Notes to the Financial Statements

For the year ended 31 March 2006

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is South Hong Investment Limited, a private limited company incorporated in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed on page 4 of the annual report.

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

The Company acts as an investment holding company. The principal activities of the Group are sales of pharmaceutical products, property holding and investment holdings.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of share of tax of associates and minority interests have been changed under HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements" respectively. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting periods are prepared and presented:

(a) Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured at cost less accumulated depreciation and impairment losses. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact).

(b) Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for the current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

(b) Financial Instruments *(Cont'd)*

Classification and measurement of financial assets and financial liabilities

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

By 31 March 2005, the Group classified and measured its investment in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair value recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. On the adoption of HKAS 39, no material financial impact on the results for the current year has been identified.

On 1 April 2005, the Group classified the investments in an investee company as available-for-sale financial asset and is measured at cost less impairment loss (if any).

From 1 April 2005 onwards, derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit of loss.

Prior to 1 April 2005, the securities linked deposit (a fixed deposit with an equity linked derivative) was carried at fair value through profit or loss. The Group has applied the relevant transitional provisions in HKAS 39. On 1 April 2005, the Group classified its securities linked deposit as financial asset at fair value through profit or loss, with changes in fair value through profit or loss. Therefore, no prior period adjustment has been made.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Cont'd)

(c) Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property".

The Group has elected to use the fair value model to account for its investment property which requires gain or loss arising from change in the fair value of an investment property to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment property under SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The adoption of HKAS 40 has no material financial impact on the results for the current year. The gain arising from a change in fair value of the investment property held by the Group was recognised in the income statement in the current year.

(d) Business Combinations

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

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the transitional provisions in HKFRS 3. With respect to goodwill previously carried in capitalised on the balance sheet and the goodwill included in interest in associates, the Group has eliminated the carrying amounts of the respective accumulated amortisation of HK$883,465 and HK$112,381 with a corresponding decrease in the respective costs of goodwill and investment in associates on 1 April 2005 (see Notes 16 and 18). The Group has discontinued amortising such goodwill from 1 April 2005 onwards and such goodwill will be tested for impairment at least annually or as part of the investment in associates. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2005 have not been restated (see Note 2A for the financial impact).

In the current year, the Group has also applied HKAS 21 *The Effects of Changes in Foreign Exchange Rates* which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 April 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

(d) Business Combinations *(Cont'd)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisition of a subsidiary by an associate of the Group after 1 January 2001 were presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted in the consolidated financial statement of the associate. In accordance with the relevant transitional provision in HKFRS 3, the associate of the Group derecognised the negative goodwill of HK$6,822,210 on 1 April 2005. A corresponding adjustment to the Group's retained earnings of HK$3,274,661 has been made.

(e) Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment property was assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the property through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK (IFRIC) Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment property is to be recovered through sale. Therefore, the deferred tax consequences of the investment property is now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK (IFRIC) Interpretation 21, this change in accounting policy has been applied retrospectively. On the adoption of HK (IFRIC) Interpretation 21, no material financial impact on the results for the current year has been identified.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	HKAS 17 HK$ (Note 2a)	**HKFRS 3 HK$ (Note 2d)**	**Total effect HK$**
For the year ended 31 March 2006			
Decrease in amortisation of goodwill	**–**	**294,734**	**294,734**
Decrease in amortisation of goodwill of associate	**–**	**89,905**	**89,905**
Decrease in amortisation of prepaid lease payments	**49,943**	**–**	**49,943**
Decrease in administrative expenses	**49,943**	**384,639**	**434,582**
Decrease in share of profits of associates	**–**	**(166,882)**	**(166,882)**
Increase in profit for the year	**49,943**	**217,757**	**267,700**

	HKAS 1 HK$ (Note 2)	HKAS 17 HK$ (Note 2a)	Total effect HK$
For the year ended 31 March 2005			
Decrease in share of profits of associates	(246,252)	–	(246,252)
Decrease in income tax expenses	246,252	–	246,252
Decrease in amortisation of prepaid lease payments	–	49,472	49,472
Increase administrative expenses and decrease in loss for the year	–	49,472	49,472

