,169	3,317	140,431
Additions	–	3,053	396	1,011	4,460
Disposals	–	(593)	(94)	(217)	(904)
At 31 March 2004	**75,917**	**56,488**	**7,471**	**4,111**	**143,987**
Accumulated depreciation:					
At 1 April 2003	5,618	9,691	2,927	1,343	19,579
Provided during the year	2,015	8,690	613	487	11,805
Disposals	–	(415)	(17)	(173)	(605)
At 31 March 2004	**7,633**	**17,966**	**3,523**	**1,657**	**30,779**
Net book value:					
At 31 March 2004	**68,284**	**38,522**	**3,948**	**2,454**	**113,208**
At 31 March 2003	70,299	44,337	4,242	1,974	120,852

An analysis of the Group's cost of land and buildings outside Hong Kong at the balance sheet date is as follows:

	2004 HK$'000	2003 HK$'000
Leasehold land and buildings held under:		
Medium term leases	**73,295**	73,295
Short term leases	**2,622**	2,622
	75,917	75,917

At 31 March 2004, certain of the Group's leasehold land and buildings with a net book value of HK$50,910,000 (2003: HK$25,517,000) were pledged to secure general banking facilities granted to the Group (note 26).

13. INTANGIBLE ASSETS

Group

	Technical knowhow HK$'000	Gene inventions rights HK$'000	Total HK$'000
Cost:			
At 1 April 2003	92,582**	95,000*	187,582
Additions	21,698	–	21,698
Disposals	(809)	–	(809)
At 31 March 2004	**113,471**	**95,000**	**208,471**
Accumulated amortisation and impairment:			
At 1 April 2003	5,475	5,542	11,017
Amortisation provided during the year	5,183	4,750	9,933
Impairment during the year recognised in the profit and loss account	59,981#	–	59,981
Disposals	(204)	–	(204)
At 31 March 2004	**70,435**	**10,292**	**80,727**
Net book value:			
At 31 March 2004	**43,036**	**84,708**	**127,744**
At 31 March 2003	87,107	89,458	176,565

Notes:

* These gene inventions rights represent rights to commercially exploit 19 gene inventions, which are closely associated with diabetes. The Group is in the process of applying for patents in respect of these gene inventions rights. Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") have warranted that in the event that the gene inventions are prohibited from being commercially exploited due to the patents being registered in the PRC by other persons at any time for a period of three years commencing from the completion of the acquisition of the entire issued capital of Right & Rise Limited ("R&R") by the Group on 6 February 2002, they will compensate the Group with an amount of HK$5 million less any net income derived from each of those gene inventions so prohibited. Both HK Biowindow and Fudan Biotech are related companies of the Group in which Dr. Mao Yu Min ("Dr. Mao") and Dr. Xie Yi ("Dr. Xie"), two directors and shareholders of the Company, have beneficial interests.

The remaining amortisation period of the cost of the gene inventions rights is 17 years and 10 months as at 31 March 2004.

13. INTANGIBLE ASSETS (Cont'd)

** Included in the balance is technical knowhow of HK$83,805,000 which relates to the development and manufacture of genechips and the remaining amortisation of which is 17 years and 9 months as at 31 March 2004.

Shanghai Biostar Genechip, Inc. ("Shanghai Biostar"), a subsidiary of which the Group effectively owned 27.2% of the registered capital, holds the technical knowhow for the development and manufacture of genechips (the "Genechip Knowhow") and incurred losses during the year ended 31 March 2004. The performance of Shanghai Biostar was below that expected under the original business plan. The directors have evaluated the business activity and future performance of the business of Shanghai Biostar and considered that the technical knowhow of Shanghai Biostar was impaired. A valuation of the Genechip Knowhow was performed by the directors as at the balance sheet date. Based on the valuation, the Group has recognised an impairment loss for the Genechip Knowhow of HK$59,981,000 in the profit and loss account for the year ended 31 March 2004.

