THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, other licensed corporation, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Wai Yuen Tong Medicine Holdings Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser(s) or other transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

WAI YUEN TONG MEDICINE HOLDINGS LIMITED
(位元堂藥業控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

MAJOR TRANSACTION
DISPOSAL AND LEASEBACK OF THE PROPERTY

Financial adviser to Wai Yuen Tong Medicine Holdings Limited

SOMERLEY LIMITED

A notice convening a special general meeting of Wai Yuen Tong Medicine Holdings Limited to be held at 37th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Thursday, 22 March 2007 at 3:30 p.m. is set out on pages 103 to 104 of this circular. A form of proxy for use at the special general meeting is enclosed. Whether or not you intend to attend the special general meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or adjourned meeting, as the case may be. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

5 March 2007

* *For identification purpose only*

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In this circular, the following expressions have the following meanings, unless the context requires otherwise:

"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of directors of the Company
"Business Day"	means a day (other than Saturday and any day on which a tropical cyclone warning No.8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks are open in Hong Kong for general banking business
"Company"	Wai Yuen Tong Medicine Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange
"Completion"	completion of the Conditional Sale and Purchase Agreement
"Conditional Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 13 February 2007 entered into between Plenty Time and the Purchaser in respect of the sale and purchase of the Sale Share and the Debt
"Conful"	Conful Limited, an indirect wholly-owned subsidiary of the Company and a company incorporated in Hong Kong with limited liability
"Debt"	the debt owing by Conful to Plenty Time as at the date of Completion
"Director(s)"	the directors of the Company, including the independent non-executive directors
"Disposal"	the disposal of the Sale Share and the Debt pursuant to the Conditional Sale and Purchase Agreement
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	28 February 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

"Leaseback Agreement"	the leasing agreement to be entered into between the Company and Conful in respect of the leasing of the Property from Conful to the Company
"Lease Term"	the term of years for the Leaseback Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Plenty Time"	Plenty Time Investments Limited, an indirect wholly-owned subsidiary of the Company and a company incorporated in the British Virgin Islands with limited liability
"PRC"	the People's Republic of China
"Property"	Wai Yuen Tong Medicine Building, a six-storey building situated at 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong
"Purchaser"	Golden Orchard Holdings Ltd., a company incorporated in the British Virgin Islands with limited liability
"Remaining Group"	the Group after Completion
"Sale Share"	the entire issued share capital of Conful
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held for considering and, if thought fit, approving the Conditional Sale and Purchase Agreement, the Leaseback Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary shares of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Wang On"	Wang On Group Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange. Wang on is a controlling shareholder of the Company
"Wang On Group"	Wang On and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"sq.m."	square meters
"%"	per cent.

WAI YUEN TONG MEDICINE HOLDINGS LIMITED
(位元堂藥業控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

Executive Directors:
Mr. Tang Ching Ho *(Chairman)*
Mr. Chan Chun Hong, Thomas *(Managing Director)*

Independent non-executive Directors:
Mr. Leung Wai Ho
Mr. Yuen Chi Choi
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business:
5th Floor
Wai Yuen Tong Medicine Building
9 Wang Kwong Road
Kowloon Bay
Kowloon
Hong Kong

5 March 2007

To the Shareholders and, for information only, holders of the share options

Dear Sir/Madam,

MAJOR TRANSACTION
DISPOSAL AND LEASEBACK OF THE PROPERTY

INTRODUCTION

On 14 February 2007, the Company announced that Plenty Time, an indirect wholly-owned subsidiary of the Company, had entered into the Conditional Sale and Purchase Agreement with the Purchaser on 13 February 2007. Pursuant to the terms of the Conditional Sale and Purchase Agreement, Plenty Time has agreed to sell the Sale Share, which represents the entire issued share capital of Conful, and the Debt at a total cash consideration of HK$188,000,000. The principal asset of Conful is the Property.

* *For identification purpose only*

Pursuant to the terms of the Conditional Sale and Purchase Agreement, the Company shall upon Completion enter into the Leaseback Agreement to rent the Property from Conful for a period of ten years at a monthly rental of HK$1,018,334 in the first 5 years of the Lease Term and HK$1,096,667 in the last 5 years of the Lease Term, with an option, at the discretion of the Company, to renew the lease for a further 5 years at the then prevailing market rent.

The Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the approval of the Shareholders at the SGM. The purpose of this circular to provide, among others, further information on the Disposal and the Leaseback Agreement; and a valuation report on the Property together with a notice of the SGM at which an ordinary resolution will be proposed to consider and approve the Conditional Sale and Purchase Agreement, the Leaseback Agreement and the transactions contemplated thereunder.

THE CONDITIONAL SALE AND PURCHASE AGREEMENT

Date:	13 February 2007

Parties:

Vendor:	Plenty Time, an indirect wholly-owned subsidiary of the Company
Purchaser:	Golden Orchard Holdings Ltd.
Vendor's guarantor:	the Company, which agrees to guarantee the due performance by the vendor of the latter's obligations under the Conditional Sale and Purchase Agreement

To the best of the Directors' knowledge, information and having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined under the Listing Rules). The Purchaser is an investment holding company.

Assets to be disposed

The Sale Share which represents the entire issued share capital of Conful and the Debt which will represent all amounts owing by Conful to Plenty Time as at the date of Completion at an aggregate consideration of HK$188,000,000. Conful is a property holding company. Its principal asset is Wai Yuen Tong Medicine Building which is a six-storey building situated at 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

Consideration and payment terms

The aggregate consideration for the Sale Share and the Debt is HK$188,000,000 (subject to adjustment), which shall be paid by the Purchaser to the Company in cash, as follows:

(i) HK$18,800,000 has been paid by the Purchaser as initial deposit upon signing of the Conditional Sale and Purchase Agreement, and the same shall be applied towards part payment of the consideration; and

(ii) the remaining balance of HK$169,200,000 shall be payable on Completion.

The terms of the Conditional Sale and Purchase Agreement, including the consideration, were arrived at after arm's length negotiation between parties to the agreement and with reference to the valuation of the Property as at 31 January 2007 of HK$185,000,000 made by a professional valuer which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, is an independent third party not connected with the Company and its connected persons (as defined under the Listing Rules) and the Purchaser. The independent valuation report on the Property is contained in appendix II to this circular.

Conditions of the Conditional Sale and Purchase Agreement

Completion of the Conditional Sale and Purchase Agreement is conditional upon:

1. the approval by the Shareholders at the SGM of the resolution as regards the Conditional Sale and Purchase Agreement and transactions contemplated thereunder;

2. on the date of Completion, the Property is free from encumbrances and Conful shall have repaid the outstanding bank loan (the "Secured Bank Loan") due to The Hongkong and Shanghai Banking Corporation Limited (the "Bank") and have been released from any guarantees and counter indemnities executed in favour of the Bank.

   According to the audited accounts of Conful, the Secured Bank Loan amounted to approximately HK$16.5 million as at 31 March 2006;

3. the termination of any existing tenancies and property management agreement taken out in respect of the Property;

4. the execution of the deeds of assignment in respect of assignment to Plenty Time of any amount owing by Conful to its associated companies, except for the Debt; and

5. there is no material adverse change in the financial status of Conful as at 31 March 2006 and the date of Completion as reflected from the audited accounts of Conful as at 31 March 2006 and the unaudited accounts of Conful as at the date of Completion respectively.

If any of the above conditions has not been fulfilled or waived by 26 March 2007, or such later date as the parties to the Conditional Sale and Purchase Agreement may agree, the Conditional Sale and Purchase Agreement shall terminate and cease to be of any further effect, subject to the liability in respect of any antecedent breaches, and the return of the deposit of HK$18,800,000 (together with all interest accrued thereon) by Plenty Time to the Purchaser.

Completion

Completion shall take place on the third business day after fulfilment of all the conditions precedents to the Conditional Sale and Purchase Agreement or such other date as each of the parties may agree in writing.

THE LEASEBACK AGREEMENT

Pursuant to the Conditional Sale and Purchase Agreement, the Company shall upon Completion enter into the Leaseback Agreement with Conful. Conful will upon Completion become wholly owned by the Purchaser and will then be third party independent of the Company and its connected persons (as defined under the Listing Rules).

Principal terms of the Leaseback Agreement are as follows:

Lease Term:	Ten years commencing from the date of Completion
Rental:	In the first 5 years of the Lease Term HK$1,018,334 per month (exclusive of government rates and management fee) In the last 5 years of the Lease Term HK$1,096,667 per month (exclusive of government rates and management fee) Such monthly rental is determined after arm's length negotiation between the Company and the Purchaser with reference to, among other things, the rental prices of the properties in the vicinity of the Property According to the valuation report on the Property as set out in appendix II to this circular, the market monthly rental of the Property was HK$1,030,000 (exclusive of government rent, rates, management fees and utility charges) as at 31 January 2007.

Deposit:	In the first 5 years of the Lease Term Deposit of HK$4,073,336, being 4 months' rent, payable by the Company upon signing of the Leaseback Agreement In the last 5 years of the Lease Term A top up sum of HK$313,332 increasing the deposit to HK$4,386,668, being 4 months' rent (the above amount shall be payable on the 1st day of the sixth year of the Lease Term)
Further lease option:	Pursuant to the Leaseback Agreement, the Company is also granted an option exercisable at the discretion of the Company to take the lease of the Property for a further term of five years from the end of the Lease Term, provided that a written notice should be given by the Company to Conful not less than six months prior to the end of the Lease Term. The rental for the Property during the extended lease term will be based on the market rent prevailing at the last day of the Lease Term. The Company shall comply with any applicable requirements of the then prevailing Listing Rules in the event that the Company decides to extend the term of the Leaseback Agreement.

INFORMATION ON THE PROPERTY AND CONFUL

The Property is a six-storey building located at 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong with a total gross floor areas of approximately 12,000 sq.m.. The Property may be used for industrial purpose. A majority portion of the Property is occupied by the group companies of the Company for operating use. The remaining portion is subject to a tenancy (the "Original Lease") entered into with a wholly-owned subsidiary of Wang On which shall expire on 30 June 2009. The Wang On Group is also engaged to provide property management service for the Property. Conful shall negotiate with the Wang On Group with a view to terminating the above tenancy and the property management agreement prior to Completion. The Property would, as from Completion, be leased back to the Company pursuant to the Leaseback Agreement. The Company intends to continue to occupy a majority portion of the Property for self-use. The Company may on about Completion enter into sub-lease agreement with the Wang On Group in respect of the portion of the Property currently being occupied by the latter on largely the same terms as the Original Lease. The Wang On Group may also be engaged by the Company to continue to provide property management service for the Property after Completion. Based on the aggregate of the currently expected annual rental and property management fee, the above arrangements shall be eligible for the exemption criterion under Rule 14A.34 of the Listing Rules and would only be subject to reporting and announcement requirements. Further announcement would be made by the Company as and when appropriate if firm agreement(s) in respect of the above is entered into.

As mentioned above, Conful is a property holding company. The following table sets out a summary of the audited financial results of Conful for the two years ended 31 March 2006:

	For the year ended 31 March 2006 *(HK$)*	**For the year ended 31 March 2005** *(HK$)* (restated)
Revenue	3,518,199	3,216,000
Loss for the year	(2,597,181)	(912,874)

	As at 31 March 2006 *(HK$)*	**As at 31 March 2005** *(HK$)*
Net liabilities	(3,510,054)	(912,873)

It is expected that as at Completion, Conful would have no material assets and liabilities except for the Property and the Debt, which is estimated to amount to approximately HK$86 million as at Completion.

REASONS FOR THE DISPOSAL AND THE LEASEBACK AGREEMENT AND USE OF PROCEEDS

The Group is principally engaged in (i) the manufacturing, processing and retailing of traditional Chinese medicine which includes Chinese medicine products sold under the name of "Wai Yuen Tong" and a range of products manufactured by selected medicinal materials with traditional prescription, mainly in the PRC and Hong Kong; and (ii) processing and retailing of western pharmaceutical products under the brand name of "Madame Pearl's".

Given the improvement in value of the Property, the Directors consider it a good opportunity for the Company to dispose of the Property at the agreed price. The sale proceeds would also enable the Company to embark on future business development. The Leaseback Agreement would allow the Company to have long-term and continuous use of the Property.

The net proceeds of approximately HK$184 million (after deducting the relevant expenses) from the Disposal will be applied to repay the Secured Bank Loan and the rest as general working capital of the Group.

The Directors are of the view that the terms of the Conditional Sale and Purchase Agreement and the proposed terms of the Leaseback Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

FINANCIAL EFFECT OF THE DISPOSAL TO THE GROUP

Upon Completion, Conful will cease to be a subsidiary of the Company and its results, assets and liabilities will also cease to be consolidated in the accounts of the Group.

It is estimated that the Disposal would generate a profit of approximately HK$98 million (calculated on the basis of the net proceeds from the Disposal of approximately HK$184 million, the expected amount of the Debt as at Completion, the audited net deficit of Conful as at 31 March 2006 of approximately HK$3.5 million and after deducting a deferred gain of approximately HK$3.0 million (being the excess of the consideration for the Conditional Sale and Purchase Agreement over the market value of the Property). This deferred gain would be recognised as income over the term of the lease on an annual basis.) The exact amount of profit from Disposal would be calculated on the basis of the relevant figures as at Completion and therefore would be different from the above amount. It is expected that the profit from Disposal would be reflected in the consolidated accounts of the Company for the year ending 31 March 2007.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As set out in the 2006 interim report of the Group, the revenue of the Group for the six months ended 30 September 2006 has increased by about 5.6% to approximately HK$172.5 million which was mainly attributable to the increase in production and sale of bottled bird's nest drinks and herbal essence products during the period. In addition, the Group's production and sale of other Chinese and Western pharmaceutical and health food products are largely stable over the six months ended 30 September 2006. Looking forward, the Group will concentrate its resources on Chinese and Western pharmaceutical business and health food products in Hong Kong and PRC.

The overall economy in Hong Kong has recorded a strong rebound and the Directors expect that the overall economic and business environment in Hong Kong will continue to grow.

Taking advantage of the continuing growth of PRC and Hong Kong economy and the increasing public awareness of personal healthcare, the Directors are optimistic on the Group's future growth prospects. The Directors also believe that the Group's effort spent in building brand loyalty and effective operation and distributional networks, coupled with its financial strategies, will support the growth of the Group and enable it to gain access to business opportunities, thereby leading to better return to the Shareholders in the future.

SGM

The Disposal constitutes a major transaction of the Company under the Listing Rules and is subject to the Shareholders' approval at the SGM. To the best knowledge, information and belief of the Directors and after making all reasonable enquiries, as at the Latest Practicable Date, no Shareholder has any material interest in the Conditional Sale and Purchase Agreement. Accordingly, no Shareholder is required to abstain from voting on the Conditional Sale and Purchase Agreement and the Leaseback Agreement at the SGM.

