Wai Yuen Tong Medicine Holdings Limited

(Incorporated in Bermuda with limited liability)

2007 Annual Report

STOCK CODE: 897

位元堂


CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

TANG Ching Ho *(Chairman)*
CHAN Chun Hong, Thomas *(Managing Director)*

Independent non-executive Directors

LEUNG Wai Ho
YUEN Chi Choi
SIU Man Ho, Simon
CHO Wing Mou

AUDIT COMMITTEE

YUEN Chi Choi *(Chairman)*
LEUNG Wai Ho
SIU Man Ho, Simon
CHO Wing Mou

REMUNERATION COMMITTEE

SIU Man Ho, Simon *(Chairman)*
LEUNG Wai Ho
YUEN Chi Choi
CHO Wing Mou
TANG Ching Ho
CHAN Chun Hong, Thomas

COMPANY SECRETARY

CHAN Chun Hong, Thomas

QUALIFIED ACCOUNTANT

LAO Wai Keung

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
Dah Sing Bank, Limited

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Kirkpatrick & Lockhart Preston Gates Ellis

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

CORPORATE INFORMATION (CONTINUED)

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL REGISTRAR IN BERMUDA

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

WEBSITE ADDRESS

http://www.wyth.net

STOCK CODE

897

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Wai Yuen Tong Medicine Holdings Limited (the "Company"), I am pleased to present to you the audited consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2007.

The year under review was an encouraging year for the Group. The efforts and investments made in the past few years have proved to be fruitful and rewarding and had created synergistic benefits between the Group's Chinese and Western pharmaceutical and healthcare companies. The Group has turned around to record a profit attributable to shareholders of HK$9.9 million.

During the year under review, the Group continued to focus on its key development strategies and have launched rebranding campaigns, says brand building and adopting new images for our shop fittings and product designs. These campaigns were designed to further enhance brand awareness and loyalty to make our brands and products more appealing to the younger generation. The Group also focused on the expansion of our extensive retail outlets, retail chain and Chinese medical practitioners network and to provide high quality traditional Chinese medicine's products, Western pharmaceutical products, health food and healthcare services.

In early 2006, the successful award of Good Manufacturing Practice ("GMP") certificate was a major milestone of the Group which reinforced consumers' confidence and allowed the Group to aggressively expand its markets worldwide and extend our brand's trademark registration to South East Asia, Australia, Canada and the United States.

Taking into account the recent strength of the Hong Kong stock market and investors' confidence about the business prospects of the Group, the Company has conducted fund raising activities by placing shares and convertible notes (the latter being subject to the approval of the shareholders at a special general meeting to be held at 26 July 2007). The net proceeds of approximately HK$124.1 million and HK$245.5 million will be applied towards the expansion of the Group's retail network, potential acquisition of new investments or businesses and for general working capital.

With a view to securing the Group's long-term profit base, diversifying its earnings base, enriching its business lines and given the rapid growth in The People's Republic of China (the "PRC") economy, the Company acquired 25.32% equity interest in LeRoi Holdings Limited ("LeRoi"), completion of which took place in January 2007.

The Group will continue to strive to maintain the immense momentum we have built up to target long-term growth in the pharmaceutical industry. We will continue to use our best endeavours to develop top quality products, enhance our research and development capability, expand our sale network globally and satisfy our consumers' needs, so as to achieve further advance business growth and better returns in the future.

CHAIRMAN'S STATEMENT (CONTINUED)

On behalf of the Board, I would like to take this opportunity to express my heartfelt thanks to our management team and all our staff for their dedication to the Group during the past year. Also, I would like to extend my sincere gratitude and appreciation to all our shareholders and institutional investors, customers and vendors for their continuous support of and confidence in our Group.

Tang Ching Ho
Chairman

18 July 2007

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group recorded a turnover of HK$381.3 million (2006: HK$324.8 million) for the year ended 31 March 2007, representing an increase of 17.4% compared to that of last year. The Group had turned around from a loss-making to a profit-making position, recording a profit attributable to equity holders for the fiscal year ended 31 March 2007 of HK$9.9 million (2006: loss HK$98.4 million). Basic earnings per share was HK$0.71 cents (2006: basic loss per share of HK$12.0 cents).

DIVIDEND

No interim dividend was paid during the year under review (2006: Nil). The Directors of the Company (the “Directors”) do not recommend the payment of final dividend in respect of the year (2006: Nil).

BUSINESS REVIEW

Despite the intensifying competition in the retailing and distribution of Chinese herbal medicinal and healthcare products in the local market, plus the escalating pressure of rising rental and staff costs, the Group launched its strategic plan of expansion and not only successfully secured its market position but deepened its market penetration in Hong Kong, mainland China and other overseas markets.

Chinese Pharmaceutical Products

Turnover for the year under review increased by 14.3% from HK$237.3 million to HK$271.2 million. The rising public awareness of health continued to bring a great deal of business momentum to our Group’s flagship operation of the sale and distribution of Chinese herbal medicinal and healthcare products under the brand of “Wai Yuen Tong”. In the fourth quarter of 2006, the Group launched a rebranding project with a series of marketing campaigns that were targeted to rejuvenate the brand of “Wai Yuen Tong”. With the opening of a new retail store at Parkes Street, Jordan and adopting the new visual image in January 2007, the Group successfully strengthened its local leading position as the largest Chinese herbal medicine retail chain, the largest Chinese medical practitioners network, and the provider of the best quality products. The award of GMP Certificate in early 2006 led the Group’s aggressive plan to extend our market coverage to South East Asia, Australia, Canada and the United States.

During the fiscal year, the Group continued to expand its retail network by opening 6 retail outlets in Hong Kong and 13 retail outlets in the PRC, bringing the total of retail outlets to 55 and 25 respectively. 45 of the 55 retail outlets in Hong Kong provide healthcare consultation services by registered Chinese medical practitioners. The overall gross profit margin increased as we improved our sales channels and product mix. In view of escalating rentals, the Group has started to focus on adjusting the location and size of its stores so as to lower the overall rental costs while keeping the loyal customers.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Western Pharmaceutical Products

Turnover in Western pharmaceutical and health products increased sharply by 69.8% from HK$44.3 million to HK$75.2 million. The increase was mainly attributable to the core product, cough syrup, selling in the PRC as the Group successfully expanded its sales channels and network to over 18 provinces in the PRC. A series of rebranding activities launched in Hong Kong, together with the increased effort on sales channel management across dealers, key chains and drug stores, also brought growth in turnover.

The Group will continue to concentrate its efforts on the sale of cough syrup and other products related to upper respiratory tract infections. Business opportunities will be sought to optimise the utilisation of the strong distribution network in Hong Kong and the PRC.

Chinese Health Food Business

The Group's manufacturing of Chinese health food business was operated through our production arm CNT Health Food Pte Limited ("CNT") in Singapore. The revenue for the period under review was HK$33.1 million (2006: HK$41.3 million). During the fiscal year, CNT streamlined its operations, strengthened its purchasing function, and launched a wastage reduction program. A remarkable improvement in gross profit margin had resulted and the operations started to bring contribution to the Group's results.

Investment in LeRoi

In January 2007, the Company acquired 25.32% equity interest in LeRoi. The Company also subscribed for a HK$3 million convertible notes issued by LeRoi and was granted an option to subscribe for additional HK$7 million convertible notes to be issued by LeRoi.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Liquidity, Capital Structure and Gearing

In view of acquiring potential business opportunities available in the market, it is appropriate for the Group to maintain sufficient working capital. During the year under review, the Group disposed one of its subsidiaries which owned an industrial property located in Kowloon Bay, for a cash consideration of HK$188 million. As at 31 March 2007, the Group's total borrowings amounted to HK$59.3 million (2006: HK$133.1 million) which included bank borrowings and overdrafts of HK$59.2 million (2006: HK$132.7 million) and obligations under a finance lease of HK$0.1 million (2006: HK$0.4 million).