	HK cent
Decrease in basic loss per share	0.005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The cumulative effects of the application of new HKFRSs on 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 (originally stated)	Retrospective adjustments HKAS 27	HKAS 17	As at 31 March 2005 (restated)	Prospective adjustment HKFRS 3	As at 1 April 2005 (restated)
	HK$	HK$	HK$	HK$	HK$	HK$
		(Note 2)	(Note 2a)		(Note 2d)	
Balance sheet items						
Property, plant and equipment	25,319,555	–	(3,555,353)	21,764,202	–	21,764,202
Prepaid lease payment	–	–	3,617,193	3,617,193	–	3,617,193
Interests in associates	52,639,388	–	–	52,639,388	3,274,661	55,914,049
Other assets and liabilities	137,785,533	–	–	137,785,533	–	137,785,533
Total effects on assets and liabilities	215,744,476	–	61,840	215,806,316	3,274,661	219,080,977
Minority interests	(12,751,102)	12,751,102	–	–	–	–
	202,993,374	12,751,102	61,840	215,806,316	3,274,661	219,080,977
Share capital	50,685,395	–	–	50,685,395	–	50,685,395
Accumulated losses	(50,796,904)	–	34,012	(50,762,892)	3,274,661	(47,488,231)
Other reserves	203,104,883	–	–	203,104,883	–	203,104,883
Equity holders of the parent	202,993,374	–	34,012	203,027,386	3,274,661	206,302,047
Minority interests	–	12,751,102	27,828	12,778,930	–	12,778,930
Total effects on equity	202,993,374	12,751,102	61,840	215,806,316	3,274,661	219,080,977

The financial effects of the application of the new HKFRSs to the Group's equity on 1 April 2004 are summarised below:

	As at 1 April 2004 (originally stated)	Retrospective adjustments HKAS 27	HKAS 17	As at 1 April 2004 (restated)
	HK$	HK$	HK$	HK$
		(Note 2)	(Note 2a)	
Share capital	50,685,395	–	–	50,685,395
Accumulated losses	(49,949,799)	–	6,802	(49,942,997)
Other reserves	202,917,579	–	–	202,917,579
Equity holders of the parent	203,653,175	–	6,802	203,659,977
Minority interests	–	12,229,296	5,566	12,234,862
Total effects on equity	203,653,175	12,229,296	12,368	215,894,839

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The Group has not early applied the following new Standards, Amendments, or Interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these Standards, Amendments, or Interpretations will have no material impact on the financial statements of the Group:

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

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

5 Effective for annual periods beginning on or after 1 May 2006.

6 Effective for annual periods beginning on or after 1 June 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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

Goodwill

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

For previously capitalised goodwill, the Group has discontinued amortisation from 1 April 2005 onwards. Goodwill resulting from acquisition of subsidiaries is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below). Goodwill resulting from acquisition of an associate is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired.

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

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

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

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Property, plant and equipment

Property, plant and equipment, other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method, at the following rates per annum:

Buildings situated on leasehold land	3% – 9%
Plant and machinery	5% – 10%
Leasehold improvements	10% – $33^1/_3$%
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	10% – 20%

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

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

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and development expenditures

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

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

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

Interests in associates

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

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

Financial instruments

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

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

Financial instruments *(Cont'd)*

Financial assets

The Group's financial assets are classified into one of the three categories, including loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. The accounting policies adopted in respect of the Group's financial assets are set out below.

Loans and receivables

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

Financial assets at fair value through profit or loss

Securities linked deposit is designated as financial asset at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, they are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Available-for-sale financial assets

The investment in an investee company is classified as available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities including trade and other payables, amount due to an associate and deposit received are subsequently measured at amortised cost, using the effective interest method.

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

Financial instruments *(Cont'd)*

Financial liabilities and equity (Cont'd)

Equity instruments

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

Derecognition

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Impairment losses (other than goodwill – see the accounting policies in respect of goodwill above)

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

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

Foreign currencies

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

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

Foreign currencies *(Cont'd)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense.

Leasing

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

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plan and state-managed retirement benefit schemes are charged as an expense as they fall due.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 March 2006 was HK$20,898,469. The Group depreciates the property, plant and machinery on a straight line basis over their estimated useful lives, and after taking into account of their estimated residual value, using the straight-line method, at the rates ranging from 3% to 33$^1/_3$% per annum, commencing from the date the equipment is placed into productive use. The estimated useful lives and the dates that the Group places an item of property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the assets.

Allowances for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of the receivables. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Allowances for inventories

The management of the Group reviews the age of inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 March 2006, the carrying amount of goodwill was HK$5,011,207. Details of the recoverable amount calculation are disclosed in note 16.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, bank deposits and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

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

Credit risk

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

The credit risk on bank balances is limited because the counterparties are banks with high credit standing.

A significant portion of the Group's trade receivables was due from several major customers. The Group has established credit control policies limiting the amount of credits granted to customers. Management also closely monitored the recoverability of trade receivables and would take effective measures to ensure timely collection of outstanding balances when needed.

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

Interest rate risk of financial assets

The Group's interest rate risk related primarily to bank deposits. The exposure of interest rate risk of the Group is minimal.

Price risk

The Group is exposed to equity price risk through its equity investment in an unlisted PRC Company (set out in note 19). The management monitors the risk exposure and will consider hedging such risk should the need arises.

6. SEGMENT INFORMATION

(a) Business segments

Revenue represents the net amounts received and receivable for goods sold by the Group, property rental income and dividend income from investments during the year.