The notice convening the SGM is set out on pages 103 to 104 of this circular. Whether or not you intend to attend the SGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or adjourned meeting. Completion and return of the form of proxy will not prevent you from attending and voting in person at the SGM or at any adjourned meeting if you so wish.

PROCEDURE BY WHICH A POLL MAY BE DEMANDED

Pursuant to bye-law 66 of the bye-laws of the Company, an ordinary resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) by a Shareholder or Shareholders present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

RECOMMENDATION

The Directors consider that the terms of the Conditional Sale and Purchase Agreement and the Leaseback Agreement are fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution approving the Conditional Sale and Purchase Agreement and the Leaseback Agreement to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Wai Yuen Tong Medicine Holdings Limited
Chan Chun Hong, Thomas
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group as extracted from the relevant annual and interim reports of the Company is set out below:

Results

	(Unaudited) Six months ended 30 September		(Audited) For the year ended 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	(Restated)
Turnover	172,499	163,413	324,756	326,909	349,225
Loss before taxation	(5,114)	(35,467)	(107,392)	(62,639)	(30,652)
Income tax expense	(196)	—	1,240	(5,571)	(1,738)
Loss for the period	(5,310)	(35,467)	(106,152)	(68,210)	(32,390)
ATTRIBUTABLE TO:					
Equity holders of the Company	(5,314)	(34,818)	(98,370)	(67,958)	(32,410)
Minority interests	4	(649)	(7,782)	(252)	20
	(5,310)	(35,467)	(106,152)	(68,210)	(32,390)

Assets and liabilities

	(Unaudited) As at 30 September		(Audited) As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	(Restated)
Total assets	822,644	788,962	835,983	828,155	469,356
Total liabilities including minority interests	(180,921)	(223,095)	189,192	226,821	106,855
Equity attributable to equity holders of the Company	641,640	558,639	646,712	593,457	362,595
Minority interests	83	7,228	79	7,877	(94)
	641,723	565,867	646,791	601,334	362,501

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2006

Set out below is the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement of the Group, and the balance sheet of the Company together with the notes to the financial statements of the Group as extracted from pages 23 to 92 of the annual report of the Company for the year ended 31 March 2006.

"Consolidated Income Statement
For the year ended 31 March 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000* (restated)
Revenue	*7*	324,756	326,909
Cost of sales		(190,904)	(162,134)
Gross profit		133,852	164,775
Other income	*9*	7,493	5,273
Distribution costs		(105,168)	(104,996)
Administrative expenses		(76,785)	(84,084)
Finance costs	*10*	(7,751)	(3,108)
Impairment loss recognised in respect of goodwill		(40,095)	(26,337)
Gain on disposal of investment properties		1,920	—
Impairment loss recognised in respect of property, plant and equipment		(11,762)	—
Write off of prepaid lease payments		(2,303)	—
Allowance for amounts due from associates		(5,000)	—
Increase in fair value of investment properties		—	4,226
Share of results of associates		(1,793)	(3,186)
Impairment loss recognised in respect of goodwill of associates		—	(15,202)
Loss before taxation	*11*	(107,392)	(62,639)
Income tax expense	*13*	1,240	(5,571)
Loss for the year		(106,152)	(68,210)
Attributable to:			
Equity holders of the Company		(98,370)	(67,958)
Minority interests		(7,782)	(252)
		(106,152)	(68,210)
Loss per share	*14*		
— Basic and diluted		HK$(0.12)	HK$(0.18)

Consolidated Balance Sheet
At 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
NON-CURRENT ASSETS			
Investment properties	*15*	9,100	41,200
Property, plant and equipment	*16*	84,934	103,030
Prepaid lease payments	*17*	140,721	146,536
Goodwill	*18*	255,461	296,516
Investments in associates	*19*	3,827	5,741
Amount due from an associate	*20*	7,300	7,250
Trademarks	*21*	1,216	737
Long-term bank deposit	*22*	7,762	—
Deposits paid for investments	*24*	14,704	—
Deferred tax assets	*36*	341	341
		525,366	601,351
CURRENT ASSETS			
Inventories	*23*	66,958	68,897
Trade and other receivables	*25*	59,135	90,733
Prepaid lease payments	*17*	3,512	3,560
Amounts due from associates	*20*	13,631	20,069
Taxation recoverable		1,294	—
Investments held-for-trading	*26*	14,491	—
Derivative financial instruments	*27*	100	—
Pledged deposits	*28*	42,703	—
Bank balances and cash	*29*	108,793	43,545
		310,617	226,804
CURRENT LIABILITIES			
Trade and other payables	*30*	53,502	64,367
Taxation payable		340	830
Obligations under finance leases	*31*	270	316
Bank borrowings	*32*	38,323	30,430
Deferred franchise income	*33*	234	283
Convertible loan stock	*34*	6	6
		92,675	96,232

	Notes	2006 HK$'000	2005 HK$'000 (restated)
NET CURRENT ASSETS		217,942	130,572
TOTAL ASSETS LESS CURRENT LIABILITIES		743,308	731,923
NON-CURRENT LIABILITIES			
Obligations under finance leases	*31*	104	278
Bank borrowings	*32*	94,363	112,756
Deferred franchise income	*33*	18	108
Convertible notes	*35*	—	13,754
Deferred tax liabilities	*36*	2,032	3,693
		96,517	130,589
NET ASSETS		646,791	601,334
CAPITAL AND RESERVES			
Share capital	*37*	13,964	34,909
Reserves		632,748	558,548
Equity attributable to equity holders of the Company		646,712	593,457
Minority interests		79	7,877
TOTAL EQUITY		646,791	601,334

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Attributable to the equity holders of the Company									
	Share capital	Share premium	Special reserve	General reserve	Translation reserve	Convertible notes reserve	Accumulated profits (losses)	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(note a)*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000* *(note c)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004 as originally stated	55,277	128,984	(27,150)	182,158	–	–	14,424	353,693	212	353,905
Effects of changes in accounting policies *(note 3)*	–	–	–	–	–	11,000	(2,404)	8,596	–	8,596
At 1 April 2004 as restated	55,277	128,984	(27,150)	182,158	–	11,000	12,020	362,289	212	362,501
Exchange differences arising on translation of foreign operations	–	–	–	–	480	–	–	480	–	480
Net income recognised directly in equity	–	–	–	–	480	–	–	480	–	480
Loss for the year	–	–	–	–	–	–	(67,958)	(67,958)	(252)	(68,210)
Total recognised income (expense) for the year	–	–	–	–	480	–	(67,958)	(67,478)	(252)	(67,730)
Issue of new shares	5,521	30,360	–	–	–	–	–	35,881	–	35,881
Issue of right issue and bonus issue	22,111	248,748	–	(5,528)	–	–	–	265,331	–	265,331
Issue of shares upon conversion of convertible notes	1,750	12,250	–	–	–	(1,990)	–	12,010	–	12,010
Share issue expenses	–	(11,199)	–	–	–	–	–	(11,199)	–	(11,199)
Reduction in share capital	(49,750)	–	–	41,878	–	–	7,872	–	–	–
Redemption of the convertible notes	–	–	–	–	–	(11,000)	3,363	(7,637)	–	(7,637)
Recognition of equity component of convertible notes	–	–	–	–	–	4,260	–	4,260	–	4,260
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(21)	(21)
Acquisition of subsidiaries with minority interests	–	–	–	–	–	–	–	–	7,938	7,938
At 31 March 2005 as restated	34,909	409,143	(27,150)	218,508	480	2,270	(44,703)	593,457	7,877	601,334

	Attributable to the equity holders of the Company									
	Share capital	Share premium	Special reserve	General reserve	Translation reserve	Convertible notes reserve	Accumulated profits (losses)	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(note a)*	*HK$'000* *(note b)*	*HK$'000*	*HK$'000* *(note c)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Exchange differences arising on translation of foreign operations	–	–	–	–	569	–	–	569	–	569
Share of translation reserve of associates	–	–	–	–	115	–	–	115	–	115
Net income recognised directly in equity	–	–	–	–	684	–	–	684	–	684
Loss for the year	–	–	–	–	–	–	(98,370)	(98,370)	(7,782)	(106,152)
Total recognised income (expense) for the year	–	–	–	–	684	–	(98,370)	(97,686)	(7,782)	(105,468)
Redemption of the convertible notes	–	–	–	–	–	(2,270)	–	(2,270)	–	(2,270)
Issue of new shares	10,473	146,616	–	–	–	–	–	157,089	–	157,089
Share issue expenses	–	(3,878)	–	–	–	–	–	(3,878)	–	(3,878)
Reduction in share capital	(31,418)	–	–	–	–	–	31,418	–	–	–
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(16)	(16)
At 31 March 2006	13,964	551,881	(27,150)	218,508	1,164	–	(111,655)	646,712	79	646,791

Notes:

(a) The special reserve of the Group represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to a group reorganisation in 1995.

(b) The general reserve represents the credits arising from the capital reduction effected by the Company less the amount utilised for the purpose of bonus issue of shares by the Company.

(c) During the year, the Company has redeemed all the convertible notes through the Rights Issues.

Consolidated Cash Flow Statement
For the year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
OPERATING ACTIVITIES			
Loss before taxation		(107,392)	(62,639)
Adjustments for:			
Depreciation of property, plant and equipment		15,437	9,334
Finance costs		7,751	3,108
Gain on disposal of investment properties		(1,920)	—
Impairment loss recognised in respect of property, plant and equipment		11,762	—
Allowance for inventories		1,054	—
Write off of prepaid lease payments		2,303	—
Impairment loss recognised in respect of goodwill		40,095	26,337
Allowance for amounts due from associates		5,000	—
Amortisation of prepaid lease payments		3,630	874
Amortisation of trademarks		84	92
Interest income		(1,910)	(202)
Other loan interest income		(550)	(387)
Loss on disposal of property, plant and equipment		41	84
Gain on disposal of investments held-for-trading		(548)	—
Fair value gain on investments held-for-trading		(265)	—
Increase in fair value of investment properties		—	(4,226)
Gain on recognition of derivative financial instruments		(100)	—
Bad debts written off		2,625	—
Allowance for trade receivables		1,419	5,574
Decrease in deferred franchise income		(139)	(328)
Share of results of associates		1,793	3,186
Impairment loss recognised in respect of goodwill of associates		—	15,202
Operating cash flows before movements in working capital		(19,830)	(3,991)
Decrease (increase) in inventories		2,880	(27,972)
Decrease (increase) in trade and other receivables		29,327	(37,744)
Decrease (increase) in amounts due from associates		6,438	(827)
(Decrease) increase in trade and other payables		(13,997)	24,752
Cash generated from (used in) operation		4,818	(45,782)
Hong Kong Profits Tax paid		(1,698)	(3,782)
Overseas taxation paid		(507)	(59)
Interest received		2,460	589
NET CASH FROM (USED IN) OPERATING ACTIVITIES		5,073	(49,034)

	Notes	2006 HK$'000	2005 HK$'000 (restated)
INVESTING ACTIVITIES			
Proceeds from disposal of investment properties		38,020	—
Proceeds from disposal of investments held-for-trading		3,830	—
Dividend income from associates		162	305
Proceeds from disposal of property, plant and equipment		40	1,286
Increase in pledged deposits		(42,703)	—
Purchase of investments held-for-trading		(17,508)	—
Increase in deposits paid for investments		(14,704)	—
Purchase of property, plant and equipment		(8,085)	(39,752)
Increase in long-term bank deposit		(7,762)	—
Advance to an associate		(5,050)	(7,250)
Purchase of investment properties		(4,000)	(36,974)
Purchase of trademarks		(563)	(38)
Acquisition of subsidiaries, net of cash and cash equivalent acquired	39	(77)	(142,917)
Investment in an associate		—	(1,125)
NET CASH USED IN INVESTING ACTIVITIES		(58,400)	(226,465)
FINANCING ACTIVITIES			
Proceeds from issue of new shares, net of expenses		153,211	290,013
New bank loans raised		27,800	73,900
Repayments of bank borrowings		(38,642)	(7,508)
Redemption of convertible notes		(16,000)	(56,500)
Interest paid		(7,775)	(2,125)
Repayments of obligations under finance leases		(485)	(170)
Dividends paid to minority shareholders		(16)	(21)
Repayment of loans from a shareholder		—	(7,000)
NET CASH FROM FINANCING ACTIVITIES		118,093	290,589
NET INCREASE IN CASH AND CASH EQUIVALENTS		64,766	15,090
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		43,102	27,580
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		140	432
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		108,008	43,102
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		108,793	43,545
Bank overdrafts		(785)	(443)
		108,008	43,102

Notes to the Financial Statements

For the year ended 31 March 2006

1. General

The Company was incorporated in Bermuda on 12 August 1994 under the Companies Act 1981 of Bermuda as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 48.

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

2. Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005 except for HKAS 40 *"Investment Property",* HKAS 36 "*Impairment of Assets*" and HKAS 38 "*Intangible Assets*" and HKFRS 3 *"Business Combinations"* which were early adopted in the 2005 year. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of taxation of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Financial Instruments

In the current year, the Group has applied HKAS 32 *"Financial Instruments: Disclosure and Presentation"* and HKAS 39 *"Financial Instruments: Recognition and Measurement"*. HKAS 32 requires retrospective application. HKAS 39, which is effective for 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 principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible loan notes

The principal impact of HKAS 32 on the Group is in relation to convertible loan notes issued by the Company that contain both liability and equity components. Previously, convertible loan notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2005 have been restated. Comparative loss for 2005 has been restated in order to reflect the increase in effective interest on the liability component (see note 3 for the financial impact).

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.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial 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 adoption of HKAS 39 has had no material effect on the Group's consolidated financial statements.

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held-for-trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1 April 2005 onwards. As a result, the Group's bill receivables discounted with full recourse which were derecognised prior to 1 April 2005 have not been restated. This change in accounting policy has had no material effect on results for the current year.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *"Leases"*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively *(see note 3 for the financial impact)*.

Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 *"Income Taxes — Recovery of Revalued Non-Depreciable Assets"* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. There is no material deferred tax impact on adoption of HK(SIC) Interpretation 21, and the comparative figures have not been restated.