The gearing ratio, defined as the ratio of total borrowings to equity attributable to equity holders was approximately 9.0% (2006: 20.6%).

Foreign Exchange

The board is of the opinion that there is no material foreign exchange exposure to the Group. All bank borrowings are denominated in Hong Kong and Singapore dollars. The revenue of the Group, being mostly denominated in Hong Kong and Singapore dollars, matched the currency requirement of the Group's operating expenses. The Group does not engage in any hedging contracts.

Placing of New Shares

The Group placed 279,000,000 new shares of HK$0.01 each through a placing agent, on a fully underwritten basis, to independent investors at a price of HK$0.46 per share, completion of which took place on 29 June 2007. The net proceeds of approximately HK$124.1 million are intended to be used for the expansion of the Group's retail network in the PRC and Hong Kong and for general working capital of the Group.

Placing of Convertible Notes

On 11 June 2007, the Group entered into a placing agreement with a placing agent to place, on a fully underwritten basis, up to an aggregate principal amount of HK$250,000,000 convertible note at an initial conversion price of HK$0.58 per share. This placement is subject to the approval of the shareholders of the Company at the special general meeting to be held on 26 July 2007. The net proceeds of approximately HK$245.5 million are intended to be used as to approximately HK$180 million for capturing new investment opportunities and for the general working capital of the Group.

Employees

At the balance sheet date, the Group employed approximately 560 employees, of which approximately 84% were located in Hong Kong. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK$72.7 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group also makes available a share option scheme to its employees.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. TANG Ching Ho, aged 45, was appointed as the Chairman of the Company since August 2001. He is responsible for the strategic planning, policy making and business development of the Group. He is also the Chairman of Wang On Group Limited ("Wang On"), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and has extensive experience in corporate management.

Mr. CHAN Chun Hong, Thomas, aged 43, was appointed as the Managing Director and Secretary of the Company. He is responsible for managing the corporate matters and overall management and supervision of the Group. He graduated from the Hong Kong Polytechnic University with a degree in Accountancy and is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants. He is also an executive director of Wang On and LeRoi and an independent non-executive director of Shanghai Prime Machinery Company Limited, all being listed companies in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LEUNG Wai Ho, aged 57, was previously the non-executive director of the Company and was re-designated to an Independent Non-executive Director in April 2006. He has more than 41 years' and 12 years' experiences in the watch industry and financial industry respectively. He is a Standing Committee Member of The Chinese General Chamber of Commerce, a Standing Committee Member of The Chinese Manufacturers' Association of Hong Kong, a Standing Committee Member of Hebei Province of the Chinese People's Political Consultative Conference and the President of Dongguan City Association of Enterprises with Foreign Investment.

Mr. SIU Man Ho, Simon, aged 33, joined the Company as an Independent Non-executive Director in August 2001. He is a practicing solicitor of the High Court of Hong Kong. He obtained a bachelor of Laws degree from the University of Hong Kong in 1996 and is a partner of the law firm, Sit, Fung, Kwong & Shum. His areas of practice include corporate finance, capital markets, securities, mergers and acquisitions; joint ventures and general commercial matters.

Mr. YUEN Chi Choi, aged 46, joined the Company as an Independent Non-executive Director in August 2001. He is a certified public accountant in Hong Kong and an associate member of The Hong Kong Institute of Certified Public Accountants. He has more than 16 years of audit experience.

Mr. CHO Wing Mou, aged 66, joined the Company as an Independent Non-executive Director in September 2001. He has over 41 years' experience in banking industry and was formerly as a director and deputy general manager of Hua Chiao Commercial Bank Limited and The China State Bank Limited. He is a committee member of the 8th Political Consultative Conference Guangxi, a committee member of the 1st and 2nd Political Consultative Conference of Yulin City, Guangxi Province and a committee member of Political Consultative Conference of Maoming City, Guangdong Province and also the Chairman of Supervisor Gee Tuck General Association Hong Kong Limited and the vice president of Gee Tuck World Association Limited.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT

Ms. Tang Mui Fun, Karen is a Director of Wai Yuen Tong Medicine Company Limited, Luxembourg Medicine Company Limited and CNT. She is responsible for the marketing strategy and management of "Wai Yuen Tong". Prior to joining the Group in November 2000, she had 4 years of experience in the accounting and auditing fields and 5 years of experience in general management. She graduated from the University of Hull (England) with a bachelor degree in accountancy. She is a sister of Mr. Tang Ching Ho, the Chairman of the Company.

Mr. Chiu Kwok Ho, Benedict is the Business Development Director of Luxembourg Medicine Company Limited and joined the Group in April 2005. He is responsible for the business development of the Group's western pharmaceutical and health products business in both Hong Kong and mainland China. Mr. Chiu graduated from Bradford University with a Bachelor in pharmacy and is a registered pharmacist in Hong Kong and the United Kingdom. He has 21 years' experience in the pharmaceutical industry.

Ms. Wong Shuk Fong, Jaime is currently the Director of the sales and marketing division of Wai Yuen Tong Medicine Company Limited. Ms. Wong has extensive experience in sales and marketing, and had been engaged in the marketing activities of various industries, including hotel, food and beverage and Chinese medicine for over 20 years. With her innovative marketing strategies, such companies made a breakthrough and successfully established their brand with a strong position among their counterparts. Besides her familiarities with the local market, Ms. Wong has also been stationed in overseas markets, such as the mainland China, the U.S. and Australia, for several years. Wai Yuen Tong Medicine Company Limited with over a century's history is hence expecting further growth, with her international horizon and extensive marketing practice.

Ms. Fung Lai Ngan, Ann is the Financial Controller of the Group and joined in October 2005. She is a fellow member of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. She has more than 11 years' experience in accounting and financial positions in Hong Kong.

Mr. Lao Wai Keung is the Qualified Accountant of the Company. He is a certified public accountant and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in 2002, he had more than 11 years of experience in financial positions in Hong Kong and mainland China.

Mr. Lung Chi Ho, Markus is the General Manager (Technical Operation) and Pharmacist of the Company. He is in charge of all aspects in the manufacturing plant including quality control, quality assurance, production, research and development, engineering, warehouse and logistic issues. Prior to joining the Group in March 2002, he had over 6 years' experience working in a local GMP pharmaceutical plant. He graduated from The Chinese University of Hong Kong with a bachelor degree in pharmacy and also obtained a bachelor degree in pharmacy in Chinese Medicines at the University of Hong Kong.

Ms. Law Yin Man is the Operation Director of Luxembourg Medicine Company Limited. Ms. Law joined the Group in 2001 and is responsible for sales and marketing and opening new markets in the mainland China. She has more than 6 years of experience in sales and marketing in the mainland China.

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance and continuously reviews and improves the corporate governance practices and standards of the Group to ensure that business activities and decision making processes are regulated in a proper manner.

The Company adopted a code on corporate governance practices set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and has complied with the code provisions set out in the CG Code throughout the year ended 31 March 2007.

The Company will continue to seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for shareholders of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standards set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

The Board comprises two executive Directors and four independent non-executive Directors. The Directors during the year and up to the date of this annual report were:

Executive Directors

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

Independent non-executive Directors

Mr. Leung Wai Ho *(re-designated to Independent non-executive Director on 4 April 2006)*
Mr. Yuen Chi Choi
Mr. Siu Man Ho, Simon
Mr. Cho Wing Mou

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

The biographical details of the Directors are set out on page 9 of this annual report. The Board possesses a balance of skills and experience which are appropriate for the requirements of the business of the Company. The opinions raised by the independent non-executive Directors in Board meetings facilitate the maintenance of good corporate governance practices. At least one of the independent non-executive Directors has the appropriate professional qualification and/or accounting and audit experience expertise as required by Rule 3.10(1) and (2) of the Listing Rules. A balanced composition of executive and non-executive Directors also generates a strong independent element on the Board, which allows for an independent and objective decision making process for the best interests of the Company. The Company will review the composition of the Board regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

All independent non-executive Directors are free from any business or other relationship with the Company. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company continues to consider the four independent non-executive Directors to be independent.

