1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The head office and principal place of business of the Company in Hong Kong is Suite 4701-4, 47/F., RBS Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The principal activities of the Group included the followings:

– marketing and distribution of pharmaceutical products;

– development, manufacture and sales of pharmaceutical products;

– commercial exploitation and development of genome-related technology; and

– development and commercialisation of oral insulin products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements of Extrawell Pharmaceutical Holdings Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The consolidated financial statements have been prepared under historical cost convention. The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In 2006, the Group adopted the new and revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required in accordance with the relevant requirements. A summary of the new and revised HKFRSs is set out as below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events After the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS – Int 15	Operating Leases – Incentives
HKFRS 3	Business Combinations

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The adoption of new and revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37 and HKAS – Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 33, 37 and HKAS – Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, land use rights were classified under property, plant and equipment at cost less impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material effect on how the results for the current or prior accounting years are prepared. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting years. The principal effects resulting from the implementation of HKAS 39 are summarised as follows:

Classification and measurement of financial assets and financial liabilities

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

From 1 April 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 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 liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group had applied the relevant transitional provisions in HKAS 39. However, there has been no material impact on how the results for the current accounting period are presented.

Under HKAS 39, long-term receivables are recognised initially at cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment with changes in carrying value to be recognised in the income statement. All non-hedging derivative financial instruments entered are stated at fair value with changes recognised in the income statement. In prior years, equity investments for long-term purpose were disclosed as long-term investments and stated at cost less impairment through profit or loss. Listed equity securities held for trading purpose were disclosed as investments in securities and were stated at market value with changes to such value accounted through profit or loss. Short-term receivables were stated at cost less impairment which, if any, was accounted through profit or loss. Derivative financial instruments entered were recognised on a cash basis. Prospective application is required for adoption of HKAS 39 by way of adjustments to the opening balance of retained earnings as at 1 April 2005. Comparative amounts have not been restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill and negative goodwill and prospective application is required. Until 31 March 2005:

- positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 10 years and was subject to impairment testing when there were indications of impairment; and

- negative goodwill was amortised over the weighted average useful life of 10 years of the non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

In accordance with the provisions of HKFRS 3:

- the Group ceased amortisation of goodwill from 1 April 2005;

- accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

- from the year ended 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment; and

- in accordance with the transitional provision in HKFRS 3, all negative goodwill was derecognised as 1 April 2005 with a corresponding increase in retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.

– HKFRS 3 – prospectively after 1 April 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effect on the adoption of the new accounting policies in consolidated balance sheet and consolidated income statement were summarised as follows:

Consolidated Balance Sheet
As at 31 March 2006

	HKAS 17 HK$'000	HKAS 38 HK$'000	HKAS 39 HK$'000	Total HK$'000
Property, plant and equipment	(13,850)	–	–	(13,850)
Land use rights	13,850	–	–	13,850
Goodwill	–	(5,171)	–	(5,171)
Trade receivables	–	–	(635)	(635)
Prepayments, deposits and other receivables	–	–	(1,011)	(1,011)
	–	(5,171)	(1,646)	(6,817)
Reserve	–	(5,171)	(1,646)	(6,817)

Consolidated Income Statement
For the year ended 31 March 2006

	HKAS 17	HKAS 38	HKAS 39	Total
Decrease in depreciation	(561)	–	–	(561)
Increase in amortisation of land use rights	561	–	–	561
Increase in impairment loss on goodwill	–	5,171	–	5,171
Increase in change in fair value of financial assets through profit or loss	–	–	1,646	1,646
	–	5,171	1,646	6,817
Decrease in earnings per share	–	HK$0.002	HK$0.001	HK$0.003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidated Balance Sheet

As at 31 March 2005

	HKAS 17	HKAS 38	HKAS 39	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	(18,470)	–	–	(18,470)
Land use rights	18,470	–	–	18,470
	–	–	–	–
Reserve	–	–	–	–

Consolidated Income Statement

For the year ended 31 March 2005

	HKAS 17	HKAS 38	HKAS 39	Total
Decrease in depreciation	(566)	–	–	(566)
Increase in amortisation of land use rights	566	–	–	566
	–	–	–	–

There was no impact on earnings per share from the adoption of HKAS 17 for the year ended 31 March 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRSs 1 & 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement contain a Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

The HKAS 1 (Amendment) shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosure about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated accounts as at 31 March 2005 and 2006.

HKAS 39 (Amendment) The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning on 1 April 2006.

HKAS 39 and HKFRS 4 (Amendment) Financial Guarantee requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Company regards its financial guarantees provided to its subsidiaries as insurance contracts.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual period beginning on or after 1 January 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application. A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

(a) Basis of consolidation

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

(i) Subsidiaries

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(i) *Subsidiaries* (Continued)

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received or receivables.