3. Summary of the Effects of the Changes in Accounting Policies

The effects of the changes in the accounting policies described in note 2 above are as follows:

(a) Effects on the results for the current and prior years:

	2006	**2005**
	HK$'000	*HK$'000*
(Decrease) increase in interest on liability component of convertible notes	(24)	983
Analysis by items presented according to their function:		
(Decrease) increase in finance costs	(24)	983
Decrease in share of results of associates	—	(76)
Decrease in income tax expense	—	76
	(24)	983

(b) The financial effects of the application of the new HKFRSs to the Group as at 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005	Effect of HKAS 1	Effect of HKAS 17	Effect of HKAS 32	As at 31 March 2005 and 1 April 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(originally stated)				(restated)
Balance sheet items					
Property, plant and equipment	253,126	—	(150,096)	—	103,030
Prepaid lease payments	—	—	150,096	—	150,096
Convertible notes	(16,000)	—	—	2,246	(13,754)
Other assets and liabilities	361,962	—	—	—	361,962
Assets and liabilities	599,088	—	—	2,246	601,334
Share capital and other reserves	635,890	—	—	—	635,890
Convertible notes reserve	—	—	—	2,270	2,270
Accumulated losses	(44,679)	—	—	(24)	(44,703)
Minority interests	—	7,877	—	—	7,877
	591,211	7,877	—	2,246	601,334
Minority interests	7,877	(7,877)	—	—	—
Equity	599,088	—	—	2,246	601,334

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

	As originally stated	Effect of HKAS 1	Effect of HKAS 32	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Share capital and other reserves	339,269	—	—	339,269
Convertible notes reserve	—	—	11,000	11,000
Accumulated profits	14,424	—	(2,404)	12,020
Minority interests	—	212	—	212
Total effects on equity	353,693	212	8,596	362,501
Minority interests	212	(212)	—	—
	353,905	—	8,596	362,501

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group except for HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts" which require all financial guarantee contracts to be initially measured at fair value. The directors consider the impact resulting from this amendment cannot be reasonably estimated as at the balance sheet date.

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

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.
5 Effective for annual periods beginning on or after 1 May 2006.
6 Effective for annual periods beginning on or after 1 June 2006.

4. Significant Accounting Policies

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

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

Basis of consolidation

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

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

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

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

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortisation from 1 April 2004 onwards, and such goodwill is tested for impairment at least annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired *(see the accounting policy below)*.

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any identified impairment loss.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

Goodwill arising on acquisitions on or after 1 January 2005

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

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

Interests in subsidiaries

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

Interests in associates

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the assessment. Any excess of the Group' share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Investment properties

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets of the Group or, where shorter, the term of the relevant lease.

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

Trademarks

On initial recognition, trademarks are recognised at cost. After initial recognition, trademarks with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for trademarks with finite useful lives is provided on a straight-line basis over their estimated useful lives. (see the accounting policy in respect of impairment below).

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

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

Impairment (other than goodwill)

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Revenue recognition

Revenue is measured at the fair value of amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances and property rental income during the year.

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

Sales of investments in securities are recognised when the sale contracts become unconditional.

Service fee income is recognised when services are provided.

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

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

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

Advertising and management fee income is recognised when services are provided.

Inventories

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

Financial instruments

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

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Equity instruments

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

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Derecognition

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

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards.

Deferred franchise income

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

Research and development

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

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

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

Taxation

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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 is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when they are incurred.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

5. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 4, management has made various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2006, the carrying amount of goodwill is approximately HK$255,461,000. Details of the recoverable amount calculation are disclosed in note 18.

Investment properties

The investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 4. The fair value of the investment properties are determined with reference to the property valuation performed by Savills Valuation and Professional Services Limited, a firm of independently qualified professional valuers. The fair value of investment properties at the balance sheet date is set out in note 15. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

6. Financial Risk Management Objectives and Policies

The Group's major financial instruments include investments held-for-trading, derivative financial instruments, trade and other receivables, bank balances, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below:

(a) Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Certain receivables of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group's principal financial assets are bank balances and cash and trade debtors.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables of HK$43,936,000 and amounts due from associates of HK$20,931,000. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

(c) Liquidity risk

The management monitors the working capital requirements of the Group. In the opinion of the Directors, most of the borrowings that mature within one year are able to be renewed and the Group expects to have adequate source of funding by arranging banking facilities to finance the Group's existing operations. Therefore, the risk is considered minimal.

(d) Interest rate risk

The Group's finance lease obligations are carried at fixed rates and the bank borrowings are variable-rate borrowings based on the market rates and is therefore exposed to cash flow interest rate risk. The Group currently does not use interest rate swap to swap its borrowings from floating rates to fixed rates as the management believes that changes in the interest rate will not have a significant impact on the Group's financial position. However, the management monitors closely the interest rate exposure and will consider using interest rate swap should the need arise.

(e) Price risk

The Group's investments held-for-trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

7. Revenue

Revenue represents the fair value of amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, management, advertising and promotion fees and property rental income during the year.

	2006	**2005**
	HK$'000	*HK$'000*
Sales of goods	318,229	320,159
Management, advertising and promotion fees	4,724	4,986
Rental income generated from investment properties	1,803	1,764
	324,756	326,909

8. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into the following major division: (i) production and sale of Chinese pharmaceutical and health food products; (ii) production and sale of bottled birds' nest drink and herbal essence; (iii) production and sale of Western pharmaceutical and health food products; and (iv) property investments and property holding. These divisions are the basis on which the Group reports its primary segment information.

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

Consolidated Income Statement

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence		Production and sale of Western pharmaceutical and health food products		Property investments and property holding		Elimination		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (restated)
REVENUE												
External sales	237,322	228,748	41,312	29,192	44,319	67,205	1,803	1,764	—	—	324,756	326,909
Inter segment sales*	246	—	10,136	4,429	257	302	3,875	3,230	(14,514)	(7,961)	—	—
	237,568	228,748	51,448	33,621	44,576	67,507	5,678	4,994	(14,514)	(7,961)	324,756	326,909
RESULTS												
Segment results, excluding impairment loss recognised in respect of goodwill	(28,551)	(1,226)	(4,404)	(2,190)	4,857	6,020	(5,943)	4,007			(34,041)	6,611
Impairment loss recognised in respect of goodwill	(40,095)	(26,337)	—	—	—	—	—	—			(40,095)	(26,337)
Segment results	(68,646)	(27,563)	(4,404)	(2,190)	4,857	6,020	(5,943)	4,007			(74,136)	(19,726)
Other income											7,493	5,273
Unallocated corporate expenses											(26,205)	(26,690)
Finance costs											(7,751)	(3,108)
Allowance for amounts due from associates											(5,000)	—
Share of results of associates											(1,793)	(3,186)
Impairment loss recognised in respect of goodwill of associates											—	(15,202)
Loss before taxation											(107,392)	(62,639)
Income tax expense											1,240	(5,571)
Loss for the year											(106,152)	(68,210)

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

Consolidated Balance Sheet

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Production sale of Western pharmaceutical and health food products		Property investments and property holding		Total	
	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)				(restated)
ASSETS AND LIABILITIES										
ASSETS										
Segmental assets before goodwill	153,426	200,185	24,495	25,842	28,701	34,482	195,988	233,414	402,610	493,923
Goodwill	130,294	170,294	4,350	5,405	120,817	120,817	—	—	255,461	296,516
Segment assets	283,720	370,479	28,845	31,247	149,518	155,299	195,988	233,414	658,071	790,439
Interests in associates									11,127	12,991
Unallocated corporate assets									166,785	24,725
Consolidated total assets									835,983	828,155
LIABILITIES										
Segmental liabilities	31,789	43,189	10,275	7,365	11,074	11,687	2,368	1,340	55,506	63,581
Unallocated corporate liabilities									133,686	163,240
Consolidated total liabilities									189,192	226,821

Consolidated Balance Sheet

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Production sale of Western pharmaceutical and health food products		Property investments and property holding		Total	
	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)						(restated)		(restated)
OTHER INFORMATION										
Capital expenditure	8,033	45,808	713	2,379	58	129	4,580	85,315	13,384	133,631
Depreciation of property, plant and equipment	12,012	7,371	674	363	417	407	2,334	1,193	15,437	9,334
Goodwill arising on acquisition of subsidiaries	95	23,669	—	5,405	—	—	—	—	95	29,074
Amortisation of trademarks	84	92	—	—	—	—	—	—	84	92
Impairment loss recognised in respect of property, plant and equipment	11,762	—	—	—	—	—	—	—	11,762	—

Geographical segments

The Group's operation are located in Hong Kong, the People's Republic of China (the "PRC") and Singapore.

The following is an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods and services:

	2006	**2005**
	HK\$'000	*HK\$'000*
		(restated)
Hong Kong	249,400	244,435
PRC, other than Hong Kong	26,918	39,845
Singapore	31,601	20,489
Others	16,837	22,140
	324,756	326,909

The following is an analysis of the carrying amount of segment assets and capital expenditure analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Capital expenditure**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)
Hong Kong	781,985	772,554	11,787	118,760
The PRC, other than Hong Kong	21,179	20,123	704	12,492
Singapore	29,989	31,247	713	2,379
Others	1,273	3,153	180	—
	834,426	827,077	13,384	133,631

9. Other Income

	2006	**2005**
	HK$'000	*HK$'000* (restated)
Other loan interest income	550	387
Interest income	1,910	202
Franchise income	458	734
Advertising and management fee	141	266
Gain on disposal of investments held-for-trading	548	—
Fair value gain on investments held-for-trading	265	—
Gain on recognition of derivative financial instruments	100	—
Processing fee income	2,359	1,764
Sundry income	1,162	1,920
	7,493	5,273

10. Finance Costs

	2006	**2005**
	HK$'000	*HK$'000* (restated)
Interest on:		
Bank borrowings wholly repayable within five years	4,920	1,314
Bank borrowings not wholly repayable within five years	2,467	234
Convertible loan stock	1	1
Loan from a shareholder	—	34
Finance leases	57	20
Effective interest expenses on convertible notes	306	1,505
	7,751	3,108

11. Loss Before Taxation

	2006 HK$'000	2005 HK$'000 (restated)
Loss before taxation has been arrived at after charging:		
Staff costs		
— Directors' remuneration	1,720	1,879
— Other staff costs	55,404	54,418
— Retirement benefit scheme contributions other than directors	2,746	2,662
Total staff costs	59,870	58,959
Allowance for trade receivables	1,419	5,574
Amortisation of trademarks, included in administrative expenses	84	92
Auditors' remuneration	1,760	1,100
Depreciation of property, plant and equipment	15,437	9,334
Amortisation of prepaid lease payments	3,630	874
Loss on disposal of property, plant and equipment	41	84
Management fee paid to a shareholder	972	918
Research and development expenses	135	103
Exchange loss (gain)	163	(412)
Share of tax of associates (included in share of results of associates)	76	77
and after crediting:		
Rental income, net of outgoing of HK$501,000 (2005: HK$367,000)	1,302	1,397

12. Directors' and Employees' Emoluments

(a) Directors' emoluments

The emoluments paid or payable to each of the six (2005: six) Directors are as follows:

	Mr. Tang Ching Ho HK$'000	Mr. Chan Chun Hong, Thomas HK$'000	Mr. Leung Wai Ho HK$'000	Mr. Siu Man Ho, Simon HK$'000	Mr. Yuen Chi Choi HK$'000	Mr. Cho Wing Mou HK$'000	Total HK$'000
2006							
Fees	—	—	120	150	150	150	570
Other emoluments:							
Salaries and other benefits	563	563	—	—	—	—	1,126
Retirement benefit scheme contributions	12	12	—	—	—	—	24
Total emoluments	575	575	120	150	150	150	1,720
2005							
Fees	—	—	120	120	120	120	480
Other emoluments:							
Salaries and other benefits	563	812	—	—	—	—	1,375
Retirement benefit scheme contributions	12	12	—	—	—	—	24
Total emoluments	575	824	120	120	120	120	1,879

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2005: one) was a director of the Company whose emoluments are set out in note 12(a) above. The emoluments of the remaining four (2005: four) individuals are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	3,846	5,172
Retirement benefit scheme contributions	57	52
	3,903	5,224

Their emoluments were within the following bands:

	2006 Number of employees	**2005 Number of employees**
Nil to HK$1,000,000	3	1
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	—	2

During the year, no emolument were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors have waived any emoluments during the year.

13. Income Tax Expense

	2006	**2005**
	HK$'000	*HK$'000* (restated)
The (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax	292	2,308
Other jurisdictions	230	331
	522	2,639
(Over) underprovision in prior years		
Hong Kong Profits Tax	(101)	2
Deferred taxation *(Note 36)*		
Current year	(1,661)	2,930
	(1,240)	5,571

Hong Kong Profits Tax is calculated at 17.5% (2005:17.5%) on the estimated assessable profit for the year.

Singapore Income Tax is calculated at 20% (2005: 20%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	2006	**2005**
	HK$'000	*HK$'000*
		(restated)
Loss before taxation	(107,392)	(62,639)
Tax at the domestic income tax rate of 17.5%	(18,794)	(10,962)
Tax effect of share of results of associates	313	620
Tax effect of expenses not deductible for tax purpose	14,719	11,389
Tax effect of income not taxable for tax purpose	(734)	(1,292)
Tax effect of tax losses not recognised	3,418	5,864
(Over)underprovision in prior years	(101)	2
Utilisation of tax losses not recognised	(90)	(30)
Effect of different tax rates of subsidiaries operating in other jurisdictions	29	(20)
Taxation (credit) charge for the year	(1,240)	5,571

Details of deferred taxation are set out in note 36.

14. Loss Per Share

The calculation of the basic loss per share is based on the net loss for the year of HK$98,370,000 (2005: HK$67,958,000, restated), and on the weighted average number of 816,344,116 (2005: 372,328,000, restated) ordinary shares in issue during the year.

The computation of diluted loss per share for each of the two years ended 31 March 2005 and 2006 does not assume (i) the conversion of the outstanding convertible notes of the Company since their exercise would result in a decrease in net loss per share and, (ii) the exercise of the outstanding options of the Company as the exercise price of those options is higher than the average market price of the shares of the Company on the Hong Kong Stock Exchange.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 March 2005 and 2006 has been retrospectively adjusted for the effect of the rights issue and bonus issue as detailed in note 37 and the capital reorganisation approved by the shareholders of the Company on 4 June 2004 and 8 June 2005 as detailed in note 37(a) respectively.

Pursuant to the adoption of new and revised accounting policies as described in note 2 above, the reported earnings per share for the current and prior years have been affected. The following table summarises the impact on basic and diluted earnings per share:

	Impact on basic earnings per share	
	2006	**2005**
	HK$	*HK$*
		(restated)
Figures before adjustments	(0.12)	(0.18)
Adjustments arising from application of new and revised accounting policies	—	—
Reported	(0.12)	(0.18)

15. Investment Properties

	HK$'000
VALUATION	
At 1 April 2004	—
Additions	36,974
Net increase in fair value during the year	4,226
At 31 March 2005	41,200
Addition	4,000
Disposals	(36,100)
At 31 March 2006	9,100

The investment properties at the balance sheet date were held under medium term leases in Hong Kong.