The Board's primary functions are to set corporate policy and overall strategy for the Group and to provide effective oversight of the management of the Group's business and affairs. Apart from its statutory responsibilities, the Board also approves strategic plans, key operational issues, investments and loans, reviews the financial performance of the Group and evaluates the performance and compensation of senior management. These functions are either carried out directly by the Board or indirectly through committees established by the Board.

Regular Board meetings are held at least four times a year to approve annual and interim results, and to review the business operation and the internal control systems of the Group. Apart from these regular meetings, Board meetings are also held as and when necessary to consider major issues. At least 14 days notice for each regular meeting is given to all Directors. Agendas and accompanying Board papers are sent to the Directors before the date of a Board meeting to ensure that the Directors are given sufficient time to review the same. Draft minutes of Board meetings and Board committee meetings are circulated to the Directors for their review and comment while final version of the said minutes, when duly signed, are sent to all members of the Board for their records. All such minutes are kept by the company secretary of the Company and are open for inspection at any reasonable time on reasonable notice by any Director.

During the year, four Board meetings were held and the attendance of each Director are as follows:

Directors	**Attendance**
Mr. Tang Ching Ho	4/4
Mr. Chan Chun Hong, Thomas	4/4
Mr. Leung Wai Ho	4/4
Mr. Yuen Chi Choi	4/4
Mr. Siu Man Ho, Simon	4/4
Mr. Cho Wing Mou	4/4

CORPORATE GOVERNANCE REPORT (CONTINUED)

ROLES OF CHAIRMAN AND MANAGING DIRECTOR

The Chairman of the Company is Mr. Tang Ching Ho and the Managing Director is Mr. Chan Chun Hong, Thomas. There is a clear division of responsibilities between the Chairman and Managing Director, in that the Chairman bears primary responsibility for the functioning of the Board by ensuring its effective operation, while the Managing Director bears executive responsibility for the Company's business and the management of the day-to-day operations of the Company.

BOARD COMMITTEE

The Board has established various committees, including audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and executive committee (the "Executive Committee"), each of which has the specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the company secretary of the Company, are circulated to all Board members. Each committee is required to report to the Board on its decision and recommendations where appropriate.

NOMINATION COMMITTEE

The Nomination Committee has been established in September 2005 and currently consists of five members, including Messrs. Cho Wing Mou (Chairman), Yuen Chi Choi, Siu Man Ho, Simon, Tang Ching Ho and Chan Chun Hong, Thomas, a majority of whom are independent non-executive Directors.

The Nomination Committee has adopted a written nomination procedure specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee will base on the criteria in the procedure (such as appropriate experience, personal skills and time commitment etc) to identify and recommend proposed candidates to the Board.

REMUNERATION COMMITTEE

The Board set up the Remuneration Committee in September 2005 with specific written terms of reference which deal with its authority and duties. It currently consists of six members, including Messrs. Siu Man Ho, Simon (Chairman), Yuen Chi Choi, Cho Wing Mou, Leung Wai Ho, Tang Ching Ho and Chan Chun Hong, Thomas, a majority of whom are independent non-executive Directors.

The Remuneration Committee's role is to make recommendation to the Board on the remuneration policy and structure for Directors and senior management and to ensure that they are fairly rewarded for their individual contribution to the Group's overall performance while due having regard to the interests of shareholders. The principal duties of the Remuneration Committee include determining the specific remuneration packages of all executive Directors and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. No Director or any of his associates may be involved in making any decisions as to his own remuneration.

CORPORATE GOVERNANCE REPORT (CONTINUED)

REMUNERATION COMMITTEE (CONTINUED)

The Remuneration Committee shall meet at least once a year. During the year, one Remuneration Committee meeting was held to review the remuneration packages of all Directors and senior management and the attendance of each member is set out as follows:

Members of the Remuneration Committee	**Attendance**
Mr. Siu Man Ho, Simon *(Chairman)*	1/1
Mr. Yuen Chi Choi	1/1
Mr. Cho Wing Mou	1/1
Mr. Leung Wai Ho	1/1
Mr. Tang Ching Ho	1/1
Mr. Chan Chun Hong, Thomas	1/1

The remuneration payable to the Directors will depend on their respective contractual terms under their employment contracts or service contracts and the same was reviewed by the Remuneration Committee. Details of the Directors' remuneration are set out in note 11 to the financial statements.

AUDIT COMMITTEE

The role of Audit Committee is to review the Group's financial reporting, internal controls and to make relevant recommendations to the Board. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

During the year, the Audit Committee comprises the four independent non-executive Directors, namely, Mr. Yuen Chi Choi (Chairman), Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou.

The Audit Committee shall meet at least twice a year. Two Audit Committee meetings were held during the year and the attendance of each member is set out as follows:

Members of the Audit Committee	**Attendance**
Mr. Yuen Chi Choi *(Chairman)*	2/2
Mr. Leung Wai Ho	2/2
Mr. Siu Man Ho, Simon	2/2
Mr. Cho Wing Mou	2/2

The Audit Committee had reviewed with the management and the external auditors the financial statements for the year ended 31 March 2007.

CORPORATE GOVERNANCE REPORT (CONTINUED)

EXTERNAL AUDITORS' REMUNERATION

During the year and up to the date of this report, the remuneration paid/payable to the Company's external auditors, Deloitte Touche Tohmatsu ("Deloitte"), are set out as follows:

Services rendered for the Group	**Fees paid/payable to Deloitte**
	HK$'000
Audit services	2,300
Non-audit services:	
— Taxation and professional services	326
Total	**2,626**

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with the shareholders of the Company. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim reports, annual reports, announcements and circulars.

The Company also acknowledges that general meetings are valuable forums for the Board to communicate directly with the shareholders and members of the Board and committees are encouraged to attend and answer questions at the general meetings.

RESPONSIBILITY FOR PREPARATION AND REPORTING OF ACCOUNTS

The Directors acknowledge their responsibility for preparing the accounts which were prepared in accordance with statutory requirements and applicable accounting standards. A statement by the auditors about their reporting responsibilities is set out on page 24 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and of the Group for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries comprise the production and sale of traditional Chinese and Western pharmaceutical products, health foods products and property holding. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The results of the Group for the year ended 31 March 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 87.

The directors do not recommend the payment of a dividend in respect of the year.

SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates at 31 March 2007 are set out in notes 48 and 49 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in notes 36 and 37 to the financial statements, respectively.

Subsequent to the financial year ended 31 March 2007, the Company underwent fund raising activities whereby (i) 279,000,000 shares of HK$0.01 each in the share capital of the Company were placed through a placing agent, on a fully underwritten basis, to independent investors at a price of HK$0.46 per share, completion of which took place on 29 June 2007; and (ii) a convertible note up to an aggregate principal amount of HK$250,000,000, attaching rights to convert into the shares of the Company at an initial conversion price of HK$0.58 per share, was placed through a placing agent, on a fully underwritten basis, to independent investors which is subject to the approval of the shareholders of the Company at the special general meeting to be held on 26 July 2007.

REPORT OF THE DIRECTORS (CONTINUED)

INVESTMENT PROPERTIES

During the year, investment properties with an aggregate net book value of approximately HK$9.1 million were disposed.

Details of these and other movements in the investment properties of the Group during the year are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, certain items of property, plant and equipment with an aggregate amount of approximately HK$0.6 million were acquired as a result of the acquisition of subsidiaries.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company's reserve available for distribution to shareholders was approximately HK$86,600,000 (2006: HK$80,886,000) which represented the net balance of contributed surplus of approximately HK$18,494,000 (2006: HK$18,494,000), general reserves of approximately HK$218,508,000 (2006: HK$218,508,000) and accumulated losses of approximately HK$150,402,000 (2006: HK$156,116,000).