(ii) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any impairment losses) identified in acquisition.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss. When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received or receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

(iii) *Joint venture*

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(iii) *Joint venture* (Continued)

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 joint venture company's operations and any distributions of surplus assets are shared by the joint venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

The joint venture company 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 interest in jointly-controlled entity is accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains and losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries, associates and jointly controlled entities at the date of acquisition. In the case of jointly-controlled entity and associates, goodwill is included in the carrying amount rather than as a separate identifiable asset on the consolidated balance sheet.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset. Prior to the adoption of the new HKFRS, goodwill is amortised on a straight-line basis over its estimated useful life of a period up to a maximum of 20 years. Following the adoption of HKFRS 3, goodwill ceased to be amortised from 1 April 2005 in which it will be tested annually for impairment. The goodwill is therefore carried at cost less accumulated impairment losses and any accumulated amortisation brought forward has been eliminated against the cost of goodwill.

On disposal of subsidiaries, jointly-controlled entities and 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 date of acquisition is written back and included in the calculation of the gain and loss on disposal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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 the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Buildings	Over the lease terms
Plant and machineries	10% – 20%
Furniture, fixtures and office equipment	10% – 30%
Motor vehicles	20%

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

(d) Land use rights

Land use rights are stated at cost less subsequent accumulated amortisation, accumulated depreciation and any accumulated impairment losses. The cost of Land use rights are amortised on a straight-line basis over the unexpired land use period of 50 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Intangible assets

Intangible assets, which comprise trade mark and licences, rights to technical know-how and gene invention rights, are stated at cost less accumulated amortisation and any impairment losses. The categories of the intangible assets are summarised as follows:

Trade mark and licences

Trade mark and licences are stated as historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives.

General pharmaceutical products

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

Genome related technology

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

Gene invention rights

The cost of gene invention rights is amortised over the lives of the rights granted for the gene inventions of a period up to a maximum of 20 years.

Oral insulin products

The cost of acquiring the rights for development and commercialisation of oral insulin products is amortised on the straight-line basis over the estimated economic lives of the products commencing in the year when the rights are available for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. 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.

(g) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

i. *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

ii. *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit and loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individual significant, and individually or collectively for financial assets that are not individual significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previous recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

(k) Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(m) 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 realiably, on the following bases:

– 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;

– from the assignment of technical know-how, when the technology is transferred to the buyer; and

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

(n) 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 is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Taxation (Continued)

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

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

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

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

(o) Foreign currencies

Transactions in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

(q) Employee benefits

(i) Retirement benefit obligations

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred are vested in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

(ii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Research and development

All research costs are charged to the income statement 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 commercially value. Product development expenditure which does not meet these criteria is expensed when incurred.

(s) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence or related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

(i) Market risk – Foreign exchange risk

The Group operates mainly in both the People's Republic of China ("the PRC") and Hong Kong and majority of transactions are dominated in Hong Kong dollars and Renminbi. Therefore, the Group is exposed to foreign exchange risk arising from these currency exposures. Hong Kong dollars and Renminbi are pegged to United States dollars and the foreign exchange exposure between them are considered limited.

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Credit risk

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

(iii) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(iv) Cash flow and fair value interest rate risk

Borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

(b) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of intangible assets and goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 2(i). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Provision for impairment of receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment that to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

5. 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 sales of pharmaceutical products;

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

(c) the gene development segment engages in the commercial exploitation and development of genome-related technology; and

(d) the oral insulin segment engages in the development and commercialisation of oral insulin products.

5. SEGMENT INFORMATION (Continued)

Business segments

The following table provides an analysis of the Group's revenues, results and certain assets, liabilities and expenditure information by business nature:

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue										
Sales to external customers	**51,714**	39,033	**126,551**	129,740	**–**	993	**–**	–	**178,265**	169,766
Segment results	**(7,012)**	(14,352)	**33,257**	26,582	**(341)**	(88,581)	**(257)**	(279)	**25,647**	(76,630)
Interest income									**1,001**	925
Net unallocated expenses									**(19,043)**	(9,927)
Profit/(loss) from operations									**7,605**	(85,632)
Finance costs									**(908)**	(2,203)
Profit/(loss) before taxation									**6,697**	(87,835)
Taxation									**(2,510)**	1,793
Profit/(loss) for the year									**4,187**	(86,042)
Attributable to:										
Equity holders of the Company									**4,669**	(75,823)
Minority interests									**(482)**	(10,219)
									4,187	(86,042)