The fair value of the Group's investment properties at 31 March 2006 have been arrived at on the basis of a valuation carried out on that date by Savills Valuation and Professional Services Limited ("Savills"), independent qualified professional valuers not connected with the Group. Savills are members of the Institute of Valuers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The Group has pledged all of its investment properties to secure banking facilities granted to the Group.

16. Property, Plant and Equipment

	Buildings	Leasehold improvements	Plant and machinery	Furniture and equipment	Motor vehicles	Computer system	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 April 2004	6,400	6,726	6,735	13,962	—	4,233	38,056
Exchange realignment	—	25	107	35	47	8	222
On acquisition of subsidiaries	47,799	274	7,023	829	337	45	56,307
Additions	—	7,874	20,688	9,453	—	2,297	40,312
Disposals	—	(973)	—	(616)	—	(173)	(1,762)
At 31 March 2005, as restated	54,199	13,926	34,553	23,663	384	6,410	133,135
Exchange realignment	182	2	272	25	4	1	486
On acquisition of subsidiaries	—	443	—	28	—	—	471
Additions	—	2,715	2,801	1,509	433	892	8,350
Disposals	—	(51)	—	(6)	—	(35)	(92)
At 31 March 2006	54,381	17,035	37,626	25,219	821	7,268	142,350
DEPRECIATION AND IMPAIRMENT LOSSES							
At 1 April 2004	1,097	1,999	3,869	11,982	—	2,046	20,993
Exchange realignment	—	18	92	23	31	6	170
Provided for the year	979	2,984	2,390	1,879	111	991	9,334
Eliminated on disposals	—	(51)	—	(312)	—	(29)	(392)
At 31 March 2005, as restated	2,076	4,950	6,351	13,572	142	3,014	30,105
Exchange realignment	32	2	79	6	3	1	123
Provided for the year	1,469	4,662	5,021	2,803	166	1,316	15,437
Eliminated on disposals	—	(8)	—	(2)	—	(1)	(11)
Impairment loss recognised	5,010	—	6,172	580	—	—	11,762
At 31 March 2006	8,587	9,606	17,623	16,959	311	4,330	57,416
CARRYING AMOUNT							
At 31 March 2006	45,794	7,429	20,003	8,260	510	2,938	84,934
At 31 March 2005, as restated	52,123	8,976	28,202	10,091	242	3,396	103,030

Note: The directors consider that the reclassified accumulated depreciation acquired the cost of property, plant and equipment acquired of subsidiaries are appropriate.

Deprecation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using straight-line method, at the following rates per annum:

Buildings	2% or over the terms of the relevant leases, whichever is shorter
Leasehold improvements	20% — $33^1/_3$%
Plant and machinery	10% — 20%
Furniture and equipment	20% — $33^1/_3$%
Motor vehicles	20%
Computer system	20% — $33^1/_3$%

The carrying value of buildings comprises:

	2006	**2005**
	HK$'000	*HK$'000*
		(restated)
Leasehold buildings situated in:		
Hong Kong under medium term leases	45,794	46,991
The PRC under medium term land use rights	—	5,132
	45,794	52,123

At 31 March 2006, the carrying amount of furniture and equipment includes an amount of approximately HK$646,000 (2005: HK$732,000) in respect of assets held under finance leases. The Group has pledged leasehold buildings with carrying amount of approximately HK$40,758,000 (2005: HK$41,822,000) to secure general banking facilities granted to the Group.

During the year, the single product sale in the PRC was dropped substantially and no new product was launched. Thus, the management decided to abandon the production at the balance sheet date. The directors considered that an impairment loss of approximately HK$11,762,000 should be recognised on the property, plant and equipment in the production plant. In addition, the directors made an allowance of inventories and to write off of prepaid lease payments which related to the production plant of approximately HK$1,054,000 and HK$2,303,000, respectively.

17. Prepaid Lease Payments

	HK$'000
COST	
At 1 April 2004	1,306
Acquired on acquisition of subsidiaries	149,839
At 31 March 2005	151,145
Exchange realignment	71
Impairment losses provided for the year	(2,511)
At 31 March 2006	148,705
AMORTISATION	
At 1 April 2004	175
Provided for the year	874
At 31 March 2005	1,049
Exchange realignment	1
Provided for the year	3,630
Impairment losses provided for the year	(208)
At 31 March 2006	4,472
CARRYING AMOUNT	
At 31 March 2006	144,233
At 31 March 2005	150,096

The Group's prepaid lease payments comprise:

	2006 *HK$'000*	**2005** *HK$'000* (restated)
Leasehold land in Hong Kong:		
Medium-term lease	144,233	147,688
Leasehold land in the PRC:		
Medium-term lease	—	2,408
	144,233	150,096

Analysed for reporting purposes as:

Non-current assets	140,721	146,536
Current assets	3,512	3,560
	144,233	150,096

18. Goodwill

	HK$'000
COST	
At 1 April 2004	314,285
Elimination of accumulated amortisation on adoption of HKFRS 3	(20,506)
On acquisition of subsidiaries	29,074
At 31 March 2005	322,853
Adjustments to measurement of consideration for acquisitions *(note)*	(1,055)
On acquisition of subsidiaries	95
At 31 March 2006	321,893
AMORTISATION	
At 1 April 2004	(20,506)
Elimination of accumulated amortisation on adoption of HKFRS 3	20,506
At 31 March 2005 and 31 March 2006	—
IMPAIRMENT	
At 1 April 2004	—
Impairment loss recognised	(26,337)
At 31 March 2005	(26,337)
Impairment loss recognised	(40,095)
At 31 March 2006	(66,432)
CARRYING AMOUNT	
At 31 March 2006	255,461
At 31 March 2005	296,516

Prior to 31 March 2004, goodwill was amortised over its estimated useful life of 3 or 20 years.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from the business combination. The carrying amount of goodwill as at the balance sheet date has been allocated as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Production and sale of:		
— Chinese pharmaceutical and health food products	130,294	170,294
— Western pharmaceutical and health food products	120,817	120,817
— Bottled birds' nest drinks and herbal essence	4,350	5,405
	255,461	296,516

The Group tests goodwill annually for impairment, or more frequently if events or changes in circumstances which indicate that it might be impaired.

The recoverable amounts of the CGUs have been determined based on value in use calculations. These values were developed through the application of the income approach technique known as the discounted cash flow methodology. Under this method, the value depends on the present worth of future economic benefits to be derived from the projected sales income of the CGUs. Indications of those values are developed by discounting projected future net cash flows to its present worth.

The key assumptions used in the valuations are those regarding the forecasted growth rates, expected changes to selling prices and costs and discount rates. The growth rates are based on industry forecasts while the changes in selling prices and direct costs are based on historical operating records and expectation of future changes in the market. Discount rates are based on estimates of the required rate of returns that reflect the current market assessment of the time value of money, general market risks and the specific risks specific to the CGUs.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolate cash flows for the following five years with zero growth rate (2005: based on the estimated 8%, 8% and 7%) for the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled birds' nest drinks and herbal essence, respectively. These rates do not exceed the estimated average long term growth rate for the relevant markets.

The rate used to discount the forecast cash flows for the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled birds' nest drinks and herbal essence is ranged from 11.51% to 15.61%, 12.25% and 14.04%, respectively (2005: 7% for each of them).

At 31 March 2006, before impairment testing, goodwill of HK$196,726,000, HK$120,817,000 and HK$4,350,000 were allocated to the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled birds' nest drinks and herbal essence, respectively. Due to the increase in competition in the market, the Group has reviewed its cash flow forecast for these CGUs. The carrying amount of goodwill for the production and sale of Chinese pharmaceutical and health food products has therefore been reduced to their recoverable amounts through recognition of impairment losses of approximately HK$66,432,000 (2005: HK26,337,000).

Note: During the year, an adjustment was made to the carrying amount of the identifiable assets and liabilities of CNT Health Food Pte Limited ("CNT") acquired in July 2004. According to the Sale and Purchase Agreement (the "Agreement") for entire issued share capital of CNT Health Food Pte Limited, the consideration shall be reduced by the sum of S$220,000 (approximately HK$1,055,000) in the event that the aggregate profit after tax as defined in the Agreement is not more than S$800,000 and the vendors shall forthwith repay the sum of S$220,000 (approximately HK$1,055,000) to the Group. If the adjusted consideration had been incorporated at the date of acquisition, goodwill at the date of acquisition would have been decreased by approximately HK$1,055,000.

19. Investments in Associates

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Cost of unlisted investments in associates, less impairment *(note)*	10,821	10,965
Share of post-acquisition reserves, net of dividends received	(6,994)	(5,224)
	3,827	5,741

Note: Included in cost of unlisted investment in associates has an amount represented the goodwill arising on acquisition of associates in prior years. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 April 2004	14,371
Arising on acquisition	831
At 31 March 2005 and 31 March 2006	15,202
IMPAIRMENT	
At 1 April 2004	—
Impairment loss recognised for the year	(15,202)
At 31 March 2005 and 31 March 2006	(15,202)
CARRYING AMOUNT	
At 31 March 2006	—
At 31 March 2005	—

The carrying amount of goodwill, before the recognition of impairment loss, was related to production and sale of Chinese pharmaceutical products. The Group considered the cash flow forecasts derived from the most recent financial budgets approved for the next five years and the rates used to discount the forecast cash flows was 7%. Due to the increase in competition in the market, an impairment loss of approximately HK$15,202,000 was recognised in the prior year.

Prior to 31 March 2004, goodwill was amortised over 10 years.

The summarised financial information in respect of the Group's associates is set out below:

	2006	**2005**
	HK$'000	*HK$'000*
		(restated)
Total assets	51,992	53,723
Total liabilities	(40,668)	(38,271)
Net assets	11,324	15,452
The Group's share of net assets of associates	3,827	5,741
Revenue	68,639	67,192
Loss for the year	(3,668)	(6,075)
The Group's share of results of associates for the year	(1,793)	(3,186)

Details of the Group's associates at 31 March 2006 are set out in note 49.

20. Amounts due from Associates

	2006	**2005**
	HK$'000	*HK$'000*
Amount due from an associate — due after one year	12,300	7,250
Less: Impairment loss recognised	(5,000)	—
	7,300	7,250
Amounts due from associates — due within one year	13,631	20,069

At 31 March 2006, the amounts due from associates were unsecured, interest-free and are repayable on demand, except for an amount of approximately HK$12,300,000 (2005: HK$7,250,000). HK$12,300,000 (2005: HK$7,250,000) carries interest at 4% to 6.5% (2005: 4% to 4.5%) per annum and is repayable from 31 March 2006 to 16 August 2015. The fair value of the Group's amounts due from associates at 31 March 2006 approximates to the corresponding carrying amount.

21. Trademarks

	HK$'000
COST	
At 1 April 2004	898
Addition	38
At 31 March 2005	936
Addition	563
At 31 March 2006	1,499
AMORTISATION	
At 1 April 2004	107
Provided for the year	92
At 31 March 2005	199
Provided for the year	84
At 31 March 2006	283
CARRYING AMOUNT	
At 31 March 2006	1,216
At 31 March 2005	737

The trademarks are amortised on a straight-line basis over their useful life of 10 years.

22. Long-Term Bank Deposit

	2006	**2005**
	HK$'000	*HK$'000*
Deposit placed with a financial institution	7,762	—

The long-term bank deposit comprise:

		Effective	**Carrying amount**	
Principal amount	**Maturity date**	**interest rate**	**2006**	**2005**
			HK$'000	HK$'000
US$1,000,000	8 March 2016	9.35%	7,762	—

The balance represents US dollar denominated high-yield deposit placed with a financial institution with a tenure of ten years or less. The interest yield is linked to changes in London Inter-Bank Offered Rate ("LIBOR"). The Group would receive interest income on the principal amount at an effective interest rate of 9.35% per annum in each quarter of the year where the LIBOR is within the specific range of 0% to 6%. Deposit may not yield any interest if LIBOR is not within a specified range.

The fair value of the Group's long-term bank deposit as at 31 March 2006 is approximately HK$7,762,000 which is determined based on the market value provided by a bank at the balance sheet date.

The bank has the call option to redeem the deposit in whole, but not in part, at any time from the date of signing the contract till the maturity date and return the principal amount and the accrued interest income to the Group.

23. Inventories

	2006	**2005**
	HK$'000	*HK$'000*
Raw materials and consumables	20,508	27,151
Work-in-progress	4,496	98
Finished goods	41,954	41,648
	66,958	68,897

24. Deposits paid for Investments

(a) On 15 September 2005, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party for the acquisition of 8% equity interest of Dongguan Senox Industrial Co., Ltd., Dongguan Senox Agricultural Products Co., Ltd. and Dongguan Senox Logistics Co., Ltd. (hereinafter collectively referred to as the "Senox Group") for an aggregate consideration of HK$24,000,000. The Senox Group is principally engaged in the investment in and management and provision of logistics services to PRC. A deposit of HK$12,000,000 was paid upon entering into the conditional agreements. In accordance with the Agreement, after payment of first installment, the vendor should pay the Company the dividends or profit distribution attributable to 8% equity interest in Senox Group within 7 days upon actual receipt of dividends. At 25 January 2006, Senox Group paid dividends amounted to RMB 4,000,000 to the vendor and the Group entitled RMB 800,000 (approximately HK$769,000). The transaction is not completed as at the date of this report. Details of the investment are set out in the Company's announcement dated 16 September 2005. At 31 March 2006, the Group shall contribute the outstanding HK$12,000,000 to the vendor upon the fulfillment of certain conditions as stated in the Agreement.

(b) On 27 January 2006, the Group entered into the Share Purchase Agreement with Taco Holdings Limited (hereinafter collectively referred to as the "Taco") pursuant to which the Group had conditionally agreed to purchase the 205,000,000 ordinary shares of LeRoi Holdings Limited (hereinafter collectively referred to as the "LeRoi"), representing approximately 25.32% of the issued share capital in LeRoi for a total consideration of HK$37,500,000 from Taco. Upon completion of the share purchase, the Group will be indirectly interest in approximately 25.32% of the issued share capital of LeRoi. At 31 March 2006, HK$3,000,000 deposits was made and the Group had capital commitment of HK$34,500,000 in respect of such share purchase.

In addition, on 27 January 2006, the Group and LeRoi entered into the subscription agreement to which LeRoi had agreed to issue and the Group had agreed to subscribe for the convertible note with an initial principal amount of HK$3,000,000. These two transactions are not completed as at the date of this report. Details of the share purchase and subscription of convertible notes were set out in the circular to the shareholders of the Company dated 8 February 2006.