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:
Tang Ching Ho
Chan Chun Hong, Thomas

Independent non-executive Directors:
Siu Man Ho, Simon
Yuen Chi Choi
Cho Wing Mou
Leung Wai Ho *(re-designated from non-executive Director to Independent non-executive Director on 4 April 2006)*

In accordance with bye-law 87 of the Company's bye-laws, Messrs. Siu Man Ho, Simon and Cho Wing Mou shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each independent non-executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws and, subject to eligibility, may then be re-elected.

The Company has received annual confirmations of independence from all independent non-executive Directors and as at the date of this annual report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 11 and 46 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2007, none of the Directors, chief executives, nor their associates, had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

During the year under review, the Company granted 4,120,000 share options under the share option scheme adopted by the shareholders of the Company on 18 September 2003 and no share options were exercised, lapsed or cancelled during the year. As at the date of this report, the total number of shares available for issue under the Company's share option scheme is 135,514,768, representing 8.09% of the share capital of the Company in issue at the date of this report.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Particulars of the Company's share option scheme are set out in note 37 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, to the best knowledge of the Directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders (other than Directors) had notified the Company of relevant interests and short positions in the shares and underlying shares of the Company.

Long positions in the shares of the Company:

Name of shareholders	Number of shares	Approximate percentage of the Company's total issued share capital *(Note 2)* (%)
Wang On *(Note 1)*	684,209,324	49
Wang On Enterprises (BVI) Limited ("WOE") *(Note 1)*	684,209,324	49
Rich Time Strategy Limited ("Rich Time") *(Note 1)*	684,209,324	49

Notes:

1. *Rich Time is wholly owned by WOE, which is a wholly-owned subsidiary of Wang On. WOE and Wang On are deemed to be interested in 684,209,324 shares held by Rich Time.*

2. *The percentage represented the number of shares over the total issued share capital of the Company as at 31 March 2007 of 1,396,347,688 shares.*

Save as disclosed above, no person, other than the Directors, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year under review, the Company and certain of its wholly-owned subsidiaries had the following transactions which constituted connected transactions under Chapter 14A of the Listing Rules, with Wang On or any of its wholly-owned subsidiaries:

(a) on 28 June 2005, Conful Limited, which ceased to be subsidiary of the Company on 27 March 2007, entered into a lease agreement (the "Lease") with Denox Management Limited ("Denox"), a wholly-owned subsidiary of Wang On, for portions of office (the "Premises") situated in Kowloon Bay, Hong Kong;

(b) on 27 July 2006, Conful Limited entered into a tenancy agreement with Denox for renewal of the Lease for a period of 3 years commencing from 1 July 2006 and expiring on 30 June 2009; and

REPORT OF THE DIRECTORS (CONTINUED)

CONNECTED TRANSACTIONS (CONTINUED)

(c) following the disposal of Conful Limited on 27 March 2007, the Company leased back the Premises from Conful Limited and entered into a tenancy agreement with Denox on 27 March 2007 for portions of the Premises, as detailed in the Company's announcement dated 28 March 2007.

Further details of these transactions are set out in note 46 to the financial statements. Pursuant to Rule 14.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board.

The independent non-executive Directors confirm that the transactions have been entered into by the Group in the ordinary course of its business, on terms no less favourable than terms available to independent third parties and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Save as disclosed above, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

EMOLUMENT POLICY

The Group's emolument policy for its employees is set up by the Board on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Board, as authorised by the shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in note 37 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the Group's turnover.

During the year, the largest supplier accounted for 33% of the Group's purchases and the five largest suppliers of the Group accounted for 53% of the Group's purchases.

REPORT OF THE DIRECTORS (CONTINUED)

MAJOR CUSTOMERS AND SUPPLIERS (CONTINUED)

At no time during the year did a Director, an associate of a Director or a shareholder of the Company, which to the knowledge of the Directors owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest suppliers.

DONATIONS

During the year, the Group made charitable and other donations totalling HK$0.2 million (2006: HK$1.8 million).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in the interests of the shareholders. In the opinion of the Directors, the Company has complied with the code provisions under the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the financial year under review. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 11 to 15.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained a sufficient public float of not less than 25% of the total issued share capital of the Company as required under the Listing Rules throughout the financial year under review and up to the date of this annual report.

POST BALANCE SHEET EVENT

Details of significant events occurring after the balance sheet date are set out in note 45 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS

The consolidated financial statements for the year ended 31 March 2007 have been audited by Messrs. Deloitte Touche Tohmatsu, who retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Tang Ching Ho
Chairman

18 July 2007

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF WAI YUEN TONG MEDICINE HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Wai Yuen Tong Medicine Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 87, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement and the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF WAI YUEN TONG MEDICINE HOLDINGS LIMITED (Continued)
(Incorporated in Bermuda with limited liability)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 July 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	6	**381,266**	324,756
Cost of sales		**(205,952)**	(190,904)
Gross profit		**175,314**	133,852
Other income	8	**17,649**	7,493
Selling and distribution costs		**(118,004)**	(105,168)
Administrative expenses		**(64,922)**	(76,785)
Finance costs	9	**(6,085)**	(7,751)
Impairment loss recognised in respect of goodwill		**(49,558)**	(40,095)
Impairment loss recognised in respect of property, plant and equipment		**—**	(11,762)
(Loss) gain on disposal of investment properties		**(150)**	1,920
Gain on disposal of a subsidiary		**100,618**	—
Write off of prepaid lease payment		**—**	(2,303)
Allowance for amount due from an associate		**(6,389)**	(5,000)
Share of results of associates		**(705)**	(1,793)
Impairment loss recognised in respect of an associate		**(36,863)**	—
Profit (loss) before taxation	10	**10,905**	(107,392)
Income tax (expense) credit	12	**(982)**	1,240
Profit (loss) for the year		**9,923**	(106,152)
Attributable to:			
Equity holders of the Company		**9,895**	(98,370)
Minority interests		**28**	(7,782)
		9,923	(106,152)
Earnings (loss) per share	13		
— Basic		**0.71 cents**	(12 cents)

CONSOLIDATED BALANCE SHEET

At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investment properties	14	—	9,100
Property, plant and equipment	15	37,229	84,934
Prepaid lease payments	16	97,503	140,721
Goodwill	17	206,064	255,461
Interests in associates	18	4,872	3,827
Amounts due from associates	19	20,000	7,300
Trademarks	20	1,100	1,216
Long-term bank deposits	21	7,813	7,762
Investments in unlisted notes	22	6,956	—
Deposits paid for investments	23	—	14,704
Deferred tax assets	35	57	341
		381,594	525,366
CURRENT ASSETS			
Inventories	24	67,059	66,958
Trade and other receivables	25	69,346	59,135
Prepaid lease payments	16	2,500	3,512
Amounts due from associates	19	9,525	13,631
Deposits paid for investments	23	9,378	—
Tax recoverable		435	1,294
Investments in unlisted notes	22	1,974	—
Investments held-for-trading	26	14,475	14,491
Derivative financial instruments	27	—	100
Pledged deposits	28	—	42,703
Bank balances and cash	29	236,625	108,793
		411,317	310,617
CURRENT LIABILITIES			
Trade and other payables	30	73,228	53,502
Tax payable		426	340
Obligations under finance leases	31	29	270
Bank borrowings	32	15,368	38,323
Deferred franchise income	33	223	234
Convertible loan stock	34	8	6
		89,282	92,675
NET CURRENT ASSETS		322,035	217,942
TOTAL ASSETS LESS CURRENT LIABILITIES		703,629	743,308

CONSOLIDATED BALANCE SHEET (CONTINUED)

At 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	*31*	**22**	104
Bank borrowings	*32*	**43,855**	94,363
Deferred franchise income	*33*	**—**	18
Deferred tax liabilities	*35*	**2,054**	2,032
		45,931	96,517
NET ASSETS		**657,698**	646,791
CAPITAL AND RESERVES			
Share capital	*36*	**13,964**	13,964
Reserves		**643,627**	632,748
Equity attributable to equity holders of the Company		**657,591**	646,712
Minority interests		**107**	79
TOTAL EQUITY		**657,698**	646,791