14. GOODWILL

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

	Group HK$'000
Cost:	
At 1 April 2003	9,760
Acquisition of a subsidiary	17,627
At 31 March 2004	**27,387**
Accumulated amortisation and impairment:	
At 1 April 2003	366
Amortisation provided during the year	2,838
Impairment provided during the year	8,906#
At 31 March 2004	**12,110**
Net book value:	
At 31 March 2004	**15,277**
At 31 March 2003	9,394

14. GOODWILL (Cont'd)

The performance of Gene Generation Limited ("GGL") and its subsidiaries (the "GGL Group") was below that expected under the original business plan. Further, the GGL Group incurred losses during the year and subsequent to year end up to the date of its disposal by the Group (note 37(a)). The directors evaluated the business activity and future performance of the business of the GGL Group and considered that the goodwill arising from the acquisition of the GGL Group (the "GGL Goodwill") was fully impaired. Accordingly, the Group recognised an impairment loss for goodwill arising from the acquisition of the GGL Group of HK$8,906,000 in the profit and loss account for the year ended 31 March 2004.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves, which is stated at cost, amounted to HK$1,327,000 as at 1 April 2003 and 31 March 2004.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**52,990**	52,990
Due from subsidiaries	**211,683**	216,900
Due to subsidiaries	**(42,733)**	(58,222)
	221,940	211,668

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

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company 2004	2003	Principal activities
Directly held					
Extrawell (BVI) Limited	British Virgin Islands	US$10,000 Ordinary	100	100	Investment holding
Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("JECP") (Note 1)	PRC	RMB33,000,000	100	60	Development, manufacture and sale of pharmaceutical products
Indirectly held					
Extrawell Pharmaceutical (HK) Limited	Hong Kong	HK$2 Ordinary	100	100	Provision of agency services
South Asia Pharmaceutical (China) Limited	British Virgin Islands/ Malaysia	US$50,000 Ordinary	100	100	Marketing and distribution of pharmaceutical products
Smart Phoenix Holdings Limited ("Smart Phoenix")	British Virgin Islands	US$50,000 Ordinary	100*	–	Investment holding
Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP") (Note 2)	PRC	RMB50,000,000 (2003: RMB41,636,000)	68	68	Development, manufacture and sale of pharmaceutical products
Best-Bio Developments Limited ("Best-Bio")	British Virgin Islands	US$1 Ordinary	100	100	Investment holding

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company 2004	2003	Principal activities
Indirectly held (Cont'd)					
Right & Rise Limited	British Virgin Islands	US$50,000 Ordinary	100	100	Holding of gene inventions rights
Grand Success Management Limited ("Grand Success")	British Virgin Islands	US$50,000 Ordinary	75#	85	Holding of gene inventions rights
Gene Generation Limited ^	British Virgin Islands	US$50,000 Ordinary	55	55	Investment holding
Shanghai Bioway Limited ("Shanghai Bioway")^ (Note 3)	PRC	RMB500,000	54.5	54.5	Investment holding
Shanghai Biostar Genechip, Inc.^ (Note 4)	PRC	RMB160,000,000	27.2@	27.2	Investment holding, research on genome related technology, and development and manufacture of genechips
Shanghai Biostar Genechip Research Institute ("Biostar Research")^ (Note 5)	PRC	RMB10,000,000	27.2@	27.2	Research on genome related technology

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Notes:

(1) JECP is a wholly foreign-owned enterprise established in the PRC with an operating period of 15 years commencing from 22 April 1999.

(2) CEP is a joint stock limited company established in the PRC for an operating period of 15 years commencing from 8 August 1992.

(3) Shanghai Bioway is a limited liability company established in the PRC with an operating period of 20 years commencing from 13 June 2000.

(4) Shanghai Biostar is a limited liability company established in the PRC with an operating period of 30 years commencing from 26 September 2000.

(5) Biostar Research is a limited liability company established in the PRC with an unlimited operating period commencing from 19 April 2001.

During the year, the Group disposed of 10% of its equity interest in Grand Success to Charmtex Investments Limited, a minority shareholder of Grand Success, at a consideration of HK$23 million and recognised a gain of approximately HK$20,760,000. The major assets of Grand Success are five gene inventions rights.

* Subsidiary acquired during the year. The major assets of Smart Phoenix are the 40% equity interest in JECP.

^ Subsidiaries disposed of subsequent to year end. For further details, please refer to note 37(a) to the financial statements.

@ Shanghai Biostar and Biostar Research are non wholly-owned subsidiaries of Shanghai Bioway and, accordingly, are accounted for as subsidiaries by virtue of the Company's control over Shanghai Bioway.

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

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**–**	–

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY (Cont'd)

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Bioword Genechips, Inc. ("Bioword")	Corporate	PRC	13.6	50	13.6	Research on genome related technology, and development and manufacture of genechips

Bioword is a jointly-controlled entity of Shanghai Biostar and, accordingly, is accounted for as a jointly-controlled entity by virtue of the Group's control over Shanghai Biostar.