5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	Manufacturing		Trading		Gene development		Oral insulin		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**133,232**	151,527	**107,887**	82,871	**7**	7	**284,269**	284,289	**525,395**	518,694
Bank overdrafts included in segment assets	**–**	–	**–**	9	**–**	–	**–**	–	**–**	9
Unallocated assets									**45,932**	72,587
Total assets									**571,327**	591,290
Segment liabilities	**9,300**	38,710	**25,520**	23,532	**64**	364	**238**	214	**35,122**	62,820
Bank overdrafts included in segment liabilities	**–**	–	**–**	9	**–**	–	**–**	–	**–**	9
Unallocated liabilities									**35,437**	34,983
Total liabilities									**70,559**	97,812
Other segment information:										
Capital expenditures	**448**	811	**685**	492	**–**	–	**–**	73,351	**1,133**	74,654
Unallocated capital expenditures									**25**	34
									1,158	74,688
Depreciation and amortisation	**4,939**	8,392	**391**	329	**–**	7,999	**–**	–	**5,330**	16,720
Unallocated depreciation and amortisation									**493**	519
									5,823	17,239
Impairment losses recognised in the income statement	**5,151**	6,600	**10,723**	–	**–**	79,958	**20**	–	**15,894**	86,558
Other non-cash expenses	**9,621**	77	**143**	431	**–**	–	**–**	–	**9,764**	508
Unallocated other non-cash expenses									**17**	2
									9,781	510

6. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000 (Restated)	Plant and machineries HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000 (Restated)
Cost					
At 1 April 2004, as previously reported	75,917	56,488	7,471	4,111	143,987
Effect on adoption of HKAS 17	(21,119)	–	–	–	(21,119)
At 1 April 2004, as restated	54,798	56,488	7,471	4,111	122,868
Additions	–	596	113	628	1,337
Disposal of subsidiaries	–	(31,072)	(1,069)	(1,106)	(33,247)
Disposals	–	(2,426)	(96)	(347)	(2,869)
At 31 March 2005 and at 1 April 2005	54,798	23,586	6,419	3,286	88,089
Additions	–	371	148	639	1,158
Disposals	–	–	(137)	–	(137)
Exchange alignments	846	454	69	51	1,420
At 31 March 2006	55,644	24,411	6,499	3,976	90,530
Accumulated depreciation					
At 1 April 2004, as previously reported	7,633	17,966	3,523	1,657	30,779
Effect on adoption of HKAS 17	(2,083)	–	–	–	(2,083)
At 1 April 2004, as restated	5,550	17,966	3,523	1,657	28,696
Charge for the year	1,448	3,365	518	499	5,830
Eliminated on disposal of subsidiaries	–	(10,188)	(324)	(341)	(10,853)
Eliminated on disposals	–	(998)	(39)	(157)	(1,194)
At 31 March 2005 and at 1 April 2005	6,998	10,145	3,678	1,658	22,479
Charge for the year	1,451	2,130	465	484	4,530
Reversal upon disposals	–	–	(92)	–	(92)
Exchange alignments	116	199	29	23	367
At 31 March 2006	8,565	12,474	4,080	2,165	27,284
Impairment					
At 1 April 2004 and 31 March 2005	–	–	–	–	–
Charge for the year	6,434	–	–	–	6,434
At 31 March 2006	6,434	–	–	–	6,434
Net book value					
At 31 March 2006	**40,645**	**11,937**	**2,419**	**1,811**	**56,812**
At 31 March 2005	47,800	13,441	2,741	1,628	65,610

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group (Continued)

Depreciation expenses of HK$3,275,000 (2005: HK$3,680,000) have been expensed in cost of goods sold, HK$1,255,000 (2005: HK$2,150,000) in administrative expenses.

There was no pledged property, plant and equipment as at 31 March 2006. As at 31 March 2005, the Group's buildings with carrying amount of HK$47,483,000 were pledged as securities for bank borrowing of the Group.

7. LAND USE RIGHTS

The Group

	2006 HK$'000	2005 HK$'000 (Restated)
Cost		
At 1 April, as previously reported	**21,119**	–
Effect on adoption of HKAS 17	**–**	21,119
At 1 April 2004, as restated	**21,119**	21,119
Exchange alignments	**267**	–
At 31 March	**21,386**	21,119
Accumulated amortisation		
At 1 April, as previously reported	**2,649**	–
Effect on adoption of HKAS 17	**–**	2,083
At 1 April 2004, as restated	**2,649**	2,083
Charge for the year	**561**	566
Exchange alignments	**37**	–
At 31 March	**3,247**	2,649
Impairment		
At 1 April	**–**	–
Charge for the year	**4,289**	–
At 31 March	**4,289**	–
Net Book Value		
At 31 March	**13,850**	18,470

7. LAND USE RIGHTS (Continued)

The Group's interests in land use rights represent prepaid operating lease payments and their net book value is analysed as follows:

	2006	2005
	HK$'000	HK$'000
		(Restated)
Land outside Hong Kong, held on:		
Long-term leases	**13,850**	18,470

Land use rights comprise cost of acquiring rights to use certain land which are all located in the PRC over fixed periods. Cost of prepaid lease for land use rights is amortised on a straight-line basis over the unexpired period of rights.

There was no pledged land use rights as at 31 March 2006. As at 31 March 2005, the Group's land use rights with carrying amount of HK$2,062,000 were pledged as securities for bank borrowing of the Group.