The consolidated financial statements on pages 26 to 87 were approved and authorised for issue by the Board of Directors on 18 July 2007 and are signed on its behalf by:

TANG CHING HO
DIRECTOR

CHAN CHUN HONG, THOMAS
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Attributable to the equity holders of the Company										
	Share capital HK$'000	**Share premium** HK$'000	**Special reserve** HK$'000 *(note a)*	**General reserve** HK$'000 *(note b)*	**Share option reserve** HK$'000	**Translation reserve** HK$'000	**Convertible notes reserve** HK$'000	**Accumulated (losses) profits** HK$'000	**Sub-total** HK$'000	**Minority interests** HK$'000	**Total** 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
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
Exchange differences arising on translation of foreign operations	—	—	—	—	—	864	—	—	864	—	864
Share of translation reserve of associates	—	—	—	—	—	68	—	—	68	—	68
Net income recognised directly in equity	—	—	—	—	—	932	—	—	932	—	932
Profit for the year	—	—	—	—	—	—	—	9,895	9,895	28	9,923
Total recognised income for the year	—	—	—	—	—	932	—	9,895	10,827	28	10,855
Issue of share options	—	—	—	—	52	—	—	—	52	—	52
At 31 March 2007	13,964	551,881	(27,150)	218,508	52	2,096	—	(101,760)	657,591	107	657,698

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.*

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**10,905**	(107,392)
Adjustments for:		
Depreciation of property, plant and equipment	**15,927**	15,437
Finance costs	**6,085**	7,751
Loss (gain) on disposal of investment properties	**150**	(1,920)
Gain on disposal of a subsidiary	**(100,618)**	—
Impairment loss recognised in respect of property, plant and equipment	**—**	11,762
Allowance for inventories	**1,374**	1,054
Write off of prepaid lease payments	**—**	2,303
Impairment loss recognised in respect of goodwill	**49,558**	40,095
Allowance for amount due from an associate	**6,389**	5,000
Amortisation of prepaid lease payments	**3,512**	3,630
Amortisation of trademarks	**154**	84
Interest income	**(6,002)**	(2,460)
Loss on disposal of property, plant and equipment	**—**	41
Gain on disposal of investments held-for-trading	**(5,244)**	(548)
Fair value gain on investments held-for-trading	**(1,047)**	(265)
Loss (gain) on recognition of derivative financial instruments	**100**	(100)
Bad debts written off	**—**	2,625
(Reversal) recognition of allowance for trade and other receivables	**(2,463)**	1,419
Decrease in deferred franchise income	**(29)**	(139)
Share-based payment expenses	**52**	—
Share of results of associates	**705**	1,793
Impairment loss recognised in respect of an associate	**36,863**	—
Operating cash flows before movements in working capital	**16,371**	(19,830)
Decrease in inventories	**663**	2,880
(Increase) decrease in trade and other receivables	**(6,934)**	29,327
Decrease in amounts due from associates	**3,316**	6,438
Decrease (increase) in investments held-for-trading	**6,307**	(13,678)
Increase (decrease) in trade and other payables	**98,600**	(13,997)
Cash generated from (used in) operations	**118,323**	(8,860)
Interest received	**4,913**	1,910
Hong Kong Profits Tax refund (paid)	**233**	(1,698)
Overseas taxation refund (paid)	**31**	(507)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**123,500**	(9,155)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of a subsidiary	39	100,061	—
Decrease (increase) in pledged deposits		42,703	(42,703)
Proceeds from disposal of investment properties		8,950	38,020
Interest received		1,089	550
Decrease (increase) in deposits paid for investments		2,326	(14,704)
Repayment from an associate		2,000	—
Dividend income from associates		301	162
Acquisition of subsidiaries, net of cash and cash equivalents acquired	38	10	(77)
Acquisition of an associate		(35,545)	—
Advance to associates		(20,600)	(5,050)
Purchase of investments in unlisted notes		(8,875)	—
Purchase of property, plant and equipment		(7,990)	(8,085)
Purchase of trademarks		(38)	(563)
Proceeds from disposal of property, plant and equipment		—	40
Increase in long-term bank deposits		—	(7,762)
Purchase of investment properties		—	(4,000)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		84,392	(44,172)
FINANCING ACTIVITIES			
New bank loans raised		43,240	27,800
Repayments of bank borrowings		(116,158)	(38,642)
Interest paid		(6,085)	(7,775)
Repayments of obligations under finance leases		(348)	(485)
Proceeds from issue of new shares, net of expenses		—	153,211
Redemption of convertible loan notes		—	(16,000)
Dividends paid to minority shareholders		—	(16)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(79,351)	118,093
NET INCREASE IN CASH AND CASH EQUIVALENTS		128,541	64,766
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		108,008	43,102
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		76	140
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		236,625	108,008
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		236,625	108,793
Bank overdrafts		—	(785)
		236,625	108,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

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 dollar, which is the same as the functional currency of the Company.

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

In the current year, the Group has applied, for the first time, a number of new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The directors of the Company anticipate that the application of these new standards, amendment and interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

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

1 *Effective for annual periods beginning on or after 1 January 2007*
2 *Effective for annual periods beginning on or after 1 January 2009*
3 *Effective for annual periods beginning on or after 1 March 2006*
4 *Effective for annual periods beginning on or after 1 May 2006*
5 *Effective for annual periods beginning on or after 1 June 2006*
6 *Effective for annual periods beginning on or after 1 November 2006*
7 *Effective for annual periods beginning on or after 1 March 2007*
8 *Effective for annual periods beginning on or after 1 January 2008*

3. 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 Hong Kong Financial Reporting Standards 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 entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary 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 at the date of acquisition.

Previously capitalised goodwill arising on acquisitions of subsidiaries after 1 January 2001 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 acquisitions on or after 1 January 2005

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 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 consolidated balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (Continued)

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 consolidated 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.

Investments in associates

An associate is an entity in which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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 investment.

Any excess of the Group's 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 the consolidated income statement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated income statement 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 consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets 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 consolidated income statement in the year in which the item is derecognised.

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 accumulated impairment losses. Amortisation for trademarks with finite useful lives is provided on a straight-line basis over their estimated useful lives.

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 consolidated income statement when the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated income statement on a straight-line basis over the term of the relevant lease.

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 consolidated balance sheet as obligations under finance leases. 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 the consolidated income statement.

Rentals payable under operating leases are charged to consolidated income statement 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

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

Processing fee income is recognised when services are provided.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

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.

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

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 the consolidated income statement.

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 include financial assets held for trading. 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 consolidated income statement in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

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 receivables, debt portion of investments in unlisted notes, unlisted bank notes from financial institutions, amounts due from associates, long-term bank deposits, deposits paid for investments and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in consolidated income statement 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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, 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 (including conversion option right embedded in the convertible note) 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 the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

Financial liabilities are derecognised from the Group's balance sheet 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 paid or payable is recognised in consolidated income statement.

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 the balance sheet such embedded derivatives are presented together with the host contracts. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards.

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 the consolidated income statement 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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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 consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 the respective 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 consolidated income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in consolidated income statement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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.

Employee benefits

(i) Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

(ii) Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in consolidated income statement with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve/will be transferred to retained profits.

Borrowing costs

All borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, 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 or the risk associated with such cash flows is higher than expected, an additional impairment loss may arise. As at 31 March 2007, the carrying amount of goodwill is approximately HK$206,064,000. Details of the recoverable amount calculation are disclosed in note 17.

Estimated impairment of interests in associates

Determining whether interests in associates are impaired requires an estimation of the value in use of the associate. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the associate and a suitable discount rate in order to calculate the present value. As at 31 March 2007, an amount of HK$36,863,000 of investment cost in the associate was impaired and charged to consolidated income statement.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include investments held-for-trading, trade receivables, amounts due from associates, deposits paid for investments, bank balances and cash, 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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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 long-term bank deposits and investment in unlisted notes 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, the management will continue to monitor foreign currency exposure and will consider hedging significant foreign currency exposure should the need arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

5. FINANCIAL INSTRUMENTS (CONTINUED)

a. Financial risk management objectives and policies (Continued)

Credit risk

The Group's principal financial assets are amounts due from associates, long term bank deposits, trade receivables and bank balances and cash.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2007 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 has concentration of credit risk in the amounts due from associates of approximately HK$29,525,000. 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 and balance with each associate 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.