Bioword was acquired by the Group in the prior year via the acquisition of the GGL Group. The directors of the Company are of the opinion that Bioword is practically still in a management dead-lock, and that the recoverability of the value of the interest in Bioword in the GGL Group's consolidated balance sheet prior to the completion of the Group's acquisition of the GGL Group of HK$13,977,000, was doubtful in the prior year. Accordingly, the Group's interest in Bioword was fully provided for prior to the completion of the Group's acquisition of the GGL Group in the prior year. Bioword was disposed of via the disposal of the GGL Group subsequent to year end (note 37(a)).

17. INTEREST IN AN ASSOCIATE

	Group 2004 HK$'000	Group 2003 HK$'000
Share of net assets	**7,247**	8,974

Particulars of the associate are as follows:

Name	Business structure	Place of registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shanghai Biochip Co., Ltd. ("Shanghai Biochip")	Corporate	PRC	5.4	20	5.4	Research on genome related technology, and development and manufacture of biochips

Shanghai Biochip is an associate of Shanghai Biostar and, accordingly, is accounted for as an associate by virtue of the Group's control over Shanghai Biostar. Shanghai Biochip was disposed of via the disposal of the GGL Group subsequent to the year end (note 37(a)).

18. DEPOSITS PAID

	Group	
	2004	2003
	HK$'000	HK$'000
Deposits paid in respect of:		
Acquisition of a subsidiary*	**20,000**	–
Purchase of additional equity interest in JECP**	**–**	13,076
Purchase of plant and machinery	**368**	13,679
	20,368	26,755

* On 3 March 2004, a wholly-owned subsidiary of the Company and two individuals (the "Vendors") entered into a conditional sale and purchase agreement for the acquisition (the "Acquisition") of an aggregate of 5,100 ordinary shares of HK$1.00 each in the issued share capital of Smart Ascent Limited ("Smart Ascent"), a company incorporated in Hong Kong, for a cash consideration of HK$73 million. Upon the completion of the Acquisition, Smart Ascent will become a 51% owned subsidiary of the Company. As at 31 March 2004, HK$20 million was paid as a deposit (the "Deposit") for the Acquisition.

Smart Ascent is an investment holding company, the only material asset of which is its holding of 51% interest in the issued share capital of Fosse Bio-Engineering Development Ltd. ("Fosse Bio"), a company also incorporated in Hong Kong. Fosse Bio is principally engaged in the research and development of the technologies developed or to be developed by Tsinghua University, Beijing under the agreements entered into between Fosse Bio and Tsinghua University, Beijing regarding research and development of the use of an oral insulin product (the "Product"). The Product is still subject to further clinical trials and is yet to commence commercial production up to the date of these financial statements.

The Acquisition constitutes a discloseable transaction for the Company and further details of the Acquisition were set out in the press announcement dated 4 March 2004 and a circular to the shareholders of the Company dated 25 March 2004. The Acquisition remained conditional as at 31 March 2004. A further payment of HK$16,500,000 was made to the Vendors subsequent to the balance sheet date and the Acquisition was completed on 17 August 2004. Accordingly, HK$36,500,000 remained unpaid in respect of the Acquisition up to the date of these financial statements. In the opinion of the directors, it is currently impracticable to assess the goodwill arising from the completion of the Acquisition.

The recoverability of the Deposit depends upon the outcome of the clinical trials and successful launching of the Product. The directors of the Company are currently unable to determine with certainty the outcome of the clinical trials and launching of the Product. Accordingly, it is not possible to determine at this stage whether any impairment provision against the Deposit is required.

Should the clinical trials and launching of the Product be unsuccessful, adjustments would have to be made against the Deposit.

** These deposits represent partial payments for the acquisition of the remaining 40% equity interests in JECP (the "JECP Acquisition") for a consideration of HK$25 million. The JECP Acquisition was completed during the year.

19. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Raw materials	**2,298**	1,805
Work in progress	**845**	3,832
Finished goods	**6,891**	6,367
	10,034	12,004

At the balance sheet date, no inventories were stated at net realisable value (2003: Nil).

20. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly based on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 120 days, extending up to one year for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	Group 2004 HK$'000	2003 HK$'000
Within 90 days	**58,221**	91,225
91 to 180 days	**22,932**	27,064
181 to 365 days	**17,866**	14,127
1 to 2 years	**6,997**	11,217
Over 2 years	**5,086**	3,238
	111,102	146,871
Less: Provision for bad and doubtful debts	**(18,989)**	(14,354)
	92,113	132,517

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the Group's prepayments, deposits and other receivables as at 31 March 2004 is a receivable of HK$19,000,000 (2003: Nil) due from a minority shareholder of Grand Success, to which 10% of the equity interest in Grand Success was disposed of during the year (note 15). The receivable was fully settled subsequent to the balance sheet date.

The balance as at 31 March 2004 also included a deposit of HK$13,679,000 paid to an independent third party for making potential investments on behalf of the Group. The deposit was fully refunded to the Group subsequent to the balance sheet date.

At 31 March 2003, an amount was advanced to a distributor of HK$8,354,000 which was included in the Group's other receivables. The amount advanced was unsecured, bore interest at 5% per annum and was settled during the year.

22. DUE FROM A RELATED COMPANY

Particulars of the amounts due from related companies disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name	**31 March 2004 HK$'000**	Maximum amount outstanding during the year HK$'000	1 April 2003 HK$'000
Bioraise High-Tech Investment Ltd., Shanghai ("Bioraise")	–	9,171	7,912
Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow")	**9,171**	9,171	–
	9,171		7,912

The amounts due from Bioraise and Shanghai Biowindow, two related companies of the Group in which both Dr. Mao and Dr. Xie have beneficial interests and are directors, represented advances made by certain subsidiaries of GGL to finance the business activities of Bioraise. The amounts due from Bioraise and Shanghai Biowindow bore interest at 2% per annum for the period up to 30 June 2004 and 5% per annum thereafter. Furthermore, the amounts due from Bioraise and Shanghai Biowindow are guaranteed by HK Biowindow.

Pursuant to several debt transfer agreements entered into among the Group, Shanghai Biowindow and Bioraise, the total amount due from Bioraise of HK$9,171,000 was taken up by Shanghai Biowindow during the year. The amount due from Shanghai Biowindow was fully settled subsequent to the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

23. CASH AND BANK BALANCES

At 31 March 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$41,987,000 (2003: HK$50,192,000). RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. ACCOUNTS AND BILLS PAYABLE

An aged analysis of the accounts and bills payable as at the balance sheet date is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within 90 days	**13,052**	5,075
91 to 180 days	**–**	8
181 to 365 days	**–**	9
1 to 2 years	**11**	9
Over 2 years	**–**	3
	13,063	5,104

25. DUE TO A MINORITY EQUITY HOLDER

The amount due to a minority equity holder is unsecured and interest-free. The balance at 31 March 2004 is repayable upon the end of the operating period of the subsidiary, which is on 25 September 2030.

26. INTEREST-BEARING BANK BORROWINGS

	Group	
	2004	2003
	HK$'000	HK$'000
Bank overdrafts:		
Secured	**–**	6,088
Unsecured	**–**	985
	–	7,073
Trust receipt loans:		
Secured	**–**	7,311
Unsecured	**3,493**	766
	3,493	8,077
Bank loans:		
Secured	**41,809**	38,209
Unsecured	**–**	9,434
	41,809	47,643
	45,302	62,793

At 31 March 2004, the Group's banking facilities were supported by the following:

(a) the pledge of the Group's fixed deposits of HK$13,305,000 (2003: HK$23,613,000);

(b) corporate guarantees from the Company and certain subsidiaries of the Company;

(c) legal charges over the leasehold land and buildings of certain subsidiaries of the Company (note 12).

27. PROMISSORY NOTES

In July 2002, the Group issued five promissory notes of a total of HK$55 million (the "Promissory Notes") to HK Biowindow for the acquisition of 55% of the issued share capital of GGL. The Promissory Notes were unsecured, bear interest at the rate of 1% per annum and were repayable as to HK$5 million, HK$8 million, HK$12 million, HK$15 million and HK$15 million on or before July 2003, July 2004, July 2005, July 2006 and July 2007, respectively. Further details of the Promissory Notes were included in the circular of the Company dated 21 June 2002.

During the year, the remaining HK$15 million of the Promissory Notes was fully settled by the Group to HK Biowindow.