For management purposes, the Group is currently organised into five (2005: five) operating divisions – sales of pharmaceutical products, property rental, investment holding for dividend income, provision of agency services and consultancy services. Subsequent to 31 March 2006, the Group discontinued the business segments for the provision of agency services and consultancy services, as there were no operations in these business segments over the past few years. The discontinuance has resulted in no material effect of the Group's financial position. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 March 2006

	Sales of pharmaceutical products HK$	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$
REVENUE – EXTERNAL	13,241,280	459,151	1,507,434	–	–	–	15,207,865
SEGMENT RESULTS	2,872,546	3,837,381	643,484	(472,372)	(106,675)	–	6,774,364
Other income							2,291,479
Unallocated corporate expenses							(4,335,271)
Share of results of associates	982,083	–	–	–	–	823,019	1,805,102
Profit before tax							6,535,674
Income tax expense							(52,328)
Profit for the year							6,483,346

6. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments *(Cont'd)*

BALANCE SHEET

At 31 March 2006

	Sales of pharmaceutical products HK$	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$
ASSETS							
Segment assets	43,582,837	16,013,400	44,618,774	2,861	13,239,247	–	117,457,119
Interests in associates	45,722,047	–	–	–	–	11,096,804	56,818,851
Unallocated corporate assets							46,054,185
Consolidated total assets							220,330,155
LIABILITIES							
Segment liabilities	5,793,830	136,254	33,000	9,000	32,844	–	6,004,928
Unallocated corporate liabilities							1,535,633
Consolidated total liabilities							7,540,561

OTHER INFORMATION

Year ended 31 March 2006

	Sales of pharmaceutical products HK$	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$
Capital additions	866,048	–	–	–	–	–	866,048
Gain arising from change in the fair value of an investment property	–	(4,600,000)	–	–	–	–	(4,600,000)
Depreciation of property, plant and equipment	1,720,413	54,616	9,351	-	5,276	332,587	2,122,243
Loss on disposals of property, plant and equipment	3,393	–	–	–	–	–	3,393
Amortisation of intangible assets	86,373	–	–	–	–	–	86,373

6. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments *(Cont'd)*

Year ended 31 March 2005

	Sales of pharmaceutical products HK$ (restated)	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$ (restated)
TURNOVER – EXTERNAL	6,309,221	417,410	3,386,174	–	–	–	10,112,805
Segment results	(349,007)	404,237	2,375,402	(462,603)	(90,242)	–	1,877,787
Other income							1,424,879
Unallocated corporate expenses							(3,648,942)
Finance costs							(43,147)
Share of results of associates	(62,026)	–	–	–	–	503,618	441,592
Amortisation of goodwill arising on acquisition of an associate	–	–	–	–	–	(89,905)	(89,905)
Loss before taxation							(37,736)
Income tax expense							(45,263)
Loss for the year							(82,999)

BALANCE SHEET

At 31 March 2005

	Sales of pharmaceutical products HK$ (restated)	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$ (restated)
ASSETS							
Segment assets	36,107,829	11,474,003	59,321,797	2,861	12,189,790	–	119,096,280
Interests in associates	42,215,568	–	–	–	–	10,423,820	52,639,388
Unallocated corporate assets							48,635,158
Consolidated total assets							220,370,826
LIABILITIES							
Segment liabilities	3,462,039	194,051	29,000	9,000	29,113	–	3,723,203
Unallocated corporate liabilities							841,307
Consolidated total liabilities							4,564,510

6. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments *(Cont'd)*

OTHER INFORMATION

Year ended 31 March 2005

	Sales of pharmaceutical products HK$ (restated)	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$ (restated)
Capital additions	1,454,230	51,600	–	–	–	24,740	1,530,570
Amortisation of goodwill arising on acquisition of a subsidiary	294,734	–	–	–	–	–	294,734
Surplus arising on revaluation of an investment property	–	(800,000)	–	–	–	–	(800,000)
Depreciation of property, plant and equipment	1,232,583	54,386	–	–	5,276	388,558	1,680,803
Loss on write off of property, plant and equipment	53,783	–	–	–	–	–	53,783
Amortisation of intangible assets	84,912	–	–	–	–	–	84,912
Write-down of inventories	403,406	–	–	–	–	–	403,406

(b) Geographical segments

The Group's activity of property holding for rental income is located in Hong Kong while sales of pharmaceutical products, provision of agency services and consultancy services and investment holding for dividend income are located in the PRC. The Group's revenue, segment results, segment assets and capital additions of each operating division are derived from the respective geographical areas.