Although the long term bank deposits and bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

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.

Interest rate risk

The Group's long-term bank deposits, amounts due from associates and bank balances carry fixed or variable rates and the bank borrowings are variable-rate borrowings. Therefore, the Group is exposed to both fair value and cash flow interest rate risk respectively. The Group currently does not have specific interest rate hedging policy. However, the management monitors closely the interest rate change exposure and will consider hedging significant interest rate risk exposure should the need arises.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

5. FINANCIAL INSTRUMENTS (CONTINUED)

b. Fair value

The fair value of financial assets and liabilities is determined as follows:

- the fair value of financial assets and financial liabilities (excluding the conversion option right embedded in convertible note and investments held-for-trading) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

- the fair value of the conversion option right embedded in convertible note in note 22 is determined based on the Binomial Option Pricing Model.

- the fair value of the investments held-for-trading in note 26 is determined based on quoted bid prices in the active market.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. REVENUE

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

	2007 HK$'000	2006 HK$'000
Sales of goods	374,990	318,229
Management, advertising and promotion fees	4,457	4,724
Rental income generated from investment properties	1,819	1,803
	381,266	324,756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

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 Western pharmaceutical and health food products; (iii) production and sale of bottled birds' nest drinks and herbal essence 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 Western pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Property investments and property holding		Elimination		Total	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
REVENUE												
External sales	271,236	237,322	75,158	44,319	33,053	41,312	1,819	1,803	—	—	381,266	324,756
Inter segment sales*	3,577	2,406	31	257	21,938	10,136	4,096	1,715	(29,642)	(14,514)	—	—
	274,813	239,728	75,189	44,576	54,991	51,448	5,915	3,518	(29,642)	(14,514)	381,266	324,756
RESULTS												
Segment results, excluding impairment loss recognised in respect of goodwill	7,771	(31,245)	9,410	4,857	(1,004)	(4,404)	97,190	(3,249)			113,367	(34,041)
Impairment losses recognised in respect of goodwill	(37,843)	(40,095)	(11,715)	—	—	—	—	—			(49,558)	(40,095)
Segment results	(30,072)	(71,340)	(2,305)	4,857	(1,004)	(4,404)	97,190	(3,249)			63,809	(74,136)
Other income											17,649	7,493
Unallocated corporate expenses											(20,511)	(26,205)
Finance costs											(6,085)	(7,751)
Allowance for amount due from an associate											(6,389)	(5,000)
Share of results of associates											(705)	(1,793)
Impairment loss recognised in respect of an associate											(36,863)	—
Profit (loss) before taxation											10,905	(107,392)
Income tax (expense) credit											(982)	1,240
Profit (loss) for the year											9,923	(106,152)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (Continued)

Consolidated Balance Sheet

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of Western pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Property investments and property holding		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
ASSETS AND LIABILITIES										
ASSETS										
Segmental assets before goodwill	**252,820**	255,906	**33,993**	28,701	**17,127**	24,495	**—**	93,337	**303,940**	402,439
Goodwill	**92,612**	130,294	**109,102**	120,817	**4,350**	4,350	**—**	—	**206,064**	255,461
Segment assets	**345,432**	386,200	**143,095**	149,518	**21,477**	28,845	**—**	93,337	**510,004**	657,900
Interests in associates									**4,872**	11,127
Unallocated corporate assets									**278,035**	166,956
Consolidated total assets									**792,911**	835,983
LIABILITIES										
Segmental liabilities	**53,100**	32,926	**8,564**	11,074	**5,641**	7,157	**—**	1,220	**67,305**	52,377
Unallocated corporate liabilities									**67,908**	136,815
Consolidated total liabilities									**135,213**	189,192

	Production and sale of Chinese pharmaceutical and health food products		Production and sale of Western pharmaceutical and health food products		Production and sale of bottled birds' nest drinks and herbal essence products		Property investments and property holding		Total	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
OTHER INFORMATION										
Capital expenditure	**7,794**	8,514	**—**	58	**13**	713	**839**	4,099	**8,646**	13,384
Depreciation of property, plant and equipment	**13,531**	12,926	**363**	417	**726**	674	**1,307**	1,420	**15,927**	15,437
Amortisation of trademarks	**154**	84	**—**	—	**—**	—	**—**	—	**154**	84
Impairment loss recognised in respect of property, plant and equipment	**—**	11,762	**—**	—	**—**	—	**—**	—	**—**	11,762
(Reversal) recognition of allowance for trade and other receivables	**(2,474)**	599	**(4)**	—	**15**	820	**—**	—	**(2,463)**	1,419
Allowance (written back) for inventories	**479**	1,054	**(283)**	—	**1,178**	—	**—**	—	**1,374**	1,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

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:

	2007 HK$'000	2006 HK$'000
Hong Kong	284,270	249,400
The PRC, other than Hong Kong	53,567	26,918
Singapore	21,995	31,601
Others	21,434	16,837
	381,266	324,756

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	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Hong Kong	476,303	614,509	8,633	11,787
The PRC, other than Hong Kong	12,274	12,129	—	704
Singapore	16,350	29,989	13	713
Others	5,077	1,273	—	180
	510,004	657,900	8,646	13,384

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

8. OTHER INCOME

	2007 HK$'000	2006 HK$'000
Exchange gain	684	—
Fair value gain on investments held-for-trading	1,047	265
Franchise income	418	458
Gain on disposal of investments held-for-trading	5,244	548
Gain on recognition of derivative financial instruments	—	100
Interest income from loans to associates	68	472
Interest income on bank deposits	5,640	1,910
Interest income on investment in unlisted notes	250	—
Other interest income	44	78
Processing fee income	2,183	2,359
Sundry income	2,071	1,303
	17,649	7,493

9. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	3,361	4,920
Bank borrowings not wholly repayable within five years	2,689	2,467
Convertible loan stock	1	307
Finance leases	34	57
	6,085	7,751

位元堂

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

10. PROFIT (LOSS) BEFORE TAXATION

	2007 HK$'000	2006 HK$'000
Profit (loss) before taxation has been arrived at after charging (crediting):		
Staff costs		
— Directors' remuneration *(note 11(a))*	1,790	1,720
— Other staff costs	69,194	55,404
— Retirement benefit scheme contributions other than directors	3,508	2,746
Total staff costs	74,492	59,870
(Reversal) allowance for trade and other receivables	(2,463)	1,419
Allowance for obsolete stock	1,374	1,054
Amortisation of trademarks, included in administrative expenses	154	84
Auditors' remuneration	2,300	1,760
Depreciation of property, plant and equipment	15,927	15,437
Amortisation of prepaid lease payments	3,512	3,630
Management fee paid to a shareholder	996	972
Research and development expenses	1,009	135
Exchange loss	—	163
Gross rental income	(1,819)	(1,803)
Less: direct outgoing expenses	540	501
Sub-lease income	(90)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the six (2006: 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
2007							
Fees	—	—	140	140	140	140	560
Other emoluments:							
Salaries and other benefits	603	603	—	—	—	—	1,206
Retirement benefit scheme contributions	12	12	—	—	—	—	24
Total emoluments	615	615	140	140	140	140	1,790
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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one director (2006: one) was a director of the Company whose emoluments are set out in note 11(a) above. The emoluments of the remaining four (2006: four) individuals are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	5,382	3,846
Retirement benefit scheme contributions	71	57
	5,453	3,903

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments (Continued)

Their emoluments were within the following bands:

	2007 Number of employees	2006 Number of employees
Nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	—

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.