28. DEFERRED TAX

The movement in deferred tax assets arising from general provision for bad and doubtful debts during the year is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
At 1 April		
As previously reported	**–**	–
Prior year adjustment:		
SSAP 12 – restatement of deferred tax	**1,771**	679
As restated	**1,771**	679
Deferred tax credited to the profit and loss account (note 9)	**722**	1,092
	2,493	1,771
Gross and net deferred tax assets at 31 March	**2,493**	1,771

The Group has tax losses arising in Hong Kong of HK$382,000 (2003: Nil) that are available indefinitely 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 Group companies that have been loss-making for some time.

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries, associate or jointly-controlled entity as the Group had no liability to additional tax should such amounts be remitted.

28. DEFERRED TAX (Cont'd)

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 net deferred tax assets as at 31 March 2004 and 2003 by HK$2,493,000 and HK$1,771,000, respectively. As a consequence, the consolidated net profit attributable to shareholders for the years ended 31 March 2004 and 2003 have been increased by HK$488,000 and HK$739,000, respectively, and the consolidated retained profits at 1 April 2003 and 2002 have been increased by HK$1,199,000 and HK$460,000, respectively, as detailed in the consolidated summary statement of changes in equity and note 31 to the financial statements.

29. SHARE CAPITAL

	2004 HK$'000	2003 HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,290,000,000 ordinary shares of HK$0.01 each	**22,900**	22,900

A summary of the movements in the issued share capital and share premium account of the Company is as follows:

	Number of shares issued ('000)	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
Balance at 1 April 2002	2,170,000	21,700	82,459	104,159
Issue of shares	120,000	1,200	52,800	54,000
Share issue expenses	–	–	(1,542)	(1,542)
Balance at 31 March 2003 and 2004	2,290,000	22,900	133,717	156,617

Details of the Company's share option scheme are included in note 30 to the financial statements.

30. 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 any minority shareholder in the Company's subsidiaries. The Scheme became effective on 15 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date of approval of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted 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, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted shall be determined by the directors at their absolute discretion, but in any event shall not be more than 10 years from the date of the offer of the share options. The directors may at their absolute discretion impose any vesting period at the date of grant.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares on the date of grant.

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

Up to 31 March 2004, no share options have been granted under the Scheme.

31. RESERVES

Group

	Notes	Share premium account HK$'000	Capital reserve* HK$'000	Contributed surplus# HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2002						
As previously reported		82,459	2,068	4,839	116,139	205,505
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	28	–	–	–	460	460
As restated		82,459	2,068	4,839	116,599	205,965
Issue of shares	29	52,800	–	–	–	52,800
Share issue expenses	29	(1,542)	–	–	–	(1,542)
Transfer to capital reserve		–	1,640	–	(1,640)	–
Reversal of goodwill on disposal of a subsidiary		–	–	–	6,500	6,500
Net profit for the year (as restated)		–	–	–	47,428	47,428
At 31 March 2003		133,717	3,708	4,839	168,887	311,151
At 1 April 2003						
As previously reported		133,717	3,708	4,839	167,688	309,952
Prior year adjustment:						
SSAP 12 – restatement of deferred tax	28	–	–	–	1,199	1,199
As restated		133,717	3,708	4,839	168,887	311,151
Transfer to capital reserve		–	2,408	–	(2,408)	–
Net profit for the year		–	–	–	14,641	14,641
At 31 March 2004		133,717	6,116	4,839	181,120	325,792

31. RESERVES (Cont'd)

Group

	Notes	Share premium account HK$'000	Capital reserve* HK$'000	Contributed surplus# HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
Reserves retained by:						
Company and subsidiaries		133,717	6,116	4,839	183,482	328,154
Associate		–	–	–	(2,362)	(2,362)
At 31 March 2004		133,717	6,116	4,839	181,120	325,792
Company and subsidiaries		133,717	3,708	4,839	169,522	311,786
Associate		–	–	–	(635)	(635)
At 31 March 2003		133,717	3,708	4,839	168,887	311,151

* In accordance with the relevant PRC regulations, all of the Group's subsidiaries in the PRC are required to transfer part of their profit after tax to the capital reserve. Subject to certain restrictions set out in the relevant PRC regulations and the articles of association of these PRC subsidiaries, the capital reserve may be used to offset losses or for capitalisation as paid-up capital.

\# The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation in 1999 (the "Group Reorganisation"), over the nominal value of the share capital of the Company issued in exchange therefor.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the Group's retained profits, as detailed in note 14 to the financial statements.