7. OTHER INCOME

	2006 HK$	2005 HK$
Interest income from bank deposits	**2,009,437**	1,150,990
Others	**282,042**	273,889
	2,291,479	1,424,879

8. FINANCE COSTS

	2006 HK$	2005 HK$
Interest on:		
Bank loan wholly repayable within five years	–	12,896
Amount due to a minority shareholder of a subsidiary	–	30,251
	–	43,147

9. PROFIT (LOSS) BEFORE TAX

	2006 HK$	2005 HK$ (restated)
Profit (loss) before tax has been arrived at after charging:		
Staff costs, including directors' emoluments		
Salaries and other benefits	4,735,497	3,975,855
Retirement benefits scheme contributions	162,348	133,693
Total staff costs	4,897,845	4,109,548
Amortisation of goodwill (included in administrative expenses)	–	294,734
Amortisation of intangible assets (included in cost of sales)	86,373	84,912
Amortisation of prepaid lease payments	75,269	74,193
Auditors' remuneration	577,620	477,421
Cost of inventories recognised as expense	3,094,875	1,643,319
Depreciation of property, plant and equipment	2,122,243	1,680,803
Loss on disposal of an associate	266,381	–
Loss on disposals of property, plant and equipment	3,393	–
Loss on write off of property, plant and equipment	–	53,783
Net foreign exchange losses	24,779	6,501
Research and development costs	235,976	171,012
Less: Government grants received	–	(51,228)
Net research and development costs	235,976	119,784
Share of tax of an associate (included in share of results of associates)	–	246,252
Write-down of inventories	–	403,406
and after crediting:		
Dividend income from investment in an investee company	1,507,434	3,386,174
Gross rental income from an investment property less negligible outgoings (2005: HK$13,150)	459,151	404,260

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

For the year ended 31 March 2006

		Other emoluments		
	Fees HK$	Salaries and other benefits HK$	Contributions to retirement benefit scheme HK$	Total emoluments HK$
Li Suiming	60,000	–	–	60,000
Ma Pizhi	60,000	423,970	–	483,970
Cheng Hau Yan	60,000	1,635,575	53,984	1,749,559
Liu Huijiang	–	–	–	–
Dong Jianhua	60,000	–	–	60,000
Li Hong	60,000	–	–	60,000
Li Guanglin	60,000	–	–	60,000
Fang Wen Quan	60,000	–	–	60,000
Ho Wing Fun	60,000	–	–	60,000
Wu Wen Jing, Benjamin	60,000	–	–	60,000
Lam Yat Fai	60,000	–	–	60,000
	600,000	2,059,545	53,984	2,713,529

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

(a) Directors' emoluments *(Cont'd)*

For the year ended 31 March 2005

		Other emoluments		
	Fees	**Salaries and other benefits**	**Contributions to retirement benefit scheme**	**Total emoluments**
	HK$	HK$	HK$	HK$
Li Suiming	17,742	–	–	17,742
Liu Wandong	42,258	–	–	42,258
Ma Pizhi	60,000	419,647	–	479,647
Cheng Hau Yan	60,000	1,030,200	53,963	1,144,163
Dong Jianhua	60,000	–	–	60,000
Li Hong	60,000	–	–	60,000
Li Guanglin	60,000	–	–	60,000
Fang Wen Quan	60,000	–	–	60,000
Ho Wing Fun	60,000	–	–	60,000
Wu Wen Jing, Benjamin	31,500	–	–	31,500
Lam Yat Fai	31,500	–	–	31,500
Lee Ka Sze, Carmelo	28,667	–	–	28,667
	571,667	1,449,847	53,963	2,075,477

No directors waived any emoluments in the years ended 31 March 2006 and 2005.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2005: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006	2005
	HK$	HK$
Salaries and other benefits	**1,051,200**	1,051,200
Contributions to retirement benefits scheme	**51,480**	51,480
	1,102,680	1,102,680

The aggregate emoluments of each of the highest paid individuals during both years presented were not more than HK$1,000,000.

11. INCOME TAX EXPENSE

	2006 HK$	2005 HK$
The income tax expense comprises:		
Current tax		
PRC enterprise income tax	**52,328**	45,263

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for both years.

Taxation arising in the PRC is calculated at the rates prevailing in the relevant jurisdiction. Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiaries is exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The PRC income tax for this subsidiary was 50% exempted in both years.

Details of deferred taxation are set out in note 30.

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

	2006 HK$	2005 HK$ (restated)
Profit (loss) before tax	**6,535,674**	(37,736)
Tax charges at the average income tax rate	**1,116,936**	(23,941)
Tax effect of share of results of associates	**(315,893)**	(77,279)
Tax effect of expenses that are not deductible for tax purpose	**21,947**	173,656
Tax effect of income that is not taxable for tax purpose	**(563,069)**	(870,378)
Tax effect of tax losses not recognised	**1,288,527**	1,074,289
Tax effect of deferred tax assets not recognised	**51,112**	59,081
Utilisation of tax losses previously not recognised	**(45,604)**	(25,098)
Utilisation of deferred tax assets previously not recognised	**(824,484)**	(39,266)
Effect of tax exemptions granted to a PRC subsidiary	**(677,144)**	(225,801)
Tax expense for the year	**52,328**	45,263

The average income tax rate represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of profit before tax and the relevant statutory rates.