12. INCOME TAX EXPENSE (CREDIT)

	2007 HK$'000	2006 HK$'000
The charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax	**404**	292
Other jurisdictions	**201**	230
	605	522
Under (over) provision in prior years		
Hong Kong Profits Tax	**76**	(101)
Deferred taxation *(note 35)*		
Current year	**301**	(1,661)
	982	(1,240)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

12. INCOME TAX EXPENSE (CREDIT) (CONTINUED)

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

Singapore Income Tax is calculated at 18% (2006: 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 tax charge (credit) for the year can be reconciled to the profit (loss) before taxation per the income statement as follows:

	2007 HK$'000	2006 HK$'000
Profit (loss) before taxation	**10,905**	(107,392)
Tax at the domestic income tax rate of 17.5%	**1,908**	(18,794)
Tax effect of share of results of associates	**129**	313
Tax effect of expenses not deductible for tax purpose	**18,522**	15,988
Tax effect of income not taxable for tax purpose	**(19,450)**	(734)
Tax effect of tax losses not recognised	**2,747**	3,418
Under (over) provision in prior years	**76**	(101)
Utilisation of tax losses not recognised	**(1,071)**	(90)
Recognition of deferred tax assets in respect of tax losses previously not recognised	**(601)**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,232)**	(1,240)
Others	**(46)**	—
Tax charge (credit) for the year	**982**	(1,240)

Details of deferred taxation are set out in note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

13. EARNINGS (LOSS) PER SHARE

For the year ended 31 March 2007, the calculation of the basic and diluted earnings per share is based on the following data:

	2007 HK$'000	2006 HK$'000
Profit (loss) for the year attributable to the equity holders of the parent for the purpose of basic earnings per share	9,895	(98,370)

	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	1,396,347,688	816,344,166

The computation of diluted earnings per share for the year ended 31 March 2007 does not assume 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 nor the conversion of the outstanding convertible loan stock of the Company which would result in an increase in basic earnings per share.

For the year ended 31 March 2006, no diluted loss per share is presented as the conversion of the outstanding convertible loan stock of the Company 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 year ended 31 March 2006 had been retrospectively adjusted for the effect of the capital reorganisation approved by the shareholders of the Company on 8 June 2005 as detailed in note 36(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

14. INVESTMENT PROPERTIES

	HK$'000
VALUATION	
At 1 April 2005	41,200
Additions	4,000
Disposals	(36,100)
At 31 March 2006	9,100
Disposal	(9,100)
At 31 March 2007	—

At 31 March 2006, the investment properties 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 its investment properties to secure a banking facility granted to the Group at 31 March 2006. The pledged of assets were released upon the disposal of the properties during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

15. 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 2005	54,199	13,926	34,553	23,663	384	6,410	133,135
Exchange realignment	182	2	272	25	4	1	486
Additions	—	2,715	2,801	1,509	433	892	8,350
On acquisition of subsidiaries	—	443	—	28	—	—	471
Disposals	—	(51)	—	(6)	—	(35)	(92)
At 31 March 2006	54,381	17,035	37,626	25,219	821	7,268	142,350
Exchange realignment	—	49	261	96	80	30	516
Additions	—	4,849	210	2,085	—	846	7,990
On acquisition of a subsidiary	—	421	—	197	—	—	618
Disposal of a subsidiary	(41,500)	(1,946)	—	(638)	—	(21)	(44,105)
At 31 March 2007	12,881	20,408	38,097	26,959	901	8,123	107,369
DEPRECIATION AND IMPAIRMENT LOSSES							
At 1 April 2005	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
Exchange realignment	—	36	185	58	70	19	368
Provided for the year	998	6,110	4,084	3,303	191	1,241	15,927
Eliminated on disposal of a subsidiary	(2,654)	(624)	—	(283)	—	(10)	(3,571)
At 31 March 2007	6,931	15,128	21,892	20,037	572	5,580	70,140
CARRYING AMOUNT							
At 31 March 2007	5,950	5,280	16,205	6,922	329	2,543	37,229
At 31 March 2006	45,794	7,429	20,003	8,260	510	2,938	84,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using a 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 – $33\frac{1}{3}$%
Plant and machinery	10% – 20%
Furniture and equipment	20 – $33\frac{1}{3}$%
Motor vehicles	20%
Computer system	20 – $33\frac{1}{3}$%

The leasehold buildings at balance sheet date were situated in Hong Kong under medium term leases.

At 31 March 2007, the carrying amount of furniture and equipment includes an amount of approximately HK$211,000 (2006: HK$646,000) in respect of assets held under finance leases. The Group has pledged leasehold buildings with carrying amount of approximately HK$1,048,000 (2006: HK$40,758,000) to secure general banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments at balance sheet date represented leasehold land in Hong Kong under medium-term lease.

	2007 HK$'000	2006 HK$'000
Analysed for reporting purposes as:		
Non-current assets	97,503	140,721
Current assets	2,500	3,512
	100,003	144,233

The Group pledged certain prepaid lease payments to the bank to obtain general banking facilities. Details of pledge of assets are set out in note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

17. GOODWILL

	HK$'000
CARRYING AMOUNT	
At 1 April 2005	296,516
Adjustments to measurement of consideration for acquisitions	(1,055)
On acquisition of subsidiaries	95
Impairment loss recognised	(40,095)
At 31 March 2006	255,461
On acquisition of a subsidiary *(note 38)*	161
Impairment loss recognised	(49,558)
At 31 March 2007	206,064

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:

	2007 HK$'000	2006 HK$'000
Production and sale of:		
— Chinese pharmaceutical and health food products	92,612	130,294
— Western pharmaceutical and health food products	109,102	120,817
— Bottled birds' nest drinks and herbal essence products	4,350	4,350
	206,064	255,461

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

17. GOODWILL (CONTINUED)

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 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 cash flows beyond that five year periods have been extrapolated using a zero growth rate (2006: based on the estimated zero growth rate) for the production and sale of Chinese pharmaceutical and health food products, Western pharmaceutical and health food products and bottled birds' net drinks and herbal essence products.

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 products is 10.86%, 10.86% and 15%, respectively (2006: 11.51% to 15.61%, 12.25% and 14.04% for each of them).

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$49,558,000 (2006: HK$40,095,000) during the year.

18. INTERESTS IN ASSOCIATES

	2007 HK$'000	2006 HK$'000
Cost of investments in associates *(note a)*		
— Listed in Hong Kong *(note b)*	**1,682**	—
— Unlisted *(note c)*	**10,821**	10,821
Share of post-acquisition reserves, net of dividends received	**(7,631)**	(6,994)
	4,872	3,827
Market value of listed share	**24,600**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

18. INTERESTS IN ASSOCIATES (CONTINUED)

(a) Included in cost of investments in associates is an amount representing the goodwill arising on acquisition of associates. The movement of goodwill is set out below.

	HK$'000
COST	
At 1 April 2005 and 31 March 2006	15,202
Arising on acquisition during the year *(note i)*	36,863
At 31 March 2007	52,065
IMPAIRMENT	
At 1 April 2005 and 31 March 2006	(15,202)
Impairment loss recognised for the year	(36,863)
At 31 March 2007	(52,065)
CARRYING AMOUNT	
At 31 March 2007	—
At 31 March 2006	—

(i) The fair value of the goodwill as at 31 March 2007 is determined by the directors of the Group with reference to cash flow forecasts derived from the most recent financial budgets, the business operation and market condition of apparel products and together with the valuation performed by Sallmanns (Far East) Limited, a firm of independent valuers. In the opinion of directors, an impairment loss of approximately HK$36,863,000 has been charged to consolidated income statement during the year.