31. RESERVES (Cont'd)

Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2002		82,459	64,636	5,402	152,497
Issue of shares	29	52,800	–	–	52,800
Share issue expenses	29	(1,542)	–	–	(1,542)
Net loss for the year		–	–	(2,273)	(2,273)
At 31 March 2003		133,717	64,636	3,129	201,482
Net loss for the year		–	–	(2,544)	(2,544)
At 31 March 2004		133,717	64,636	585	198,938

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

	2004 HK$'000	2003 HK$'000
Net assets acquired:		
Fixed assets	–	21,532
Intangible assets	–	83,805
Interest in an associate	–	9,609
Inventories	–	579
Accounts receivable	–	6,455
Prepayments, deposits and other receivables	–	14,587
Due from a related company	–	16,525
Cash and bank balances	–	17,439
Accounts payable	–	(106)
Accrued liabilities and other payables	–	(581)
Due to a minority equity holder of a subsidiary	–	(18,868)
Minority interests	–	(104,827)
	–	46,149
Goodwill on acquisition	–	9,760
	–	55,909
Satisfied by:		
Cash	–	909
Issue of Promissory Notes	–	55,000
	–	55,909

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(a) Acquisition of subsidiaries (Cont'd)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004	2003
	HK$'000	HK$'000
Professional fees paid	–	(909)
Cash and bank balances acquired	–	17,439
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	16,530

During the year ended 31 March 2003, the Group acquired a 55% interest in GGL from HK Biowindow. The GGL Group is engaged in the research on genome related technology, and the development and manufacture of genechips. It contributed HK$23,384,000 to the turnover and HK$13,296,000 to the consolidated profit after tax and before minority interests of the Group for the year ended 31 March 2003.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Disposal of subsidiaries

	2004	2003
	HK$'000	HK$'000
Net assets disposed of:		
Fixed assets	–	22
Intangible assets	–	2,188
Inventories	–	160
Accounts receivable	–	1,392
Prepayments, deposits and other receivables	–	264
Cash and bank balances	–	21
Accounts payable	–	(118)
Accrued liabilities and other payables	–	(62)
	–	3,867
Reversal of goodwill on disposal of a subsidiary	–	6,500
Gain on disposal of subsidiaries	–	1,897
Consideration	–	12,264
Satisfied by:		
Cash	–	12,264

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004	2003
	HK$'000	HK$'000
Cash consideration	–	12,264
Cash and bank balances disposed of	–	(21)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	12,243

The results of the subsidiaries disposed of during the year ended 31 March 2003 had no significant impact on the Group's consolidated turnover or profit after tax in last year.

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Major non-cash transactions

(i) During the year, a dividend of HK$2,555,000 distributed by CEP to its minority equity holder was capitalised as additional paid-up capital of CEP.

(ii) The deposit of HK$13,076,000 paid in the prior year in connection with the purchase of additional equity interest in JECP was utilised as payment of the consideration together with the professional fees incurred of HK$25,357,000 during the year.

(iii) During the year ended 31 March 2003, the Group issued the Promissory Notes of a total of HK$55 million as partial settlement of the consideration for the acquisition of the 55% interest in GGL (note 32(a)).

(iv) Prior to the acquisition of GGL by the Group during the year ended 31 March 2003, the GGL Group paid deposits for the purchase of fixed assets of HK$14,151,000, which were included in "Prepayments, deposits and other receivables". Those fixed assets were received by the Group before 31 March 2003 and are included in fixed assets.

33. CONTINGENT LIABILITIES

(a) As at 31 March 2004, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK$57,079,000 (2003: HK$38,678,000) as at the balance sheet date.

(b) As at 31 March 2004, the Group had bills discounted with recourse of approximately HK$30,543,000 (2003: Nil).

(c) During the year, there was a judgement made by 上海仲裁委員會 (Shanghai Arbitration Commission) (the "Arbitration Commission") against Shanghai Biostar, a 27.2% owned subsidiary of the Company, in relation to a claim of approximately RMB21,155,000 (approximately HK$19,958,000) made by the Group's jointly-controlled entity, Bioword, in respect of an alleged breach of agreement in respect of an assignment of a technical knowhow (the "Agreement") to Bioword in 2001. Bioword claimed that Shanghai Biostar had not properly transferred the technical knowhow according to the terms of the Agreement and requested Shanghai Biostar to refund the consideration and pay the penalty and arbitration charges in aggregate of RMB21,155,000.