12. EARNINGS (LOSS) PER SHARE

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

	2006 HK$	2005 HK$ (restated)
Earnings		
Earnings for the purpose of basic earnings (loss) per share	**4,355,300**	(627,067)
Number of shares		
Number of ordinary shares for the purpose of basic earnings (loss) per share	**506,853,952**	506,853,952

No diluted earnings (loss) per share is presented as there were no potential ordinary shares outstanding during both years.

The comparative amount of earnings (loss) per share has been restated, as the loss attributable to the equity holders of the Company in prior year has been adjusted to reflect the changes in accounting policies during the year as explained in Note 2.

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

	Impact on basic earnings per share	
	2006 **HK cent**	2005 HK cent
Figures before adjustments	**0.811**	(0.129)
Adjustments arising from changes in the accounting policies described in Notes 2 and 2A	**0.048**	0.005
	0.859	(0.124)

13. INVESTMENT PROPERTY

	HK$
Fair value	
At 1 April 2004	10,200,000
Revaluation surplus recognised in the income statement	800,000
At 31 March 2005	11,000,000
Increase in fair value recognised in the income statement	4,600,000
At 31 March 2006	**15,600,000**

Investment property of the Group are property interests held under long term lease in Hong Kong for the purposes of earning rentals or capital appreciation and are measured using the fair value model.

The fair value of the Group's investment property at 31 March 2006 have been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected with the Group. LCH (Asia-Pacific) Surveyors Limited has among its staff members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Valuation Standards on Properties of Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$	Plant and machinery HK$	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Construction in progress HK$	Total HK$
COST							
At 1 April 2004							
– as originally stated	17,813,593	5,581,698	1,412,080	1,695,091	2,313,406	–	28,815,868
– effect of change in accounting policy (note 2)	(3,709,934)	–	–	–	–	–	(3,709,934)
– as restated	14,103,659	5,581,698	1,412,080	1,695,091	2,313,406	–	25,105,934
Additions	147,686	1,233,455	51,600	46,888	50,941	–	1,530,570
Written off	–	(42,818)	–	(64,638)	(256)	–	(107,712)
At 31 March 2005	14,251,345	6,772,335	1,463,680	1,677,341	2,364,091	–	26,528,792
Exchange realignment	274,121	136,047	–	10,905	23,212	–	444,285
Additions	8,602	622,724	–	36,671	–	198,051	866,048
Disposals	–	–	–	(19,048)	(26,538)	–	(45,586)
At 31 March 2006	**14,534,068**	**7,531,106**	**1,463,680**	**1,705,869**	**2,360,765**	**198,051**	**27,793,539**
DEPRECIATION AND AMORTISATION							
At 1 April 2004							
– as originally stated	136,639	211,367	555,863	919,915	1,344,848	–	3,168,632
– effect of change in accounting policy (note 2)	(30,916)	–	–	–	–	–	(30,916)
– as restated	105,723	211,367	555,863	919,915	1,344,848	–	3,137,716
Provided for the year	557,392	519,813	364,364	130,509	108,725	–	1,680,803
Eliminated on write off	–	(15,566)	–	(38,187)	(176)	–	(53,929)
At 31 March 2005	663,115	715,614	920,227	1,012,237	1,453,397	–	4,764,590
Exchange realignment	12,519	19,632	–	6,629	5,698	–	44,478
Provided for the year	893,919	660,027	315,804	140,977	111,516	–	2,122,243
Eliminated on disposals	–	–	–	(15,143)	(21,098)	–	(36,241)
At 31 March 2006	**1,569,553**	**1,395,273**	**1,236,031**	**1,144,700**	**1,549,513**	**–**	**6,895,070**
CARRYING VALUES							
At 31 March 2006	**12,964,515**	**6,135,833**	**227,649**	**561,169**	**811,252**	**198,051**	**20,898,469**
At 31 March 2005	13,588,230	6,056,721	543,453	665,104	910,694	–	21,764,202

The buildings situated on leasehold interest in land held under medium-term lease are located in the PRC.

15. PREPAID LEASE PAYMENTS

	2006 HK$	2005 HK$
Prepaid lease payments for medium-term leasehold land in the PRC:		
Included in current asset	**78,648**	78,648
Included in non-current asset	**3,532,837**	3,538,545
	3,611,485	3,617,193

16. GOODWILL

	HK$
COST	
At 1 April 2004 and 31 March 2005	5,894,672
Elimination of accumulated amortisation upon the application of HKFRS 3	(883,465)
Exchange realignment	96,369
At 31 March 2006	**5,107,576**
AMORTISATION	
At 1 April 2004	588,731
Charge for the year	294,734
At 31 March 2005 and 1 April 2005	883,465
Elimination of accumulated amortisation upon the application of HKFRS 3	(883,465)
At 31 March 2006	**–**
CARRYING VALUES	
At 31 March 2006	**5,107,576**
At 31 March 2005	5,011,207

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

For the purposes of impairment testing, the goodwill has been allocated to an individual cash generating unit (the "CGU") in the sales of pharmaceutical products segment. During the year ended 31 March 2006, management of the Group determines that there are no impairment of the CGU containing goodwill.