8. INTANGIBLE ASSETS

The Group

	Technical know-how HK$'000 (Note i)	Gene invention rights HK$'000 (Note ii)	Total HK$'000
Cost			
At 1 April 2004	113,471	95,000	208,471
Acquisition of subsidiaries	284,260	–	284,260
Disposal of subsidiaries	(105,503)	–	(105,503)
At 31 March 2005 and 1 April 2005	292,228	95,000	387,228
Additions	29	–	29
Exchange alignments	150	–	150
At 31 March 2006	292,407	95,000	387,407
Accumulated amortisation			
At 1 April 2004	10,454	10,292	20,746
Charge for the year	2,567	4,750	7,317
Disposal of subsidiaries	(9,247)	–	(9,247)
At 31 March 2005 and 1 April 2005	3,774	15,042	18,816
Charge for the year	732	–	732
Exchange alignments	3	–	3
At 31 March 2006	4,509	15,042	19,551
Impairment			
At 1 April 2004	59,981	–	59,981
Charge for the year	–	79,958	79,958
Disposal of subsidiaries	(59,981)	–	(59,981)
At 31 March 2005 and 31 March 2006	–	79,958	79,958
Carrying amount			
At 31 March 2006	**287,898**	**–**	**287,898**
At 31 March 2005	288,454	–	288,454

8. INTANGIBLE ASSETS (Continued)

Notes:

i. The carrying amount of technical know-how (the "Know-how") includes a development cost in relation to an oral insulin product (the "Product") and the exclusive right for the commercialisation of the Product owned by the Group. The Product was co-developed by Fosse Bio-Engineering Development Limited ("Fosse Bio"), a subsidiary acquired by the Group in 2005, and Tsinghua University, Beijing ("THU"). Fosse Bio and THU jointly applied the patent ("the Patent") in respect of the Know-how on 20 April 2001. The Patent were granted by State Intellectual Property Office of the PRC and United States Patent and Trademark office of the United States on 4 August 2004 and 28 March 2006 respectively.

   The Product has completed the phase II clinical trial and the result has been submitted to the State Food and Drug Administration of the People's Republic of China ("SFDA") for approval and the approval process is still in progress up to the date of approval of these financial statements. The directors of the Company therefore considered no impairment provision against the carrying amount for the Know-how is necessary. Should the approval of the new product licence fail, the clinical trials being terminated or the launching of the Product be unsuccessful, adjustments would have to be made against the carrying amount of the Know-how.

ii. The gene invention rights (the "Gene Invention Rights") represent the rights held by Right & Rise Limited ("R&R") and Grand Success Management Limited ("Grand Success") 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 the Gene Invention 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 Invention Rights are prohibited from 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 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.

   As the development of global gene sector has slowed down and there was no indication of significant improvement in the foreseeing future, the directors considered that a full provision on impairment of the carrying amount of Gene Invention Rights of HK$79,958,000 has been provided and fully charged to the income statement for the year ended 31 March 2005.

9. GOODWILL

The Group

	HK$'000
Cost	
At 1 April 2004	27,387
Disposal of subsidiaries	(9,760)
At 31 March 2005 and 1 April 2005	17,627
Effect on adoption of HKFRS 3	(6,730)
Additions	20
At 31 March 2006	10,917
Accumulated amortisation	
At 1 April 2004	3,204
Charge for the year	3,526
At 31 March 2005 and 1 April 2005	6,730
Effect on adoption of HKFRS 3	(6,730)
At 31 March 2006	–
Impairment	
At 1 April 2004	8,906
Impairment loss recognised	6,600
Disposal of subsidiaries	(9,760)
At 31 March 2005 and 1 April 2005	5,746
Impairment loss recognised	5,171
At 31 March 2006	10,917
Carrying amount	
At 31 March 2006	**–**
At 31 March 2005	5,151

9. GOODWILL (Continued)

In prior years, the amortisation period adopted for goodwill is up to maximum of 20 years. Following the adoption of HKFRS 3, amortisation of goodwill has ceased since 1 April 2005. The accumulated amortisation of goodwill would be offset against the cost. Annual impairment review was performed.

Goodwill is allocated to the Group's cash generating unit ("CGU") identified according to country of operation in a business segment as follows:

	2006	2005
	HK$'000	HK$'000
Production and distribution of pharmaceutical products	**–**	5,151

The recoverable amount of goodwill in a CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-years period. Cash flow beyond five-years period is extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculation:

	2006	2005
Gross profit margin	**47%**	40%
Discount rate	**8%**	12%

Management determined the budget gross profit margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

The impairment of goodwill were recognised in the income statement for both years 2005 and 2006 as the Group's distribution of pharmaceutical product business under Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. continues to be in a loss position.

10. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Unlisted shares, at cost	**52,990**	52,990
Impairment loss recognised	**(10,121)**	(8,421)
	42,869	44,569
Amounts due from subsidiaries	**163,016**	166,224
	205,885	210,793

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of directors, the amount will not be repaid in the next twelve months.