The directors consider that Shanghai Biostar has valid ground to defend against the claim. Accordingly, Shanghai Biostar filed an application to 上海市第一中級人民法院 (Shanghai No. 1 Intermediate People's Court) (the "First Court") in March 2004 to revoke the original judgement made by the Arbitration Commission. However, the First Court rebutted the application in May 2004.

33. CONTINGENT LIABILITIES (Cont'd)

(c) (Cont'd)

In April 2004, Shanghai Biostar received a judgement from 上海市盧灣區人民法院 (Shanghai Luwan District People's Court) that the chairman of Bioword will be appointed by Shanghai Biostar in accordance with the memorandum of Bioword. Thus, the directors consider that the management dead-lock on Bioword as detailed in note 16 to the financial statements will be resolved and the legal claim filed by Bioword against Shanghai Biostar will be finally revoked.

In May 2004, Shanghai Biostar filed an application to 上海市第二中級人民法院 (Shanghai No. 2 Intermediate People's Court) (the "Second Court") to revoke the original judgement. The legal proceeding is still in progress up to the date of the GGL Group was disposed of by the Group.

Having considered legal counsel's advice, the directors are of the opinion that Shanghai Biostar is very likely to be supported by the Second Court. Thus, the directors consider that a provision for the claim is not necessary and therefore has not been made in these financial statements. In addition, as further detailed in note 37(a) to the financial statements, Shanghai Biostar was disposed of via the disposal of the GGL Group by the Group subsequent to the balance sheet date.

34. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31 March 2004, 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	**1,889**	1,905
In the second to fifth years, inclusive	**266**	1,961
	2,155	3,866

The Company had no non-cancellable operating lease arrangements at 31 March 2004 (2003: Nil).

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 to the financial statements above, the Group had an authorised, but not contracted for, commitment of HK$53,000,000 (2003: Nil) in respect of the Acquisition (note 18) at the balance sheet date.

The Company had no significant commitments as at 31 March 2004 (2003: Nil).

36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) During the year ended 31 March 2004, R&R, a wholly-owned subsidiary of the Company, and Shanghai Biowindow entered into an agreement for the transfer of five gene inventions rights from Shanghai Biowindow to R&R at nil consideration.

Further details of the transaction are also included in the section headed "Connected transactions" point (2) in the Report of the Directors.

(b) During the year ended 31 March 2003, the Group acquired 55% of the issued share capital of GGL from HK Biowindow for a total consideration of HK$55 million. The consideration for the acquisition of GGL, which was settled by the Promissory Notes, was determined by the directors with reference to the audited balance sheets of certain of the principal operating subsidiaries of GGL prepared in accordance with generally accepted accounting principles in the PRC.

(c) During the year ended 31 March 2003, the Group paid rental expenses amounting to HK$135,000 to Extrawell Holdings Limited ("EHL") for leasing the properties in Hong Kong for use as office premises. EHL is a related company of the Group in which Messrs, Ho Chin Hou, Ho Yu Ling and Li Qiang, three directors of the Company have beneficial interests. The rental expenses were determined by the directors with reference to the then prevailing market conditions.

The agreement for the leasing of the properties from EHL was terminated during the year ended 31 March 2003.

37. POST BALANCE SHEET EVENTS

Save as disclosed elsewhere in these financial statements, the Group also had the following significant post balance sheet events:

(a) On 3 August 2004, Best-Bio, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with an independent third party for the disposal (the "Disposal") of 27,500 shares (the "Sale Shares") of GGL for a cash consideration of HK$28 million.

The Sale Shares represent 55% of the issued capital of GGL, being the Group's entire interest in GGL. GGL ceased to be accounted for as a subsidiary of the Company immediately upon the completion of the Disposal which was unconditional and took place on 3 August 2004. No material gain or loss to the profit and loss account of the Group or no material financial impact is expected as a result of the Disposal.

The Disposal constituted a discloseable transaction and further details of the Disposal are set in the press announcement dated 3 August 2004 and circular to shareholders dated 25 August 2004.

(b) Subsequent to the balance sheet date, a further payment of HK$16,500,000 was made to the Vendors in respect of the Acquisition which was completed on 17 August 2004, further details of which are in note 18 to the financial statements.

38. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 August 2004.