The recoverable amount of the CGU have been determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets approved by management covering a two-year period, and a discount rate of approximately 7%. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

17. INTANGIBLE ASSETS

	Production rights HK$
COST	
At 1 April 2004 and 31 March 2005	1,646,226
Exchange realignment	31,658
At 31 March 2006	**1,677,884**
AMORTISATION	
At 1 April 2004	89,622
Provided for the year	84,912
At 31 March 2005	174,534
Exchange realignment	3,799
Provided for the year	86,373
At 31 March 2006	**264,706**
CARRYING VALUES	
At 31 March 2006	**1,413,178**
At 31 March 2005	1,471,692

Production rights are amortised on a straight-line basis over its estimated useful life of 20 years.

18. INTERESTS IN ASSOCIATES

	2006 HK$	2005 HK$
Cost of investment in associates	**49,021,490**	50,384,471
Add: Derecognition of negative goodwill upon adoption of HKFRS 3 (note 2)	**3,337,635**	–
Less: Accumulated amortisation of goodwill arising on acquisition of an associate (note 2)	**(112,381)**	(112,381)
	52,246,744	50,272,090
Share of post-acquisition profits, net of dividends received	**3,582,377**	2,367,298
Exchange realignment	**1,021,535**	–
	56,850,656	52,639,388

18. INTERESTS IN ASSOCIATES *(Cont'd)*

As at 31 March 2006, the Group had interests in the following associates:

Name of associate	Form of business structure	Place of establishment and operation	Attributable interest in registered capital held by the Group	Principal activity
			%	
深圳新鵬生物工程有限公司	Incorporated	PRC	48	Research, development, manufacture and sale of biotechnology products
雲南華寧興寧彩印有限公司	Incorporated	PRC	25	Printing and sale of cigarette packaging packs and boxes

Included in the cost of investment in associate is goodwill of HK$1,717,501 (2005: HK$1,685,696) arising on acquisitions of associates in prior years. The amount of goodwill is set out below:

	HK$
COST	
At 1 April 2004 and 31 March 2005	1,798,077
Elimination of accumulated amortisation upon the application of HKFRS 3 (Note 2A)	(112,381)
Exchange realignment	31,805
At 31 March 2006	**1,717,501**
AMORTISATION	
At 1 April 2004	22,476
Charge for the year	89,905
At 31 March 2005	112,381
Elimination of accumulated amortisation upon the application of HKFRS 3 (Note 2A)	(112,381)
At 31 March 2006	**–**
CARRYING VALUES	
At 31 March 2006	**1,717,501**
At 31 March 2005	1,685,696

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

18. INTERESTS IN ASSOCIATES *(Cont'd)*

The following details have been extracted from the unaudited management accounts of the Group's associates.

Results for the year ended 31 March

	深圳新鵬生物工程有限公司		上海松力生物技術有限公司		雲南華寧興寧彩印有限公司		Total	
	2006 HK$	2005 HK$ (restated)	**1.4.2005 to 31.10.2005 (date of disposal) HK$**	2005 HK$	**2006 HK$**	2005 HK$	**2006 HK$**	2005 HK$ (restated)
Turnover	**21,248,054**	26,883,895	**6,134,651**	4,974,575	**23,094,393**	26,491,880	**50,477,098**	58,350,350
Depreciation	**2,877,790**	2,828,886	**213,366**	361,795	**740,767**	1,640,951	**3,831,923**	4,831,632
Profit (loss) for the year	**912,894**	(643,993)	**2,175,576**	988,365	**3,292,076**	2,014,472	**6,380,546**	3,311,954
Profit (loss) for the year attributable to the Group	**438,189**	(309,117)	**543,894**	247,091	**823,019**	503,618	**1,805,102**	441,592

Financial position as at 31 March

	深圳新鵬生物工程有限公司		上海松力生物技術有限公司		雲南華寧興寧彩印有限公司		Total	
	2006 HK$	2005 HK$ (restated)	**2006 HK$**	2005 HK$	**2006 HK$**	2005 HK$	**2006 HK$**	2005 HK$ (restated)
Non-current assets	**70,345,428**	64,835,146	**–**	3,196,463	**14,579,190**	14,953,147	**84,924,618**	82,984,756
Current assets	**40,573,289**	46,006,421	**–**	1,970,508	**25,744,822**	23,016,484	**66,318,111**	70,993,413
Current liabilities	**(12,438,369)**	(7,028,539)	**–**	(923,836)	**(2,679,579)**	(3,017,136)	**(15,117,948)**	(10,969,511)
Non-current liabilities	**(205,031)**	(15,034,709)	**–**	–	**–**	–	**(205,031)**	(15,034,709)
Minority interests	**(3,021,053)**	(3,039,185)	**–**	–	**–**	–	**(3,021,053)**	(3,039,185)
Net assets	**95,254,264**	85,739,134	**–**	4,243,135	**37,644,433**	34,952,495	**132,898,697**	124,934,764
Net assets attributable to the Group	**45,722,047**	41,154,784	**–**	1,060,784	**9,411,108**	8,738,124	**55,133,155**	50,953,692