Name	Place of incorporation/ registration and operation	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Directly held					
Extrawell (BVI) Limited	British Virgin Islands ("BVI")	US$10,000 Ordinary	**100**	100	Investment holding
Jilin Extrawell Changbaishan Pharmaceutical Co., Ltd. ("JECP") *(Note i)*	The PRC	RMB33,000,000	**100**	100	Development, manufacture, and sales 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	BVI/Malaysia	US$50,000 Ordinary	**100**	100	Marketing and distribution of pharmaceutical products

10. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operation	Nominal value of issued/ registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Indirectly held (Continued)					
Smart Phoenix Holdings Limited	BVI	US$50,000 Ordinary	**100**	100	Investment holding
Changchun Extrawell Pharmaceutical Co., Ltd. ("CEP") *(Note ii)*	The PRC	RMB50,000,000	**68**	68	Development, manufacture and sales of pharmaceutical products
Best-Bio Developments Limited ("Best-Bio")	BVI	US$1 Ordinary	**100**	100	Investment holding
Right & Rise Limited	BVI	US$50,000 Ordinary	**100**	100	Holding of gene invention rights
Grand Success Management Limited	BVI	US$50,000 Ordinary	**75**	75	Holding of gene invention rights
Smart Ascent Limited ("Smart Ascent")	Hong Kong	HK$10,000 Ordinary	**51**	51	Investment holding
Fosse Bio-Engineering Development Limited ("Fosse Bio") *(Note iii)*	Hong Kong	HK$10,000 Ordinary	**51**	51	Development and commercialisation of oral insulin products
Welly Surplus Development Limited	Hong Kong	HK$100 Ordinary	**51**	–	Inactive

10. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

i JECP is a wholly foreign-owned enterprise established in the PRC with an operating period of 15 years commencing from 22 April 1999 which the Company directly held 60% and indirectly held 40%.

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

iii Fosse Bio was acquired by the Group through the acquisition of Smart Ascent from two individuals (the "Vendors"), who are independent third parties to the Group for the year ended 31 March 2005. Pursuant to the deed of transfer (the "Deed") entered into between Smart Ascent and a shareholder of Fosse Bio (the "Fosse Vendor"), Smart Ascent acquired a 51% equity interest of Fosse Bio from Fosse Vendor at a consideration (the "Consideration") which is payable in four installments. The first and second installments were already settled. The third installment of HK$12,000,000 shall be paid within 14 days from the issuance of certificate of phase III clinical trial of the Product issued by the SFDA. The fourth installment of HK$19,780,000 shall be paid within 14 days from the issuance of the new product licence for the Product by SFDA. The third and fourth installments are recorded as an amount due to a minority shareholder as at the balance sheet date and are still outstanding as at the date of this report. Upon the Group acquiring Smart Ascent, the Vendors jointly and severally agreed to undertake in full the outstanding Consideration if and when the respective sum became due and payable. As a result, a corresponding amount of HK$31,780,000 (note 13) was recorded as an other receivables by the Group as at the balance sheet date.

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

11. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**2,173**	1,752
Work in progress	**746**	355
Finished goods	**13,110**	15,419
	16,029	17,526
Less: Provision of obsolete inventories	**(1,262)**	(1,835)
	14,767	15,691

Notes:

i. At the balance sheet date, finished goods of HK$373,000 (2005: HK$227,000) were carried at net realisable value. All other inventories were carried at cost.

ii. The movements of provision of obsolete inventories were as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
At 1 April	**1,835**	1,835
Reversal on provision of obsolete inventories	**(573)**	–
At 31 March	**1,262**	1,835

12. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**55,273**	48,512
Between 91 to 180 days	**18,237**	15,346
Between 181 to 365 days	**12,610**	8,999
Between 1 to 2 years	**8,782**	7,037
Over 2 years	**6,034**	3,041
	100,936	82,935
Less: Impairment loss on trade receivables	**(14,124)**	(9,131)
Change in fair value of financial assets through profit or loss	**(635)**	–
	86,177	73,804

Notes:

i. 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.

ii. The movements in impairment loss on trade receivables were as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
At 1 April	**9,131**	18,989
Impairment loss on trade receivables	**8,090**	–
Reversal of impairment loss on trade receivables	**(3,097)**	(9,858)
At 31 March	**14,124**	9,131

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**484**	466	**221**	221
Deposits	**1,040**	722	**–**	–
Other receivables *(Note i)*	**56,338**	50,195	**–**	–
	57,862	51,383	**221**	221
Less: Change in fair value of financial assets through profit or loss	**(1,011)**	–	**–**	–
	56,851	51,383	**221**	221

Note:

i. Included in the Group's other receivables as at 31 March 2006 and 2005 is the third and fourth installments of the Consideration receivables from two individual shareholders of Smart Ascent for the acquisition of 51% equity interest of Fosse Bio. Further details of the acquisition of 51% equity interest of Fosse Bio is set out in note 10 to the financial statements. The amount is still outstanding as at the report date. Shares representing 49% equity interest of Smart Ascent have been pledged by one of the above mentioned individual shareholders to the Group for securing the settlement of the Consideration receivables. Since the Know-how is the only major asset of Fosse Bio, which in turn is the only investment of Smart Ascent, the value of the pledge 49% equity interest of Smart Ascent depends on the result of the clinical trial and the successful launching of the Product. As explained in note 8 to the financial statements, the phase II clinical trial has been completed and the result has been submitted to the SFDA for approval. The directors of the Company therefore considered that no provision against the Consideration receivables was necessary. Should the approval of the new product licence fail, the clinical trials being terminated or the launching of the Product is unsuccessful, adjustments would have to be made against the carrying amount of the Consideration receivables.

14. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

	Maximum debit balance	The Group	
		2006	2005
	HK$'000	**HK$'000**	HK$'000
Zhong Hou Seng	5	**5**	5
Hou Sai Chang	3	**3**	3
		8	8

Notes:

i. Zhong Hou Seng and Hou Sai Chang are the shareholders of the Company's subsidiary, namely Fosse Bio.

ii. The amounts due are interest free, unsecured and recoverable on demand.

15. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**47,702**	58,337	**19**	17

Cash at bank overdrafts include the following for the purposes of the cash flow statement:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and cash equivalents	**47,702**	58,337	**19**	17
Bank overdrafts	**–**	(9)	**–**	–
	47,702	58,328	**19**	17

Cash at bank earned interests at floating rates based on daily bank deposit rates. Short-term deposits during the year ended 31 March 2006 are made for varying period of between seven days and three months, depending on the immediate cash requirements of the Group, and earned interests at the respective short-term deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

16. SHARE CAPITAL

	2006 HK$'000	2005 HK$'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

17. RESERVES

The Group

	Share premium HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2004	133,717	6,116	4,839	–	181,120	325,792
Release on disposal of subsidiaries	–	(1,640)	–	–	1,640	–
Net loss for the year	–	–	–	–	(75,823)	(75,823)
At 31 March 2005 and at 1 April 2005	133,717	4,476	4,839	–	106,937	249,969
Exchange differences	–	–	–	3,123	–	3,123
Net profit for the year	–	–	–	–	4,669	4,669
At 31 March 2006	**133,717**	**4,476**	**4,839**	**3,123**	**111,606**	**257,761**

17. RESERVES (Continued)

The Company

	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2004	133,717	64,636	–	585	198,938
Net loss for the year	–	–	–	(11,487)	(11,487)
At 31 March 2005 and at 1 April 2005	133,717	64,636	–	(10,902)	187,451
Exchange differences	–	–	377	–	377
Net loss for the year	–	–	–	(5,115)	(5,115)
At 31 March 2006	**133,717**	**64,636**	**377**	**(16,017)**	**182,713**

Capital reserve

In accordance with the relevant PRC regulations, all of the Group's subsidiaries registered 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.

Contributed surplus

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 thereof.

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 therefore. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

17. RESERVES (Continued)

In the opinion of the directors, the Company's reserves available for distribution to shareholders at the balance sheet date were as follows:

	2006 HK$'000	2005 HK$'000
Contributed surplus	**64,636**	64,636
Accumulated loss	**(16,017)**	(10,902)
	48,619	53,734

18. DEFERRED TAXATION

The movements of deferred tax liabilities arising from accelerated tax depreciation is as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
At 1 April	**102**	–
Deferred tax charged for the year	**–**	102
At 31 March	**102**	102

The movements of deferred tax assets are set out as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
At 1 April	**1,246**	2,493
Deferred tax charged for the year	**(1,246)**	(1,247)
At 31 March	**–**	1,246
Net deferred tax (liabilities)/assets at 31 March	**(102)**	1,144

18. DEFERRED TAXATION (Continued)

The Group did not recognise tax losses arising in Hong Kong of HK$10,234,000 (2005: HK$5,540,000) that can be carried forward against future taxable profits of the companies in which the losses arose.

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted.

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

19. TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**6,136**	4,721
Between 91 to 180 days	**2,023**	2,598
Between 1 to 2 years	**164**	–
	8,323	7,319

The carrying amount of trade and bills payables approximate to their fair value.

20. ACCRUALS AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**16,641**	14,022	**512**	680
Other payables	**6,818**	6,131	**–**	–
	23,459	20,153	**512**	680

The carrying amount of accruals and other payables approximate to their fair value.

21. BANK INTEREST-BEARING BORROWINGS – SECURED

	The Group	
	2006	2005
	HK$'000	HK$'000
Bank overdrafts – secured	**–**	9
Trust receipt loans		
– secured	**4,630**	2,693
– unsecured	**–**	2,860
Bank loans – secured	**–**	31,904
	4,630	37,466

The bank interest-bearing borrowings as at 31 March 2006 and 2005 were short term which due within one year.