25. Trade and other Receivables

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Trade receivables	47,766	83,237
Less: accumulated impairment	(3,830)	(6,043)
	43,936	77,194
Other receivables	15,199	13,539
Total trade and other receivables	59,135	90,733

The Group allows an average credit period of 60 days to 120 days to its trade customers. The following is an aged analysis of trade receivables (net of impairment loss) at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 — 30 days	15,216	24,285
31 — 60 days	8,221	14,749
61 — 120 days	17,755	25,366
Over 120 days	2,744	12,794
	43,936	77,194

The fair value of the Group's trade and other receivables at 31 March 2006 approximates to the corresponding carrying amount.

26. Investments Held-for-Trading (Other than Derivatives)

	2006	2005
	HK$'000	*HK$'000*
Listed equity securities at fair value:		
in Hong Kong	10,693	—
in overseas	3,798	—
	14,491	—

The fair values of the above investments held-for-trading are determined based on the quoted market bid prices available on the relevant exchanges.

27. Derivative Financial Instruments

Derivatives

	2006	2005
	HK$'000	*HK$'000*
Forward contracts	100	—

Major terms of the equity accumulators are as follows:

Number of shares	Maturity	Securities
496,000 shares	27 February 2007	Hutchison Whampoa Limited
7,470,000 shares	22 February 2007	China Construction Bank
500,000 shares	7 February 2007	Hutchison Whampoa Limited

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

28. Pledged Deposits

The amount represents deposits pledged to financial institutions to secure derivative financial instruments acquired by the Group during the year. Deposits amounting approximately to HK$42,703,000 have been pledged to secure derivative financial instruments that will be settled in the next twelve months and are therefore classified as current assets.

The deposits carry fixed interest rate of 3.51% and 4.03% per annum. The pledged deposits will be released upon the termination of the contract of derivative financial instruments. The fair value of deposits at 31 March 2006 approximates to the corresponding carrying amount.

29. Bank Balances and Cash

Bank balances and cash comprises bank balances and cash held by the Group and short-term bank deposits that are interest-bearing at market interest rate. All bank deposits have a maturity of three months or less. The bank deposits carry fixed interest rates ranging from 0.01% to 3.9% (2005: 0.01% to 1.5475%) per annum. The fair values of the amounts at the balance sheet date approximate to the corresponding carrying amounts.

30. Trade and other Payables

Included in trade and other payables are trade payables of approximately HK$26,933,000 (2005: HK$31,495,000) and their aged analysis is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 — 30 days	12,722	13,302
31 — 60 days	7,606	10,615
61 — 120 days	4,205	5,668
Over 120 days	2,400	1,910
	26,933	31,495
Other payables	26,569	32,872
	53,502	64,367

The fair value of the Group's trade and other payables at 31 March 2006 approximates to the carrying amount.

31. Obligations under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	305	365	270	316
More than one year, but not exceeding two years	79	249	71	221
More than two years, but not exceeding three years	29	41	25	35
More than three years, but not exceeding four years	10	17	8	14
More than four years but not exceeding five years	—	9	—	8
	423	681	374	594
Less: Future finance charges	(49)	(87)	—	—
Present value of lease obligations	374	594	374	594
Less: Amount due within one year shown under current liabilities			(270)	(316)
Amount due after one year			104	278

It is the Group's policy to lease certain of its furniture and equipment using finance leases. The average lease term is three years. For the year ended 31 March 2006, the average effective borrowing rate ranges from 5.4% to 10.9% (2005: 5.4% to 10.9%) per annum. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Financial lease obligations that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	HK$ equivalent of Singapore dollar
	$'000
As at 31 March 2006	286
As at 31 March 2005	336

32. Bank Borrowings

	2006	**2005**
	HK$'000	*HK$'000*
Bank borrowings	131,901	142,743
Bank overdrafts	785	443
	132,686	143,186
Analysed as:		
Secured	77,091	85,097
Unsecured	55,595	58,089
	132,686	143,186
The above bank borrowings and bank overdrafts are repayable as follows:		
On demand or within one year	38,323	30,430
More than one year, but not exceeding two years	20,887	16,784
More than two years, but not exceeding three years	16,551	15,443
More than three years, but not exceeding four years	14,050	11,919
More than four years, but not exceeding five years	13,933	10,363
More than five years	28,942	58,247
	132,686	143,186
Less: Amount due within one year shown under current liabilities	(38,323)	(30,430)
Amount due after one year	94,363	112,756

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2006	2005
Effective interest rate:		
Variable-rate borrowings	1.983% — 8%	1.983% — 5%

The Group's borrowings that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	HK$ equivalent of Singapore dollar *$'000*
As at 31 March 2006	3,903
As at 31 March 2005	1,722

During the year, the Group obtained new loans in an amount of approximately HK$27.8 million (2005: HK$73.9 million). These loans carry interest at 3.00% to 5.00% per annum and are repayable in instalments over a period of three to five years. The proceeds were used to finance the acquisition of property, plant and equipment, investments and for general working capital purpose of the Group.

The carrying amounts of the bank borrowings approximate their fair values as the contractual variable interest rates approximate the market rates.

33. Deferred Franchise Income

	2006 *HK$'000*	2005 *HK$'000*
At beginning of the year	391	719
Additions	319	406
Recognised in the current year	(458)	(734)
At end of the year	252	391
Less: Amount due within one year shown under current liabilities	(234)	(283)
	18	108

34. Convertible Loan Stock

	2006 *HK$'000*	2005 *HK$'000*
£590 (2005: £590) 9.5% unsecured convertible loan stock 2008 ("CL Stock")	6	6

On 12 January 1999, the Company issued CL Stock with a nominal value of £3,807,552 divided into 3,807,552 stock units. The CL Stock carried interest at the rate of 9.5% per annum, payable every half year on 31 March and 30 September of each year, and are redeemable at par on 30 September 2008 or, if later, the date falling 30 days after the final conversion date in respect of the year 2008. The Company repaid £3,806,962 CL Stock in previous financial years.

Holders of the CL Stock are entitled to convert their units biannually at any time within 30 calendar days after the despatch of the interim report or final report of the Company up to and including 29 September 2008.

During the year ended 31 March 2006, the Company made no repayment in respect of the CL Stock (2005: nil) and the balance of CL Stock outstanding at 31 March 2006 which amounted to £590 (2005: £590) has been classified as a current liability.

The carrying amounts of the convertible loan stock approximate their fair values as the contractual interest rates approximate the market rates.

35. Convertible Notes

On 14 March 2005, the Company issued convertible notes of HK$30 million with a conversion price of HK$0.08 per share as partial consideration for the acquisition of the entire equity interests in, and shareholders' loan to, Geswin Limited ("Geswin"). The convertible notes carried interest at 3% per annum and are redeemable on 13 March 2008 unless it was previously converted or redeemed. The notes entitle the holders to convert them into ordinary shares of HK$0.01 per share of the Company at any time during the period from 14 March 2005 to 13 March 2008.

Convertible notes of HK$16 million were redeemed during the year ended 31 March 2006.

Convertible notes of HK$14 million were converted into 175,000,000 ordinary shares of HK$0.01 each in the Company during the year ended 31 March 2005.

The convertible loan notes contain two components, liability and equity elements. Upon the application of HKAS 32 (see Note 3 for details), the convertible loan notes were split between the liability and equity elements, on a retrospective basis. The equity element is presented in equity heading "convertible notes reserve". The effective interest rate of the liability component is 6.914% and 8.648%.

The movement of the liability component of the convertible loan notes for the year is set out below:

	2006 *HK$'000*	**2005** *HK$'000* (restated)
Liability component at the beginning of the year	13,754	47,904
Issued during the year	—	25,740
Converted during the year	—	(12,010)
Redeemed during the year	(13,730)	(45,500)
Interest charge *(Note 12)*	306	1,505
Interest paid	(330)	(3,885)
Liability at the end of the year	—	13,754

36. Deferred Taxation

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

	Accelerated tax depreciation	Revaluation of investment properties	Allowance for bad and doubtful debt	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004	705	—	(350)	—	355
Exchange adjustment	4	—	—	—	4
Acquisition of a subsidiary	63	—	—	—	63
Charge (credit) to the income statement for the year	2,497	740	—	(307)	2,930
At 31 March 2005	3,269	740	(350)	(307)	3,352
Charge (credit) to the income statement for the year	282	(592)	(175)	(1,176)	(1,661)
At 31 March 2006	3,551	148	(525)	(1,483)	1,691

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006	2005
	HK$'000	*HK$'000*
Deferred tax assets	(341)	(341)
Deferred tax liabilities	2,032	3,693
	1,691	3,352

At the balance sheet date, the Group had unused tax losses of approximately HK$108,000,000 (2005: HK$88,000,000) available to offset against future profits. A deferred tax asset of HK$6,720,000 (2005: HK$1,754,000) has been recognised in respect of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

37. Share Capital

	Number of shares	Amount HK$'000
Authorised:		
At 1 April 2004, ordinary shares of HK$0.1 each	6,000,000,000	600,000
Adjustment of nominal value	—	(540,000)
Cancellation	(5,447,226,155)	(54,472)
Addition	59,447,226,155	594,472
At 31 March 2005 and 31 March 2006, ordinary shares of HK$0.01 each	60,000,000,000	600,000
Issued and fully paid:		
At 1 April 2004, ordinary share of HK$0.1 each	552,773,845	55,277
Adjustment to nominal value	—	(49,750)
Right and bonus issues	2,211,095,380	22,112
Private placement of shares	552,000,000	5,520
Issue of share upon conversion of convertible notes	175,000,000	1,750
At 31 March 2005, ordinary shares of HK$0.01 each	3,490,869,225	34,909
Consolidation of shares *(note a)*	(3,141,782,303)	—
Adjustment of nominal value *(note a)*	—	(31,418)
Right issues *(note b)*	1,047,260,766	10,473
At 31 March 2006, ordinary shares of HK$0.01 each	1,396,347,688	13,964

Notes:

(a) Pursuant to a resolution passed in a special general meeting on 8 June, 2005, the Group carried out the following capital reorganisation ("Capital Reorganisation") which involved inter-alia:

— every ten issued shares of HK$0.01 each were consolidated into one share ("Consolidated Shares") of HK$0.10 each ("Share Consolidation");

— the reduction of the nominal value of each of the Consolidated Shares then in issue from HK$0.10 to HK$0.01 by cancelling paid up capital to the extent of HK$0.09 on each Consolidated Shares ("Capital Reduction");

— The crediting of the amount of approximately HK$31,418,000 arising from the Capital Reduction to the contributed surplus account of the Company and utilisation of such credit to set off the accumulated losses of the Company.

Details of the Capital Reorganisation are set out in a circular to the shareholders of the Company dated 13 May 2005.

(b) Pursuant to a resolution passed in a special general meeting on 16 November 2005, 1,047,260,766 ordinary shares of HK$0.01 each was issued and allotted by way of rights issue, in the proportion of three shares for every one existing share held ("Rights Share"), at a subscription price of HK$0.15 per Rights Share to the existing shareholders. The net proceeds of approximately HK$153.2 million from the Rights Issue were used for the repayment of bank borrowings, redemption of convertible notes issued by the Company, for the possible investment in new business opportunities and general working capital.

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

38. Share Option Schemes

1997 Scheme

A share option scheme was approved and adopted by the Company on 16 October, 1997 (the "1997 Scheme") for the purpose of providing incentives to directors and eligible employees.

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

2004 Scheme

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

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

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

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

The following tables discloses movement in the 1997 Scheme and the 2004 Scheme during the two years ended 31 March 2006.

Option type	Date of grant	Exercise price per share prior to Rights and Bonus Issue	Exercise price per share adjusted for the effect of Rights and Bonus Issue	Exercisable period	Number of options: Outstanding at 1.4.2004	Granted during the year	Cancelled during the year	Outstanding at 31.3.2005 and 31.3.2006
		HK$	*HK$* *(note)*					
1997 Scheme								
Category 1: Employees								
Employees	9.12.1999	28.50	5.7	9.12.1999 to 8.12.2009	37,600	—	(37,600)	—
	3.3.2000	82.00	16.4	3.3.2000 to 2.3.2010	20,000	—	(20,000)	—
					57,600	—	(57,600)	—

There was no share options granted under 2004 Scheme in both years.

Note: The exercise price per share brought forward from last year has been adjusted to reflect the effect of the Rights issue and Bonus issue during the year ended 31 March 2005.

39. Acquisition of Subsidiaries

During the year, the following acquisitions took place:

(i) In April 2005, a wholly-owned subsidiary of the Company acquired an additional 60% of the issued share capital of Global Winner Holdings Limited ("Global Winner") for a consideration of HK$175,000 which becomes a wholly owned subsidiary after such acquisition. Global Winner is engaged in retailing of Chinese pharmaceutical products. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$72,000.

(ii) In May 2005, a wholly-owned subsidiary of the Company acquired the entire issued share capital of City Brighter Limited ("City Brighter"), a company engaged in retailing of Chinese pharmaceutical products, for a consideration of HK$200,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$23,000.

The acquisition has been accounted for by the purchase method of accounting. The effect of the acquisition is summarised as follows:

	2006	2005
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	471	56,307
Prepaid lease payments	—	149,839
Inventories	1,995	7,767
Trade and other receivables	718	10,260
Bank and cash balances	298	2,395
Trade and other payables	(3,132)	(10,079)
Taxation payable	—	(116)
Obligations under finance lease	—	(204)
Bank borrowings	—	(61,930)
Deferred taxation	—	(63)
Minority interests	—	(7,938)
	350	146,238
Less: Interests acquired in previous acquisition:		
— net assets of associate	(70)	—
	280	146,238
Goodwill arising on acquisition	95	29,074
	375	175,312
Satisfied by:		
Convertible notes	—	30,000
Expenses paid in cash	—	2,480
Cash consideration paid	375	142,832
	375	175,312
Net outflow arising on acquisition:		
Cash consideration paid	(375)	(145,312)
Cash and cash equivalents acquired	298	2,395
	(77)	(142,917)

The carrying amounts of the subsidiaries acquired approximate to their fair values.

The goodwill arising on the acquisition is attributable to the anticipated profitability of the sales of the Group's products in the new markets and the anticipated future operating synergies from the combination.

The subsidiaries acquired during the year contributed approximately HK$5,801,000 (2005: HK$33,542,000) to the Group's revenue and a profit of approximately HK$44,000 (2005: loss of approximately HK$352,000) to the Group's loss before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 April 2005, the total Group turnover for the period would have been approximately HK$325,137,000 and loss for the year would have been approximately HK$106,210,000. This proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that would actually have been achieved had the acquisitions been completed on 1 April 2005, nor is it intended to be a projection of future results.

40. Major Non-Cash Transactions

During the year ended 31 March 2006, the major non-cash transactions were as follows:

(a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of lease contracts of HK$264,000.