During the year, the Group disposed its interest in 上海松力生物技術有限公司 at a total consideration of HK$1,362,981 and a loss on disposal of HK$266,381 was recognised in the consolidation income statement.

19. INVESTMENT IN AN INVESTEE COMPANY

The investment in an investee company at 31 March 2006 is accounted for as an available-for-sale investment which represents the Group's 18.75% equity interest in the registered capital of 玉溪環球彩印紙盒有限公司 (Yuxi Globe Colour Printing Carton Co., Ltd.) ("Yuxi Globe"), an unlisted company registered in the PRC engaging in the business of printing and sale of cigarette packaging packs and boxes. This investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

20. LOAN TO AN INVESTEE COMPANY

The loan to the investee company is unsecured, non-interest bearing and repayable on demand. The directors are of the opinion that the loan will be received within one year from the balance sheet date and is therefore shown as current.

As at 31 March 2005, in the opinion of the directors, the loan will not be received within one year from the balance sheet date and was therefore shown as non-current.

The carrying amount of this asset at 31 March 2006 approximates its fair value.

21. INVENTORIES

	2006	2005
	HK$	HK$
Raw materials	**990,016**	803,433
Work in progress	**473,421**	348,798
Finished goods	**804,226**	590,807
	2,267,663	1,743,038

22. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an analysis of the Group's trade and other receivables at the balance sheet date:

	2006	2005
	HK$	HK$
Trade receivables aged		
Within 60 days	**1,770,745**	598,811
61 – 90 days	**–**	36,327
Over 90 days	**19,712**	64,845
	1,790,457	699,983
Dividends receivable	**1,831,076**	3,386,174
Other receivables	**3,908,725**	1,973,724
	7,530,258	6,059,881

The fair values of the Group's trade and other receivables at 31 March 2006 approximate their corresponding carrying amounts.

23. SECURITIES LINKED DEPOSIT

The amount, representing a deposit placed with a bank accounted for as financial asset at fair value through profit or loss, would be converted into designated Hong Kong listed shares at the maturity date should the closing price of the designated share at that date fall below the pre-determined price. If the closing price of this designated share was higher than the pre-determined price at maturity, the Company would receive cash and the pre-agreed interest amount. The deposit had matured during the year with the principal and pre-agreed interest amount received.

24. BANK DEPOSITS, BANK BALANCES AND CASH

Bank deposits, comprising short-term fixed deposits, and bank balances which carry interests at prevailing market interest rates ranging from 2% to 4.7%. The carrying amounts of the bank deposits, bank balances and cash approximate their fair values at the balance sheet date.

Included in the bank deposits, bank balances and cash as at 31 March 2006 were amounts in Renminbi of HK$19,740,271 (2005: HK$13,691,290) which are not freely convertible in other currencies.

25. TRADE AND OTHER PAYABLES

The following is an analysis of the Group's trade and other payables at the balance sheet date:

	2006 **HK$**	2005 HK$
Trade payables aged		
Within 60 days	**632,951**	458,858
61 – 90 days	**56,938**	105,535
Over 90 days	**327,374**	424,314
	1,017,263	988,707
Other payables	**2,651,706**	1,576,374
	3,668,969	2,565,081

The fair values of the Group's trade and other payables at 31 March 2006 approximate their corresponding carrying amounts.

26. GOVERNMENT GRANTS

The Group received government subsidies towards the cost of expanding its production facilities for a pharmaceutical product. The amount has been treated as deferred income which will be released to income over the useful lives of the relevant assets. As the relevant assets are not yet in use, the entire balance of government subsidies were deferred as at 31 March 2006.

27. DEPOSIT RECEIVED

The amount represents deposit received from a customer. The amount is unsecured, non-interest bearing and repayable upon the expiry of the relevant sales contract.

28. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand. The fair value of the amount due to an associate approximates its corresponding carrying amount.