At 31 March 2006, the Group's banking facilities were supported by the followings:

– the pledge of the Group's fixed deposits of HK$7,262,000 (2005: HK$12,204,000); and

– corporate guarantees from the Company and certain subsidiaries of the Company.

The Group has variable rates of borrowings which may carry interest with reference to the prevailing interest rate adopted both in Hong Kong and the PRC.

The carrying amount of the short term bank interest-bearing borrowings was approximately their fair value.

All of the Group's borrowings are denominated in Renminbi or Hong Kong dollars.

22. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest free and repayable on demand.

23. TURNOVER

The Group's turnover comprised of the followings:

	2006 HK$'000	2005 HK$'000
Manufacturing of pharmaceutical products	**51,714**	39,033
Trading of pharmaceutical products	**126,551**	129,740
Gene development	**–**	993
	178,265	169,766

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

24. PROFIT/(LOSS) FROM OPERATIONS

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

	The Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Cost of goods sold	**108,450**	123,676
Employee benefit expenses *(Note 25)*	**20,012**	21,341
Depreciation	**4,530**	5,830
Amortisation of intangible assets	**732**	7,317
Amortisation of goodwill	**–**	3,526
Amortisation of land use rights	**561**	566
Auditors' remuneration	**620**	1,500
Impairment loss on trade receivables	**8,090**	–
Changes in fair value of financial assets through profit or loss	**1,646**	–
Minimum lease payments under operating leases for land and buildings	**1,661**	1,973
Research and development costs	**466**	1,432
Loss on exchange differences	**–**	280
Loss on disposal of property, plant and equipment	**45**	131
Bank interest income	**(1,001)**	(925)
Reversal of impairment loss on trade receivables	**(3,097)**	(9,858)

25. EMPLOYEE BENEFIT EXPENSES

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Employee benefit expenses are analysed as follows:		
Wages, salaries and allowances	**19,894**	21,182
Pension scheme contributions	**118**	159
	20,012	21,341

26. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The Group

Name of directors	Fee		Salaries, bonus and other benefits		Pension scheme contributions		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Mao Yu Min	**20**	20	**975**	1,000	**–**	–	**995**	1,020
Ho Chin Hou	**20**	20	**975**	975	**–**	–	**995**	995
Ho Yu Ling	**20**	20	**975**	975	**12**	12	**1,007**	1,007
Li Qiang	**20**	20	**621**	613	**–**	–	**641**	633
Xie Yi	**20**	20	**479**	256	**–**	–	**499**	276
Fang Lin Hu	**20**	20	**–**	–	**–**	–	**20**	20
Xue Jing Lun	**20**	20	**–**	–	**–**	–	**20**	20
Jin Song	**20**	10	**–**	–	**–**	–	**20**	10
	160	150	**4,025**	3,819	**12**	12	**4,197**	3,981

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2005: five) directors. Details of their emoluments were set out in note 26(a) to the financial statements above.

27. FINANCE COSTS

	The Group	
	2006	2005
	HK$'000	HK$'000
Interest of bank overdraft wholly repayable within five years	**–**	1
Interest of trust receipt loans wholly repayable within five years	**159**	215
Interest of bank loans repayable within five years	**749**	1,987
	908	2,203

28. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. 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.

	The Group	
	2006	2005
	HK$'000	HK$'000
Current – Hong Kong		
(Credit)/charge for the year	**(116)**	207
Over-provision in prior years	**–**	(4,413)
Current – Elsewhere		
Charge for the year	**1,380**	806
Under-provision in prior year	**–**	258
Deferred tax	**1,246**	1,349
Total tax charge/(credit) for the year	**2,510**	(1,793)

28. TAXATION (Continued)

A reconciliation of the tax expense applicable to profit/(loss) before taxation using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Profit/(loss) before taxation	**6,697**	(87,835)
Tax at the statutory tax rate	**(3,075)**	(18,621)
Preferential statutory rate offered	**(496)**	1,326
Under-provision for prior years	**–**	(4,155)
Adjustment in respect to deferred tax	**1,246**	1,349
Expenses not deductible for tax	**5,991**	20,020
Tax effect on income not taxable	**(1,156)**	(1,712)
Tax charge/(credit) for the year	**2,510**	(1,793)

Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, since two of the Group's subsidiaries in the PRC are operating in specific development zones of the PRC, and the relevant tax authorities have granted those subsidiaries a preferential CIT rate of 18% (2005: 18%).

In accordance with the relevant tax legislation in Malaysia, enterprises are subject to profits tax rate of a 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 operate in Malaysia, elected to pay the profits tax at a flat rate of MYR20,000 per annum for each of the two years ended 31 March 2006 and 2005.

29. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2006 dealt with in the financial statements of the Company to HK$5,115,000 (2005: HK$11,487,000).

30. DIVIDEND

The directors do not recommend the payment of any dividend in respect for the year ended 31 March 2006 (2005: Nil).

31. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) attributable to the Company's equity shareholders of HK$4,669,000 (2005: net loss of HK$75,823,000) and on 2,290,000,000 (2005: 2,290,000,000) shares in issue during the year.