(b) The Group is entitled an amount of approximately HK$1,055,000 from the vendor of CNT in the event that the aggregate profit after tax as defined in the Agreement is not more than S$800,000. The amount is not yet received and recognised as other receivable at the balance sheet date. Details are set out in note 18 to the consolidated financial statements.

During the year ended 31 March 2005, the major non-cash transactions were as follows:

(a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of lease contracts of HK$560,000.

(b) The Group acquired the entire interest in, and shareholders' loan to, Geswin at an aggregate consideration of approximately HK$63.6 million which was partially satisfied by the issue of convertible notes of HK$30.0 million.

(c) The Company issued and allotted 175,000,000 ordinary shares of HK$0.01 each upon the exercise of the conversion rights by the holders of convertible notes.

(d) The Company issued 552,773,845 bonus shares of HK$0.01 each, amounting to HK$5,528,000, on the basis of one bonus share for every three Rights Share.

41. Retirement Benefit Plans

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

For members of the MPF Scheme, the Group contributes the lower of HK$1,000 or 5% of relevant monthly payroll costs to the MPF scheme, which contribution is matched by the employees.

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

The total cost of approximately HK$2,746,000 (2005: HK$2,686,000) charged to income statement represents contributions payable to these schemes by the Group in respect of the current accounting year. As at 31 March 2006, contributions of approximately HK$250,000 (2005: HK$245,000) due in respect of the reporting period had not been paid over to the schemes.

42. Pledge of Assets

(a) At 31 March 2006, the Group had pledged its prepaid lease payments, buildings and investment properties with carrying amount of approximately HK$143,156,000 (2005: HK$146,584,000); HK$40,758,000 (2005: HK$41,822,000) and HK$9,100,000 (2005: HK$41,200,000), respectively, to banks to secure general banking facilities granted to the Group.

(b) At 31 March 2006, deposits of approximately HK$42,703,000 were pledged to financial institutions to secure derivative financial instruments acquired by the Group during the year.

43. Capital Commitments

At 31 March 2006, the Group had capital commitments of approximately HK$49,490,000 (2005: HK$834,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements.

44. Contingent Liabilities

	2006	**2005**
	HK$'000	*HK$'000*
Bills discounted with recourse	—	807
Guarantees given to bankers in respect of banking facilities granted to third parties	3,799	3,679

45. Operating Leases

The Group as lessee:

The Group made minimum lease payments of approximately HK$22,440,000 (2005: HK$21,393,000) under operating leases during the year in respect of its office properties and retail shops.

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

	2006	**2005**
	HK$'000	*HK$'000*
		(restated)
Within one year	27,930	24,095
In the second to fifth year inclusive	10,638	23,322
	38,568	47,417

Operating lease payments represent rentals payable by the Group for certain of its office properties and retail shops. Leases are negotiated for a term ranging from 2 to 3 years. Certain lease rentals are based on turnover of the relevant retail shops.

The Group as lessor:

Property rental income earned during the year was approximately HK$1,803,000 (2005: HK$1,764,000). All of the properties held have committed tenants for the next year.

At 31 March 2006, the Group had contracted with tenants for future minimum lease payments due within one year of approximately HK$405,000 (2005: HK$588,000).

46. Connected and Related Party Disclosures

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. Besides, transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

Name of related party	Transactions	2006 *HK$'000*	2005 *HK$'000*
(i) Connected parties			
Wang On and its subsidiaries (the "Wang On Group")	Interest on term loans paid by the Group	—	34
	Interest on convertible notes paid by the Group	330	523
	Management fee paid by the Group	972	918
	Rental paid by the Group	267	3,595
	Rental received by the Group	1,803	1,764
	Rental paid by an associate of the Group	—	1,470
	Acquisition of subsidiaries	—	128,980
(ii) Related parties other than connected parties			
Associates	Sales of Chinese phamaceutical products by the Group	32,903	26,154
	Subcontracting fee paid by the Group	115	446
	Management, advertising and promotion fees received by the Group	2,583	2,493
	Facilities granted by the Group	10,000	10,000
	Interest income received by the Group	472	341

(iii) Compensation of key management personnel

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

	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	1,696	1,855
Post-employment benefits	24	24
	1,720	1,879

The above remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

Details of the balances with related parties as at the balance sheet date are set out in the balance sheets and note 20.

47. Loss of the Company for the year

The loss of the Company for the year ended 31 March 2006 amounting to HK$91,993,000 (2005: HK$82,091,000) has been dealt with in the consolidated financial statements of the Group.

48. Principal Subsidiaries

Particulars of the principal subsidiaries at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company *Directly*	*Indirectly*	Principal activity
Asia Brighter Investment Limited	Hong Kong	HK$2	—	100%	Property investment
Billion Good Investment Limited	Hong Kong	HK$2	—	100%	Property holding company
Bright Leading Limited	Hong Kong	HK$2	—	100%	Investment holding Company
CNT Health Food Pte Limited	Singapore	Singapore $1,610,000	—	100%	Production and sales of Chinese health food
Conful Limited	Hong Kong	HK$1	—	100%	Property investment
Huzhou Wai Yuen Tong Biological Medicine Company Limited	PRC	RMB8,270,601	—	51%	Production and trading of Chinese pharmaceutical products

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company		Principal activity
			Directly	*Indirectly*	
Global Winner Holdings Limited	Hong Kong	HK$360,000	—	100%	Retailing of Chinese pharmaceutical products
Luxembourg Medicine Company Limited	Hong Kong	HK$434,747	—	99.79%	Production and sale of western pharmaceutical and healthcare products
Source Millennium Limited	British Virgin Islands	USD1	—	100%	Investment holding company
Total Smart Investments Limited	British Virgin Islands	USD1	100%	—	Investment holding company
Wai Yuen Tong Medicine Company Limited	Hong Kong	HK$217,374 Ordinary HK$17,373,750 non-voting deferred*	—	99.79%	Production and trading of Chinese pharmaceutical products

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

None of the subsidiaries had issued any debt securities at the end of the year.

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

49. Particulars of Associates

Details of the Group's associates at 31 March 2006 are as follows:

Name of associate	Place of incorporation/ operation	Issued and fully paid share capital	Class of shares held	Attributable proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
China Field Enterprises Limited	Hong Kong	HK$25,000	Ordinary	49%	Investment holding
Chinese Leading Limited	Hong Kong	HK$600,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Creation Sino Limited	Hong Kong	HK$2,500,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Fortune Way Trading Limited	Hong Kong	HK$1,000,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Hunan Xiangya Pharmaceutical Co., Limited	PRC	RMB29,225,000	N/A	39.2%	Production of Chinese pharmaceutical products
Longly Richly Limited	Hong Kong	HK$650,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Lucky Planning Limited	Hong Kong	HK$700,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Hong Kong	HK$2,500,000	Ordinary	50%	Retailing of Chinese pharmaceutical products
Venko Limited	Hong Kong	HK$100	Ordinary	50%	Retailing of Chinese pharmaceutical products"

3. UNAUDITED INTERIM FINANCIAL STATEMENTS

Set out below is the unaudited condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement together with the notes thereto as extracted from pages 11 to 34 of the interim report of the Company for the six months ended 30 September 2006.

"Condensed Consolidated Income Statement
For the six months ended 30 September 2006

		For the six months ended 30 September	
		2006	**2005**
		(Unaudited)	**(Unaudited and restated)**
	Notes	*HK$'000*	*HK$'000*
REVENUE	*3*	172,499	163,413
Cost of sales		(93,430)	(95,089)
Gross profit		79,069	68,324
Other income	*5*	7,627	1,475
Distribution costs		(57,367)	(60,777)
Administrative expenses		(30,717)	(41,764)
Finance costs	*6*	(3,505)	(4,016)
Impairment loss recognised in respect of goodwill		(161)	(80)
Gain on disposal of investment properties		—	800
Decrease in fair value of investment property		(150)	—
Share of results of associates		90	571
LOSS BEFORE TAXATION	*7*	(5,114)	(35,467)
Income tax expense	*8*	(196)	—
LOSS FOR THE PERIOD		(5,310)	(35,467)
ATTRIBUTABLE TO:			
Equity holders of the Company		(5,314)	(34,818)
Minority interests		4	(649)
		(5,310)	(35,467)
LOSS PER SHARE	*9*		
Basic		(0.4) HK cents	(6) HK cents
Diluted		N/A	N/A

Condensed Consolidated Balance Sheet
As at 30 September 2006

	Notes	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
NON-CURRENT ASSETS			
Investment property	*10*	8,950	9,100
Property, plant and equipment	*11*	81,840	84,934
Prepaid lease payments		138,965	140,721
Goodwill		255,461	255,461
Investments in associates	*13*	3,747	3,827
Amount due from an associate	*14*	7,300	7,300
Long term bank deposit		21,350	7,762
Trademarks		1,159	1,216
Deposits paid for investments	*15*	13,930	14,704
Deferred tax assets		341	341
		533,043	525,366
CURRENT ASSETS			
Inventories		78,188	66,958
Trade and other receivables	*16*	64,046	59,135
Prepaid lease payments		3,512	3,512
Amounts due from associates	*14*	13,154	13,631
Taxation recoverable		777	1,294
Investments held-for-trading		19,716	14,491
Derivative financial instruments		—	100
Pledged deposits		19,506	42,703
Bank balances and cash		90,702	108,793
		289,601	310,617
CURRENT LIABILITIES			
Trade and other payables	*17*	62,920	53,502
Taxation payable		296	340
Obligations under finance leases		114	270
Bank borrowings	*18*	30,404	38,323
Deferred franchise income	*18*	242	234
Convertible loan stock		6	6
		93,982	92,675

	Notes	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
NET CURRENT ASSETS		195,619	217,942
TOTAL ASSETS LESS CURRENT LIABILITIES		728,662	743,308
NON-CURRENT LIABILITIES			
Obligations under finance leases		30	104
Bank borrowings		84,901	94,363
Deferred franchise income		—	18
Deferred tax liabilities		2,008	2,032
		86,939	96,517
NET ASSETS		641,723	646,791
CAPITAL AND RESERVES			
Share capital	*19*	13,964	13,964
Reserves		627,676	632,748
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		641,640	646,712
MINORITY INTERESTS		83	79
TOTAL EQUITY		641,723	646,791

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 September 2006

	Attributable to the equity holders of the Company									
	Share capital (Unaudited) *HK$'000*	Share premium (Unaudited) *HK$'000*	Special reserve (Unaudited) *HK$'000* *(Note a)*	General reserve (Unaudited) *HK$'000* *(Note b)*	Translation reserve (Unaudited) *HK$'000*	Convertible notes reserve (Unaudited) *HK$'000* *(Note c)*	Accumulated losses (Unaudited) *HK$'000*	Sub-total (Unaudited) *HK$'000*	Minority interests (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
At 1 April 2005	34,909	409,143	(27,150)	218,508	480	2,270	(44,703)	593,457	7,877	601,334
Reduction in share capital	(31,418)	–	–	–	–	–	31,418	–	–	–
Loss for the period	–	–	–	–	–	–	(34,818)	(34,818)	(649)	(35,467)
At 30 September 2005	3,491	409,143	(27,150)	218,508	480	2,270	(48,103)	558,639	7,228	565,867
Exchange differences arising on translation of foreign operations	–	–	–	–	569	–	–	569	–	569
Share of translation reserve of associates	–	–	–	–	115	–	–	115	–	115
Net income recognised directly in equity	–	–	–	–	684	–	–	684	–	684
Loss for the period	–	–	–	–	–	–	(63,552)	(63,552)	(7,133)	(70,685)
Total recognised income (expense) for the period	–	–	–	–	684	–	(63,552)	(62,868)	(7,133)	(70,001)
Redemption of the convertible notes	–	–	–	–	–	(2,270)	–	(2,270)	–	(2,270)
Issue of new shares	10,473	146,616	–	–	–	–	–	157,089	–	157,089
Share issue expenses	–	(3,878)	–	–	–	–	–	(3,878)	–	(3,878)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(16)	(16)

	Attributable to the equity holders of the Company									
	Share capital (Unaudited) HK$'000	Share premium (Unaudited) HK$'000	Special reserve (Unaudited) HK$'000 (Note a)	General reserve (Unaudited) HK$'000 (Note b)	Translation reserve (Unaudited) HK$'000	Convertible notes reserve (Unaudited) HK$'000 (Note c)	Accumulated losses (Unaudited) HK$'000	Sub-total (Unaudited) HK$'000	Minority interests (Unaudited) HK$'000	Total (Unaudited) HK$'000
At 31 March 2006	13,964	551,881	(27,150)	218,508	1,164	–	(111,655)	646,712	79	646,791
Exchange differences arising on translation of foreign operations	–	–	–	–	242	–	–	242	–	242
Net income recognised directly in equity	–	–	–	–	242	–	–	242	–	242
Loss for the period	–	–	–	–	–	–	(5,314)	(5,314)	4	(5,310)
Total recognised income (expense) for the period	–	–	–	–	242	–	(5,314)	(5,072)	4	(5,068)
At 30 September 2006	13,964	551,881	(27,150)	218,508	1,406	–	(116,969)	641,640	83	641,723

Notes:

(a) The special reserve of the Group represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to the group reorganisation in 1995.

(b) The general reserve represents the credits arising from the capital reduction effected by the Company less the amount utilised for the purpose of bonus issue of shares by the Company.

(c) The Company had redeemed all the convertible notes through the rights issue in December 2005.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2006

	For the six months ended 30 September	
	2006	**2005**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Net cash used in operating activities	(1,162)	(20,294)
Net cash from investing activities	3,986	12,270
Net cash (used in)/from financing activities	(22,229)	8,144
(Decrease)/increase in cash and cash equivalents	(19,405)	120
Cash and cash equivalents at the beginning of the period	108,008	43,102
Effect of foreign exchange rates changes	201	—
Cash and cash equivalents at the end of the period	88,804	43,222
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	90,702	52,667
Bank overdrafts	(1,898)	(9,445)
	88,804	43,222

Notes to Condensed Consolidated Financial Statements

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting polices used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2006.

In current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006 respectively. The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) — INT 8	Scope of HKFRS 2[2]
HK(IFRIC) — INT 9	Reassessment of Embedded Derivatives[3]
HK(IFRIC) — INT 10	Interim Financial Reporting and Impairment[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 May 2006.
[3] Effective for annual periods beginning on or after 1 June 2006.
[4] Effective for annual periods beginning on or after 1 November 2006.