29. SHARE CAPITAL

	Number of shares		Amount	
	2006	2005	**2006 HK$**	2005 HK$
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**1,000,000,000**	1,000,000,000	**100,000,000**	100,000,000
Issued and fully paid:				
At beginning and end of the year	**506,853,952**	506,853,952	**50,685,395**	50,685,395

30. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$	Tax losses HK$	Total HK$
At 1 April 2004	26,750	(26,750)	–
(Credit) charge to income statement	(3,388)	3,388	–
At 31 March 2005 and 1 April 2005	23,362	(23,362)	–
(Credit) charge to income statement	(2,848)	2,848	–
At 31 March 2006	**20,514**	**(20,514)**	**–**

At the balance sheet date, the Group had unused tax losses of approximately HK$99,463,000 (2005: HK$92,360,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$117,000 (2005: HK$133,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$99,346,000 (2005: HK$92,227,000) due to the unpredictability of future profit streams. All these losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK$3,851,000 (2005: HK$8,269,000). No deferred tax asset has been recognised in relation to such deductible temporary differences, as it is not probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilised.

31. RETIREMENT BENEFITS SCHEME

The Group operates in a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") for its employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary.

Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. There is no forfeited contribution for both years.

The total cost charged to income of HK$108,764 (2005: HK$108,743) represents contributions paid to the scheme by the Group in respect of the current year.

The employees of Yunnan Yunyu Economic & Technology Consulting Co., Limited (雲南雲玉經濟技術咨詢有限公司) are members of state-managed retirement benefit schemes operated by the PRC government. This subsidiary is required to contribute 27.5% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. This subsidiary is exempted for making contributions to the retirement benefit schemes in both years presented.

The employees of Meng Sheng Pharmaceutical (雲南盟生藥業有限公司) are members of state-managed retirement benefit schemes operated by the PRC government. This subsidiary is required to contribute 24% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. For the year ended 31 March 2006, the total cost charged to income statement of HK$53,584 (2005: HK$24,950) represents contributions paid to the state-managed retirement benefit schemes by the Group in respect of the current year.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payment paid under operating leases in respect of office premises during the year amounted to HK$948,642 (2005: HK$933,632).

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

	2006 **HK$**	2005 HK$
Within one year	**3,230,000**	817,000
In the second to fifth year inclusive	**5,697,000**	–
	8,927,000	817,000

Operating lease payments represent rentals payable by the Group for office premises. Leases are negotiated for an average term of 3 years and rentals are fixed for an average term of 3 years.

32. OPERATING LEASE COMMITMENTS *(Cont'd)*

The Group as lessor

Property rental income earned during the year was HK$459,151 (2005: HK$417,410). The property is expected to generate rental yields of 2.9% (2005: 4.2%) on an ongoing basis. The premise held has committed tenant for the next 12 months.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	2006 **HK$**	2005 HK$
Within one year	**459,000**	459,000
In the second to fifth year inclusive	**–**	459,000
	459,000	918,000

33. CAPITAL COMMITMENTS

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

	The Group	
	2006 **HK$**	2005 HK$
Commitments for acquisition of property, plant and equipment – contracted for but not provided in the financial statements	**1,400,000**	50,000

34. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	2006 **HK$**	2005 HK$
Management fee income received from Tianda Group Limited *	**180,000**	240,000
Interest expenses paid to a minority shareholder of a subsidiary	**–**	30,251

* *Tianda Group Limited is a substantial shareholder of the Company.*

34. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 HK$	2005 HK$
Short-term benefits	**2,864,729**	2,201,047
Post-employment benefits	**82,784**	82,800
	2,947,513	2,283,847

The remuneration of directors and key executives is determined by reference to the performance of individuals and market trends.

35. PARTICULARS OF SUBSIDIARIES

Details of the principal subsidiaries of the Company at 31 March 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by the company %	the subsidiary %	Principal activity
Heroway Limited	British Virgin Islands/PRC	US$1	100	–	Investment holding
Multifortune Holdings Limited	British Virgin Islands/PRC	US$1	–	100	Provision of agency services
Yunnan Meng Sheng Pharmaceutical Co., Limited* ("Meng Sheng Pharmaceutical")	PRC	RMB36,000,000	–	55	Research, development, manufacture and sale of biotechnology products
Yunnan Nominees Limited	Hong Kong	HK$2	100	–	Investment holding
Yunnan Yunyu Economic & Technology Consulting Co., Limited**	PRC	US$100,000	–	100	Provision of consultancy services

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by the company %	the subsidiary %	Principal activity
Yunyu Bio – Pharmaceutical Company Limited	British Virgin Islands/ PRC	US$1	–	100	Investment holding
Yunyu Holdings Limited	Hong Kong	HK$2	100	–	Investment holding
Yunyu International Limited	Hong Kong	HK$2	100	–	Investment holding
Yunyu Management & Consultant Limited	Hong Kong	HK$2	100	–	Provision of consultancy services
Yunyu Trading Development Limited	Hong Kong	HK$5,000,000	100	–	Investment holding and property holding

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only those subsidiaries which principally affect the results or assets and liabilities of the Group.

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

* *Company incorporated as cooperative joint venture enterprise.*

** *Company registered as wholly foreign owned enterprise.*