There were no potential shares in existence for each of the years ended 31 March 2005 and 2006 and accordingly, no diluted earnings/(loss) per share has been presented.

32. BUSINESS COMBINATION

	The Group 2006 HK$'000	2005 HK$'000
Net assets acquired:		
Intangible assets	–	284,260
Prepayments, deposits and other receivables	–	31,813
Amounts due from minority shareholders	–	8
Cash and cash equivalents	–	342
Accruals and other payables	(40)	(2,021)
Amount due to a minority shareholder	–	(32,406)
	(40)	281,996
Minority interests	20	(208,645)
	(20)	73,351
Purchase consideration settled in cash	–	73,351

Analysis of the net cash inflow/(outflow) in respect of the acquisition of a subsidiary is set out below:

	2006 HK$'000	2005 HK$'000
Cash consideration	–	(73,351)
Deposit paid	–	20,000
Cash and bank balances acquired	–	342
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(53,009)

For the year ended 31 March 2006

In February 2006, the Group acquired 51 shares of HK$1.00 each in the issued share capital of Welly Surplus Development Limited ("Welly Surplus"). Welly Surplus is inactive during the year. Since its acquisition, Welly Surplus had not generated turnover and profits for the year ended 31 March 2006.

For the year ended 31 March 2005

In August 2004, the Group acquired 5,100 shares of HK$1.00 each in the issued share capital of Smart Ascent from the Vendors. Smart Ascent is the investment holding company, which holds 51% interest in the issued share capital of Fosse Bio. Fosse Bio is principally engaged in the development and commercialisation of the technologies in relation to the Product.

Since its acquisition, Smart Ascent and Fosse Bio had no turnover and contributed HK$246,000 to loss after tax and minority interests of the Group for both years ended 31 March 2005 and 2006 respectively.

33. DISPOSAL OF SUBSIDIARIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Net assets disposed of:		
Property, plant and equipment	–	22,394
Intangible assets	–	36,275
Interest in an associate	–	7,247
Inventories	–	4,720
Account receivables	–	124
Prepayments, deposits and other receivables	–	25,886
Amounts due from related companies	–	9,928
Pledged bank deposits	–	2,062
Cash and cash equivalents	–	3,895
Account payables	–	(39)
Accruals and other payables	–	(13,313)
Amount due to a minority shareholder	–	(18,868)
Minority interests	–	(52,383)
	–	27,928
Gain on disposal of subsidiaries	–	72
Consideration	–	28,000
Satisfied by cash	–	28,000

There was no disposal of subsidiaries for the year ended 31 March 2006.

On 3 August 2004, Best-Bio, 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. The GGL Group contributed turnover of HK$993,000 and loss after tax of HK$2,010,000 for the period up to the date of the Disposal.

34. EMPLOYEE BENEFITS

With effective from 1 December 2000, the Group has joined a mandatory provident fund scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.

The employees of the Company's subsidiaries in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basis salary of its employees, to the retirement benefit scheme and have no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represents for the entire pension obligations payable to retired employees.

35. 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.

35. SHARE OPTION SCHEME (Continued)

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 of grant.

The exercise price of the share options is determinable by the directors, but may not 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.

No Share options have been granted, exercised, cancelled or lapsed during the year. As at 31 March 2006, no share options have been granted under the Scheme.

36. CONTINGENT LIABILITIES

(a) As at 31 March 2006, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries to the extent of approximately HK$38,000,000. These banking facilities had been utilised to the extent of approximately HK$10,600,000 (2005: HK$43,000,000) as at the balance sheet.

(b) As at 31 March 2006, the Company provided corporate guarantee in favour of a subsidiary (the "Subsidiary") to a landlord that the Subsidiary will duly observe the terms and pay the monies, being the total rental expenses, management fee and utility charges of HK$5,078,000 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the Subsidiary during the year ended 31 March 2005.

(c) As at 31 March 2006, the Group had bills discounted with recourse of approximately HK$11,175,000 (2005: HK$25,033,000).

37. COMMITMENT

a) Operating lease commitment

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

As at 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**1,390**	1,292
In the second to fifth years, inclusive	**1,402**	2,649
	2,792	3,941

b) Other commitment

As at 31 March 2006 and 2005, the Group had a commitment to advance to Fosse Bio, Fosse Vendor and/or other shareholders of Fosse Bio for expenses relating to clinical trial of the Product. The loans so advanced can be offset against the fourth installment of the Consideration (note 10) payable in accordance with the Deed.

38. RELATED PARTY TRANSACTIONS

Compensation for key management personnel represented amounts paid to the Company's directors as disclosed in note 26 as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**4,185**	3,969
Pension scheme contributions	**12**	12
	4,197	3,981

39. COMPARATIVE FIGURES

Following the adoption of new HKASs and HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified or restated to conform with the current year's presentation and accounting treatments.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 July 2006.