3. Revenue

	For the six months ended 30 September 2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
Revenue comprises:		
Sales of goods	169,530	160,066
Management, advertising and promotion fees	2,084	2,355
Rental income generated from investment properties	885	992
	172,499	163,413

4. Business and geographical segments

(a) Business segments

For management purposes, the Group is currently organised into the following major divisions: (i) production and sale of Chinese pharmaceutical and health food products; (ii) production and sale of bottled birds' nest drinks and herbal essence products; (iii) production and sale of Western pharmaceutical and health food products; and (iv) property investments and property holding. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's revenue, contribution to operating results by business segments is presented as follows:

Unaudited Condensed Consolidated Income Statement

For the six months ended 30 September

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled bird's nest drinks and herbal essence products		Production and sale of Western pharmaceutical and health food products		Property investments and property holding		Elimination		Total	
	2006 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000 (Restated)
REVENUE												
External	121,908	120,984	17,873	19,069	31,833	22,368	885	992	–	–	172,499	163,413
Inter segment sales *	376	101	14,300	4,565	–	246	3,336	4,019	(18,012)	(8,931)	–	–
	122,284	121,085	32,173	23,634	31,833	22,614	4,221	5,011	(18,012)	(8,931)	172,499	163,413

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of bottled bird's nest drinks and herbal essence products		Production and sale of Western pharmaceutical and health food products		Property investments and property holding		Elimination		Total	
	2006	2005	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*	*HK$'000*	*HK$'000*
		(Restated)		(Restated)		(Restated)		(Restated)				(Restated)
RESULTS												
Segment results, excluding impairment loss recognised in respect of goodwill	3,000	(9,648)	161	(3,560)	2,657	114	(2,901)	222			2,917	(12,872)
Impairment loss recognised in respect of goodwill	(161)	(91)	–	–	–	–	–	–			(161)	(91)
Release of negative goodwill	–	11	–	–	–	–	–	–			–	11
Segments results	2,839	(9,728)	161	(3,560)	2,657	114	(2,901)	222			2,756	(12,952)
Other income											7,627	1,475
Unallocated corporate expenses											(12,082)	(20,545)
Finance costs											(3,505)	(4,016)
Share of results of associates											90	571
Loss before taxation											(5,114)	(35,467)
Income tax											(196)	–
Loss for the period											(5,310)	(35,467)

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

(b) Geographical segments

The Group's operation are located in Hong Kong, the People's Republic of China (the "PRC") and Singapore.

The following is an analysis of the Group's revenue by geographical markets, irrespective of the origin of the goods and services:

	For the six months ended 30 September	
	2006	**2005**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Hong Kong	126,939	130,499
PRC, other than Hong Kong	22,103	9,312
Singapore	11,649	14,638
Others	11,808	8,964
	172,499	163,413

5. Other income

	For the six months ended 30 September	
	2006	**2005**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Other loan interest income	366	218
Interest income	3,420	297
Franchise income	205	248
Advertising and management fee	6	—
Gain on disposal of investments held-for-trading	2,625	—
Fair value gain on investments held-for-trading	50	—
Dividend income	108	—
Processing fee income	420	382
Sundry income	427	330
	7,627	1,475

6. Finance costs

	For the six months ended 30 September 2006 (Unaudited) *HK$'000*	2005 (Unaudited) *HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	1,446	1,700
Bank borrowings not wholly repayable within five years	2,033	1,760
Finance leases	26	26
Effective interest expenses on convertible notes	—	530
	3,505	4,016

7. Loss before taxation

	For the six months ended 30 September 2006 (Unaudited) *HK$'000*	2005 (Unaudited and restated) *HK$'000*
Loss before taxation has been arrived after charging:		
Allowance for inventories	—	1,625
Allowance for trade receivables	26	2,932
Amortisation of trademarks, included in administrative expenses	77	42
Depreciation of property, plant and equipment	7,826	7,616
Amortisation of prepaid lease payments	1,756	1,756
Management fee paid to a shareholder	48	486
and after crediting:		
Written back on allowance for inventories	204	—
Rental income, net of outgoing of HK$274,000 (2005: HK$251,000)	611	742

8. Income tax expenses

	For the six months ended 30 September	
	2006	**2005**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Current tax		
Other jurisdictions	351	—
	351	—
Overprovision in prior years		
Hong Kong Profits Tax	—	—
Other jurisdictions	(129)	—
Deferred taxation		
Current year	(26)	—
	196	—

No provision for Hong Kong Profits Tax has been made as there is no assessable profit for the period.

Singapore Income Tax is calculated at 20% (2005: 20%) on the estimated assessable profit for the period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. Loss per share

The calculation of the basic loss per share is based on the net loss attributable to the ordinary holders of the Company for the period of HK$5,314,000 (2005: HK34,818,000), and the weighted average number of 1,396,347,688 (2005: 552,918,776) ordinary shares in issue during the period.

The computation of diluted loss per share for the six months ended 30 September 2005 and 2006 does not assume the conversion of the outstanding convertible notes of the Company since their exercise would result in a decrease in net loss per share.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the six months ended 30 September 2005 has been retrospectively adjusted for the effect of the rights issue and bonus issue and capital reorganisation which were approved by the shareholders of the Company on 16 November 2005 and 8 June 2005 respectively.

10. Investment Property

	HK$'000
Valuation	
At 1 April 2006	9,100
Net decrease in fair value during the period	(150)
At 30 September 2006	8,950

The investment property at the balance sheet date were held under medium term leases in Hong Kong.

The fair value of the Group's investment property at 30 September 2006 have been arrived at on the basis of a valuation carried out on that date by Vigers Appraisal & Consulting Ltd. ("Vigers"), an independent qualified professional valuers not connected with the Group. Vigers are members of the Institute of Valuers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The Group has pledged all of its investment property to secure banking facilities granted to the Group.

11. Property, plant and equipment

During the six months ended 30 September 2006, the Group acquired property, plant and equipment for an amount of approximately HK$4,622,000 (six months ended 30 September 2005: HK$8,081,000).

12. Pledge of assets

(a) At 30 September 2006, the Group had pledged its prepaid lease payments, buildings and investment properties with carrying amount of approximately HK$141,413,000 (31 March 2006: HK$143,156,000); HK$40,389,000 (31 March 2006: HK$40,758,000) and HK$8,950,000 (31 March 2006: HK$9,100,000), respectively, to banks to secure general banking facilities granted to the Group.

(b) At 30 September 2006, deposits of approximately HK$19,506,000 (31 March 2006: HK$42,703,000) were pledged to financial institutions to secure derivative financial instruments acquired by the Group during the period.

13. Investments in associates

	30 September 2006 (Unaudited) *HK$'000*	31 March 2006 (Audited) *HK$'000*
Cost of unlisted investments in associates, less impairment	10,821	10,821
Share of post-acquisition reserves, net of dividends received	(7,074)	(6,994)
	3,747	3,827

14. Amount due from associates

	30 September 2006 (Unaudited) *HK$'000*	31 March 2006 (Audited) *HK$'000*
Amount due from an associate — due after one year	12,300	12,300
Less: Impairment loss recognised	(5,000)	(5,000)
	7,300	7,300
Amounts due from associates — due within one year	13,154	13,631

At 30 September 2006, the amounts due from associates were unsecured, interest-free and are repayable on demand, except for an amount of approximately HK$12,300,000 (31 March 2006: HK$12,300,000). The amount of HK$12,300,000 (31 March 2006: HK$12,300,000) carries interest at 4% to 6.5% (31 March 2006: 4% to 6.5%) per annum and is repayable from 28 February 2008 to 16 August 2015. The fair value of the Group's amounts due from associates at 30 September 2006 approximates to the corresponding carrying amount.

15. Deposits paid for Investments

(a) On 15 September 2005, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party for the acquisition of 8% equity interest of Dongguan Senox Industrial Co., Ltd., Dongguan Senox Agricultural Products Co., Ltd. and Dongguan Senox Logistics Co., Ltd. (hereinafter collectively referred to as the "Senox Group") for an aggregate consideration of HK$24,000,000. The Senox Group is principally engaged in the investment in and management and provision of logistics services in PRC. A deposit of HK$12,000,000 was paid upon entering into the Agreement. In accordance with the Agreement, after payment of the first installment, the vendor should pay the Company the dividends or profit distribution attributable to 8% equity interest in Senox Group within 7 days upon actual receipt of dividends. As at the date of this report, Senox Group had paid dividends amounted to RMB10,000,000 to the vendor and the Group received RMB2,000,000 (approximately HK$1,930,000). The transaction is not completed as at the date of this report. Details of the investment were set out in the Company's announcement dated 16 September 2005. As at 30 September 2006, the outstanding HK$12,000,000 had not been paid by the Group to the vendor in the absence of fulfillment of certain conditions as stated in the Agreement.

(b) On 27 January 2006, the Group entered into a share purchase agreement with Taco Holdings Limited pursuant to which the Group had conditionally agreed to purchase the 205,000,000 ordinary shares of LeRoi Holdings Limited (the "LeRoi"), representing approximately 25.32% of the issued share capital in LeRoi, for a total consideration of HK$37,500,000. Upon completion of the share purchase, the Group will be indirectly interested in approximately 25.32% of the issued share capital of LeRoi. At 30 September 2006, HK$3,000,000 deposits was made and the Group had capital commitment of HK$34,500,000 in respect of such share purchase.

In addition, on 27 January 2006, the Group and LeRoi entered into a subscription agreement in which LeRoi had agreed to issue and the Group agreed to subscribe for convertible notes with an initial principal amount of HK$3,000,000. These two transactions had not been completed as at the date of this report. Details of the share purchase and subscription of convertible notes were set out in the circular to the shareholders of the Company dated 8 February 2006.

16. Trade and other receivables

	30 September 2006 (Unaudited) *HK$'000*	**31 March 2006 (Audited)** *HK$'000*
Trade receivables	51,421	47,766
Less: accumulated impairment	(3,029)	(3,830)
	48,392	43,936
Other receivables	15,654	15,199
Total trade and other receivables	64,046	59,135

The Group allows an average credit period of 60 days to 120 days to its trade customers. The following is an aged analysis of trade receivables (net of impairment loss) at the balance sheet date:

	30 September 2006 (Unaudited) *HK$'000*	**31 March 2006 (Audited)** *HK$'000*
0 — 30 days	17,816	15,216
31 — 60 days	10,201	8,221
61 — 120 days	15,196	17,755
Over 120 days	5,179	2,744
	48,392	43,936

The fair value of the Group's trade and other receivables at 30 September 2006 approximates to the corresponding carrying amount.

17. Trade and other payables

Include in trade and other payables are trade payables of approximately HK$29,983,000 (31 March 2006: HK$26,933,000) and their aged analysis is as follows:

	30 September 2006 (Unaudited) *HK$'000*	31 March 2006 (Audited) *HK$'000*
0 — 30 days	17,005	12,722
31 — 60 days	10,398	7,606
61 — 120 days	1,337	4,205
Over 120 days	1,243	2,400
	29,983	26,933
Other payables	32,937	26,569
	62,920	53,502

The fair value of the Group's trade and other payables at 30 September 2006 approximates to the carrying amount.

18. Bank borrowings

During the period, the Group obtained new borrowings amounting to HK$27,626,000 and repaid HK$46,120,000. The loans bear interest at market rates from 4.81% to 8.25%. The proceeds were used to finance the operation.

19. Share capital

Shares

	Number of shares	Amount (Unaudited) *HK$'000*
Authorised:		
At 1 April 2006 and 30 September 2006, ordinary shares of HK$0.01 each	60,000,000,000	600,000
Issued and fully paid:		
At 1 April 2006 and 30 September 2006, ordinary shares of HK$0.01 each	1,396,347,688	13,964

Share options

Details of the Company's share option scheme are set out in the section "Share Option Scheme" of the interim report.

20. Capital commitments

At 30 September 2006, the Group had capital commitments of approximately HK$47,060,000 (31 March 2006: 49,490,000) in respect of the acquisition of equity interest in LeRoi and Senox Group, property, plant and equipment contracted for but not provided in the consolidated financial statements.

21. Contingent liabilities

	30 September 2006 (Unaudited) *HK$'000*	**31 March 2006 (Audited)** *HK$'000*
Guarantee given to bankers in respect of banking facilities granted to third parties	3,521	3,799

22. Operating leases

The Group as lessee:

The Group made minimum lease payments of approximately HK$15,193,648 (2005: HK$12,822,000) under operating leases during the period in respect of its office properties and retail shops.

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

	30 September 2006 (Unaudited) *HK$'000*	**31 March 2006 (Audited)** *HK$'000*
Within one year	28,239	27,930
In the second to fifth year inclusive	14,357	10,638
	42,596	38,568

Operating lease payments represent rentals payable by the Group for certain of its office properties and retail shops. Leases are negotiated for a term ranging from 2 to 3 years. Certain lease rentals are based on revenue of the relevant retail shops.

The Group as lessor:

Property rental income earned during the period was approximately HK$885,000 (2005: HK$993,000). All of the properties held have committed tenants for the next three year.

At 30 September 2006, the Group had contracted with tenants for the following future minimum lease payments:

	30 September 2006 (Unaudited) *HK$'000*	31 March 2006 (Audited) *HK$'000*
Within one year	1,920	405
In the second to fifth year inclusive	3,360	—
	5,280	405

23. Post balance sheet events

On 21 November 2006, the Group entered into a sale and purchase agreement with an independent third party to dispose of an investment property situated in Hong Kong for a cash consideration of HK$8.95 million. The transaction has not yet been completed at the date of this report.

24. Connected and related party disclosures

During the period, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. Besides, transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The significant transactions with these companies during the period, and balances with them at the balance sheet date, are as follows:

		For the six months ended 30 September	
Name of related party	**Transactions**	**2006 (Unaudited)** *HK$'000*	**2005 (Unaudited)** *HK$'000*
(i) Connected parties			
Wang On and its subsidiaries (the "Wang On Group")	Interest on convertible notes paid by the Group	—	240
	Management fee paid by the Group	48	486
	Rental paid by the Group	150	—
	Rental received by the Group	885	993
	Rental paid by the associate of the Group	234	—

Name of related party	Transactions	For the six months ended 30 September 2006 (Unaudited) *HK$'000*	2005 (Unaudited) *HK$'000*
(ii) Related parties other than connected parties			
Associates	Sales of Chinese pharmaceutical products by the Group	15,781	15,618
	Subcontracting fee paid by the Group	—	70
	Management advertising and promotion fees received by the Group	1,137	1,259
	Facilities granted by the Group	10,000	8,500
	Interest income received by the Group	329	183

(iii) Compensation of key management personnel

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

	For the six months ended 30 September 2006 (Unaudited) *HK$'000*	2005 (Unaudited) *HK$'000*
Short-term benefits	836	852
Post-employment benefits	12	12
	848	864

The above remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

25. Approval of the unaudited condensed consolidated financial statements

The unaudited condensed consolidated financial statements were approved by the Board of Directors on 21 December 2006."

4. STATEMENT OF INDEBTEDNESS

Indebtedness

Borrowings

As at the close of business on 31 January 2007, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding secured bank loans of approximately HK$85.6 million which are secured by certain assets of the Group, unsecured bank loans of approximately HK$7.8 million, obligations under finance leases of approximately HK$0.1 million and convertible loan stock of approximately HK$8,000.

Debt securities

As disclosed in section "Borrowings" above, as at 31 January 2007, the Group had convertible loan stock of approximately HK$8,000. Subsequent to 31 January 2007, but prior to the printing of this circular, none of the convertible loan stock mentioned above was converted into ordinary shares of the Company.

Securities

The secured bank loans of approximately HK$85.6 million as aforesaid were secured by the prepaid lease payments and buildings of the Group with carrying amount of approximately HK$140.3 million and HK$40 million respectively.

Contingent liabilities

As at 31 January 2007, the Group had contingent liabilities of HK$3.8 million.

Commitment

As at 31 January 2007, the Group had a commitment of HK$12 million in respect of the acquisition of equity interests in unlisted investments pursuant to an equity transfer agreement entered into between the Group and an individual dated 15 September 2005, details are contained in the announcement of the Company dated 16 September 2005. As announced by the Company on 23 February 2007, the above agreement had been terminated by the parties to the agreement.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have, as at the close of business on 31 January 2007, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgage, charges, hire purchases, commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated in Hong Kong dollars at the exchange rates prevailing at the close of business on 31 January 2007.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group from after 31 January 2007 up to the Latest Practicable Date.

5. WORKING CAPITAL

Taking into account the Remaining Group's internal resources, presently available banking and other facilities, and in the absence of the unforeseen circumstances, the Directors are of the opinion that the Remaining Group will have sufficient working capital for the twelve-month period from date of this circular.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from DTZ Debenham Tie Leung Limited, an independent valuer, in connection with the valuation of the Property as at 31 January 2007 .

DTZ Debenham Tie Leung
International Property Advisers
戴德梁行

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

5 March 2007

The Directors
Wai Yuen Tong Medicine Holdings Limited
5th Floor, Wai Yuen Tong Medicine Building
No. 9 Wang Kwong Road
Kowloon Bay
Kowloon

Dear Sirs,

RE: GROUND, UPPER GROUND, 1ST, 2ND, 3RD, 4TH & 5TH FLOORS & ROOF, WAI YUEN TONG MEDICINE BUILDING, NO. 9 WANG KWONG ROAD, KOWLOON BAY, KOWLOON

Instructions, Purpose & Date of Valuation

We refer to your instructions for us to carry out a market valuation of the captioned property. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value and market rent of the property as at 31st January, 2007 (the "date of valuation").

Basis of Valuation of Market Value

Our valuation of the market value of the property is, in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors, defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

Basis of Valuation of Market Rent

Our valuation of the market rent of the property is, in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors, defined as "the estimated amount for which a property, or space within a property should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion."

Method of Valuation

We have valued the property by direct comparison approach assuming sale or letting of the property in its existing state with the benefit of immediate vacant possession by making reference to comparable transactions as available in the relevant market. In assessing the market value of the property, we have also considered the result of valuation by investment method where we arrive at the valuation by capitalizing the rental income derived from the existing tenancies with due provision for the reversionary income potential in respect of tenanted units.

Source of Information

We have relied to a very considerable extent on the information given by your Company and have accepted advice given to us on such matters as planning approval, statutory notices, easements, tenure, occupancy and floor areas and all other relevant matters. Dimensions and measurements are based on the copies of documents provided to us by your Company and are therefore only approximations. No on-site measurement has been carried out.

Land Tenure

In valuing the property the Government Lease of which expired before 30 June 1997, we have taken into account the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance under which such lease has been extended without premium until 30 June 2047 and that a rent of three per cent. of the rateable value is charged per annum from the date of extension.

Title Investigation

We have not been provided with copies of the title documents relating to the property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

Site Inspection

We have inspected the exterior of the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Our valuation report is hereby enclosed for your attention.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Peter Lee
Registered Professional Surveyor
M.H.K.I.S., M.R.I.C.S.
Director

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 January 2007	Market rent in existing state as at 31 January 2007
Ground, Upper Ground, 1st, 2nd, 3rd, 4th & 5th Floors & Roof, Wai Yuen Tong Medicine Building, No. 9 Wang Kwong Road, Kowloon Bay, Kowloon. 10,500/29,724th shares of and in New Kowloon Inland Lot No. 5864.	The property is a 6-storey (plus an upper ground level) industrial building which was completed in 1985 and renovated in 2002. Portions of ground and 1st Floor are devoted to car parking purposes whilst 5th Floor accommodates general office area and the remaining portion mainly as general workshop areas. Gross floor areas of the constituent floors of the property are as follows: **Floor(s)** / **Gross Floor Area** *sq.ft.* / *sq.m.* Ground 22,261 / 2,068.10 Upper Ground 10,017 / 930.60 1st to 5th 18,837 x 5 / 1,750.00 x 5 Total: 126,463 / 11,748.70 The property is held from the Government under Conditions of Sale No. 11517 for 99 years from 1 July 1898 and had been statutorily extended to 30 June 2047. The current Government Rent payable for the lot is an amount equivalent to 3% of the rateable value for the time being of the property per annum.	Portion of Ground Floor (with gross floor area of approximately 4,695 sq.ft. or 436.18 sq.m.) and Portion of 5th Floor (with gross floor area of approximately 14,512 sq.ft. or 1,348.20 sq.m.) were leased to a subsidiary company of Wang On Group Ltd. at a rent of HK$160,000 on monthly basis (inclusive of rates and management fees) whilst the remaining portion of the property was leased to two other subsidiary companies of Wai Yuen Tong Medicine Holdings Ltd. at HK$346,000 on monthly basis (inclusive of rates and management fees).	HK$185,000,000	HK$1,030,000 per month *(see note 3)*

Notes:

1. The registered owner of the property is Conful Limited.

2. The property is subject to the following encumbrances:

   (i) a Waiver Letter from the Government of The Hong Kong Special Administrative Region by the District Lands Officer/Kowloon East.

   (ii) a No-objection Letter from the Government of The Hong Kong Special Administrative Region by the District Lands Officer/Kowloon East.

   (iii) a Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited.

3. In the course of our valuation, we have valued the market rent of the property in its existing state, assuming that it is available for immediate letting subject to terms and covenants usual in leasing of properties similar to the subject property as at the date of valuation, exclusive of rates, government rent, management fees and utility charges.

4. The property falls within Kowloon Planning Area Nos. 13 & 17 and is zoned under Ngau Tau Kok & Kowloon Bay Outline Zoning Plan No. S/K13/25 dated 12th September, 2006 for “Other Specified Uses (Business)” purposes.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

(a) The Directors' interests and short position in the securities of the Company and its associated corporations

As at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name of Shareholder	**Interest in Share or underlying shares** *(Note 1)*	**Approximate percentage of the issued share capital**
Rich Time Strategy Limited *(Note 2)*	684,209,324	49%
Wang On Enterprises (BVI) Limited ("WOE") *(Note 2)*	684,209,324	49%
Wang On *(Note 2)*	684,209,324	49%

Notes:

1. The interest is a long position in Shares.

2. Rich Time Strategy Limited is wholly owned by WOE, which is wholly owned by Wang On, a company with limited liability and the shares of which are listed on the Stock Exchange. WOE and Wang On are deemed to be interested in 684,209,324 Shares held by Rich Time Strategy Limited.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had any interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by members of the Group within two years preceding the Latest Practicable Date and are or may be material:

(a) a conditional sale and purchase agreement entered into between Source Millennium Limited, a wholly-owned subsidiary of the Company, and Suitbest Investments Limited, a wholly-owned subsidiary of Wang On, dated 1 February 2005 in relation to the acquisition of the entire issued share capital of Geswin Limited and a related shareholder's loan at an initial consideration of HK$63,232,857;

(b) a provisional agreement entered into between Asia Richly Investment Limited, a wholly-owned subsidiary of the Company, and an individual dated 4 April 2005 in relation to the disposal of the property known as Unit A, 25/F., Block 9, Parc Palais, 18 Wylie Road, King's Park, Kowloon, Hong Kong at a consideration of HK$13 million;

(c) a provisional agreement entered into between Excel Hero Investment Limited, a wholly-owned subsidiary of the Company, and an individual dated 10 July 2005 in relation to the disposal of the property known as Unit B, 23/F., Block 9, Parc Palais, 18 Wylie Road, King's Park, Kowloon, Hong Kong at a consideration of HK$10 million;

(d) a facility agreement entered into between Bright Leading Limited, a wholly-owned subsidiary of the Company, and Hunan Xiangya Pharmaceutical Co., Limited ("Hunan"), an associated company of the Company, dated 16 August 2005 in respect of the provision of an unsecured credit line of HK$8,500,000 to Hunan;

(e) an equity transfer agreement (the "Equity Transfer Agreement") entered between Aimsight Investments Limited ("Aimsight"), a wholly-owned subsidiary of the Company, and Ms. Cai Xue Fang ("Ms. Cai"), dated 15 September 2005 whereby Aimsight agreed to purchase a 8% equity interest in each of Dongguan Senox Agricultural Products Co., Ltd., Dongguan Senox Industrial co., Ltd and Dongguan Senox Logistics Co., Ltd for an aggregate cash consideration of HK$24 million;

(f) a provisional agreement entered into between Whole Winner Investment Limited, a wholly-owned subsidiary of the Company, and an individual dated 4 October 2005 in relation to the disposal of the property known as Unit B, 22/F., Block 8, Parc Palais, 18 Wylie Road, King's Park, Kowloon, Hong Kong at a consideration of HK$9.8 million;

(g) a provisional agreement entered into between Sky Regal Investment Limited, a wholly-owned subsidiary of the Company, and certain individuals dated 21 November 2006 in relation to the disposal of the property known as Unit D, 23/F., Block 9, Parc Palais, 18 Wylie Road, King's Park, Kowloon, Hong Kong at a consideration of HK$8.95 million;

(h) a loan agreement entered into between Gain Better Investments Limited, a wholly-owned subsidiary of the Company, and LeRoi dated 26 January 2007 in relation to the provision of a maximum loan facility of HK$35,000,000 to LeRoi;

(i) a share purchase agreement entered into between Gain Better Investments Limited, a wholly-owned subsidiary of the Company, and Taco Holdings Limited dated 27 January 2006 in relation to the acquisition of 25.32% shareholding interests in LeRoi Holdings Limited ("LeRoi") from Taco Holdings Limited;

(j) a subscription agreement entered into between Gain Better Investments Limited, a wholly-owned subsidiary of the Company, and LeRoi dated 27 January 2006 in relation to the subscription of the convertible notes for a principal amount of HK$10,000,000 by Gain Better Investments Limited; and

(k) a termination agreement entered into between Aimsight and Ms. Cai dated 21 February 2007 in relation to the termination of the Equity Transfer Agreement.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation other than statutory compensation).

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

7. EXPERTS AND CONSENTS

The followings are the qualifications of the expert who has given opinion or advice which is contained in this circular:

Name	**Qualifications**
DTZ Debenham Tie Leung Limited ("DTZ")	Registered professional surveyors, valuers and property advisers

DTZ has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name, in the form and context in which it is included.

As at the Latest Practicable Date, DTZ had no shareholding in any member of the Group or have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any interest, either directly or indirectly, in any assets which have, since 31 March 2006 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

(a) none of the Directors had any interest, either direct or indirect, in any assets which have, since 31 March 2006 (being the date to which the latest published audited accounts of the Group were made up), been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and

(b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Group.

9. GENERAL

(a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company is at 5th Floor, Wai Yuen Tong Medicine Building, 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

(b) The qualified accountant of the Company is Mr. Lao Wai Keung, CPA.

(c) The company secretary of the Company is Mr. Chan Chun Hong, Thomas. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

(d) The branch share registrar of the Company in Hong Kong is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the head office and principal place of business of the Company in Hong Kong from the date of this circular up to and including 22 March 2007.

(i) the bye-laws of the Company;

(ii) the annual reports of the Company for the two years ended 31 March 2006;

(iii) the interim report of the Company for the six months ended 30 September 2006;

(iv) the valuation report on the Property, the text of which is set out in appendix II to this circular;

(v) the material contracts referred to in the paragraph of this appendix headed "Material contracts"; and

(vi) a copy of the circular dated 26 February 2007 relating to discloseable transactions involving provision of financial assistance to an associate.

WAI YUEN TONG MEDICINE HOLDINGS LIMITED
(位元堂藥業控股有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 897)

NOTICE IS HEREBY GIVEN that a special general meeting of Wai Yuen Tong Medicine Holdings Limited (the "Company") will be held at 37th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong on Thursday, 22 March 2007 at 3:30 p.m. or at any adjournment thereof, for the purpose of considering and, if thought fit, approving, with or without modification, the following ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** (a) the conditional sale and purchase agreement dated 13 February 2007 (the "Agreement") between Plenty Time Investments Limited ("Plenty Time") (a subsidiary of the Company) and Golden Orchard Holdings Ltd. ("Golden Orchard"), an independent third party, a copy of which has been produced to the meeting and marked "A" and initialled by the chairman of this meeting for the purpose of identification, pursuant to which, inter alia, Plenty Time has agreed to sell, and Golden Orchard has agreed to purchase, the entire issued share capital of Conful Limited ("Conful") and the debt which represents all amounts owing by Conful to Plenty Time as at the date of completion of the Agreement; (b) a leasing agreement ("Leaseback Agreement") to be entered into at completion of the Agreement between the Company and Conful in respect of the leasing of the property held by Conful to the Company, a copy of which has been produced to the meeting and marked "B" and initialled by the chairman of this meeting for the purpose of identification; and (c) other transactions contemplated by or incidental to the Agreement and the Leaseback Agreement and all actions taken by the Company and/or its subsidiaries pursuant to the Agreement and the Leaseback Agreement, be and are hereby generally and unconditionally approved, confirmed and/or ratified and the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the Agreement and the Leaseback Agreement and/or give effect to the transactions contemplated thereunder."

By order of the Board
Wai Yuen Tong Medicine Holdings Limited
Chan Chun Hong, Thomas
Managing Director

Hong Kong, 5 March 2007

** For identification purpose only*

Notes:

(1) A member of the Company entitled to attend and vote at the above meeting may appoint a proxy or more than one proxy to attend and vote on his behalf. A form of proxy for use at the above meeting is enclosed herewith. A proxy need not be a member of the Company.

(2) The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a corporation, the form of a proxy must be under its common seal or under the hand of an officer, attorney or other person authorized to sign the proxy.

(3) In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the Hong Kong branch share registrar of the Company, Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the above meeting or any adjournment.

(4) Completion and delivery of the form of proxy will not preclude members from attending and voting at the above meeting or any adjournment thereof, in which case the form of proxy shall be deemed to be revoked.