(b) On 27 January 2006, the Group entered into a share purchase agreement with Taco Holdings Limited ("Taco Holdings") pursuant to which the Group had conditionally agreed to purchase the 205,000,000 ordinary shares of LeRoi Holdings Limited ("LeRoi Holdings"), representing approximately 25.32% of the issued share capital in LeRoi Holdings for a total consideration of HK$37,500,000 from Taco Holdings. On 31 March 2006, HK$3,000,000 deposits was made (Balance as disclosed in note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

18. INTERESTS IN ASSOCIATES (CONTINUED)

On 3 January 2007, the acquisition of LeRoi Holdings was completed. Accordingly the deposit paid for investment of HK$3,000,000 was reclassified from deposits paid for investments to interests in associates. LeRoi Holdings was incorporated in Cayman Inlands with limited liability and its shares are listed on the Hong Kong Stock Exchange. LeRoi Holdings is an investment holding company and its principal activity of its subsidiaries is the trading of fashion apparels.

The summarised financial information have been extracted from the published financial information of LeRoi Holdings as below:

	31.3.2007 HK$'000
Total assets	80,182
Total liabilities	(78,015)
Net assets	2,167
The Group's share of net assets of associates	549

	4.1.2007 to 31.3.2007 HK$'000
Revenue	4,276
Loss for the period	(4,475)
The Group's share of results of associates for the period	(1,133)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

18. INTERESTS IN ASSOCIATES (CONTINUED)

(c) The summarised financial information in respect of the Group's principal unlisted associates is set out below:

	2007 HK$'000	2006 HK$'000
Total assets	**51,934**	51,992
Total liabilities	**(39,920)**	(40,668)
Net assets	**12,014**	11,324
The Group's share of net assets of associates	**4,323**	3,827
Revenue	**67,421**	68,639
Profit (loss) for the year	**1,046**	(3,668)
The Group's share of results of associates for the period	**428**	(1,793)

Details of the Group's principal associates at 31 March 2007 are set out in note 49.

19. AMOUNTS DUE FROM ASSOCIATES

	2007 HK$'000	2006 HK$'000
Amounts due from associates — after one year	**30,900**	12,300
Less: Impairment loss recognised	**(10,900)**	(5,000)
	20,000	7,300
Amounts due from associates — within one year	**10,014**	13,631
Less: Impairment loss recognised	**(489)**	—
	9,525	13,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

19. AMOUNTS DUE FROM ASSOCIATES (CONTINUED)

At 31 March 2007, the amounts due from associates are unsecured, interest-free and repayable on demand, except for an amount of approximately HK$31,825,000 (2006: HK$13,252,000) which carries interest at 4% to 6.5% (2006: 4% to 6.5%) per annum and is repayable from 31 March 2007 to 29 January 2010 (2006: repayable from 31 March 2006 to 16 August 2015).

20. TRADEMARKS

	HK$'000
COST	
At 1 April 2005	936
Addition during the year	563
At 31 March 2006	1,499
Addition during the year	38
At 31 March 2007	1,537
AMORTISATION	
At 1 April 2005	199
Provided for the year	84
At 31 March 2006	283
Provided for the year	154
At 31 March 2007	437
CARRYING AMOUNT	
At 31 March 2007	1,100
At 31 March 2006	1,216

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

21. LONG-TERM BANK DEPOSITS

	2007 HK$'000	2006 HK$'000
Deposits placed with financial institutions	**7,813**	7,762

The long-term bank deposits comprise:

Principal amount	**Maturity date**	**Effective interest rate**	**Carrying amount**	
			2007 HK$'000	2006 HK$'000
US$1,000,000 *(note)*	8 March 2016	9.35%	**7,813**	7,762

Note:

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

The bank has the call option to cancel the contract, 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.

22. INVESTMENTS IN UNLISTED NOTES

	2007 HK$'000	2006 HK$'000
The amount comprise of:		
— unlisted convertible note due from an associate *(note a)*	**3,055**	—
— unlisted bank notes from financial institutions *(note b)*	**5,875**	—
	8,930	—
Carrying amount analysed for reporting purposes as:		
Non-current	**6,956**	—
Current	**1,974**	—
	8,930	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

22. INVESTMENTS IN UNLISTED NOTES (CONTINUED)

Notes:

(a) The amounts represent the unlisted convertible note with principal amount of HK$3,000,000 issued by LeRoi Holdings ("LeRoi Note"). LeRoi Note bears interest at an contractual interest rate of 6.5% per annum and is due for redemption on 23 January 2010. The Group is entitled at any time after the date of issue of the LeRoi Note and up to the maturity date to convert the LeRoi Note into ordinary share of LeRoi Holdings at an initial conversion price of HK$0.2 per share (subject to adjustment). The effective interest rate for the year was 8.45%. The amount included the debt portion of investments in unlisted notes of HK$2,848,000 and the fair value of conversion option right embedded in convertible note of HK$207,000. The fair value of conversion option right embedded in convertible note is determined by the directors of the Group with reference to the valuation performed by Sallmanns (Far East) Limited, a firm of independent valuers.

(b) The amounts represent notes issued by financial institutions. Details of the term of the bank notes are as follows:

Notional amount	Maturity date	Effective interest rate
US$500,000	11 December 2008	5.125%
HK$2,000,000	8 June 2007	3.6%

23. DEPOSITS PAID FOR INVESTMENTS

	2007 HK$'000	2006 HK$'000
The amount comprises:		
— unlisted investment *(note a)*	9,378	11,704
— listed share *(note b)*	—	3,000
	9,378	14,704
Carrying amount anlaysed for reporting purposes as:		
Non-current	—	14,704
Current	9,378	—
	9,378	14,704

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

23. DEPOSITS PAID FOR INVESTMENTS (CONTINUED)

Notes:

(a) On 15 September 2005, the Group entered into a sale and purchase agreement (the "Acquisition Agreement") with an independent third party (the "Vendor") for the acquisition of an 8% equity interest in 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 conditional agreements. In accordance with the Acquisition Agreement, after payment of the first instalment, 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 31 March 2006, the Group shall contribute the outstanding HK$12,000,000 to the Vendor upon the fulfilment of certain conditions as stated in the Acquisition Agreement.

On 21 February 2007, the Group entered into a termination agreement with the Vendor for the termination of the Acquisition Agreement. Details of the termination are set out in the Company's announcement dated 23 February 2007.

During the year ended 31 March 2007, the Senox Group paid dividends amounting to RMB30,000,000 (2006: RMB4,000,000) and the Group was entitled to RMB2,400,000, approximately HK$2,371,000 (2006: RMB800,000, approximately HK$769,000).

(b) The amount was included in the interest in associates as the acquisition of LeRoi Holdings was completed as mentioned in note 18(b).

24. INVENTORIES

	2007	2006
	HK$'000	HK$'000
Raw materials and consumables	**26,339**	20,508
Work-in-progress	**3,021**	4,496
Finished goods	**37,699**	41,954
	67,059	66,958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

25. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	HK$'000
Trade receivables	**50,478**	47,766
Less: accumulated impairment	**(902)**	(3,830)
	49,576	43,936
Other receivables and prepayments	**19,770**	15,199
Total trade and other receivables	**69,346**	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:

	2007	2006
	HK$'000	HK$'000
0 – 30 days	**18,360**	15,216
31 – 60 days	**18,718**	8,221
61 – 120 days	**9,418**	17,755
Over 120 days	**3,080**	2,744
	49,576	43,936

26. INVESTMENTS HELD-FOR-TRADING

	2007	2006
	HK$'000	HK$'000
Listed equity securities at fair value:		
in Hong Kong	**10,674**	10,693
in overseas	**3,801**	3,798
	14,475	14,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 HK$'000	2006 HK$'000
Forward contracts	–	100

For the year ended 31 March 2006, the amount represented forward contracts of the equity accumulators of various listed securities in Hong Kong. All the equity accumulators were matured in February 2007.

28. PLEDGED DEPOSITS

As at 31 March 2006, the amount represented deposits pledged to financial institutions to secure derivative financial instruments acquired by the Group. Deposits amounting HK$42,703,000 were pledged to secure derivative financial instruments that would be settled in the next twelve months and were therefore classified as current assets.

The deposits carried fixed interest rate of 3.51% and 4.03% on 31 March 2006. The pledged deposits were released upon the termination of the contract of derivative financial instruments.

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 2.25% to 5.17% (2006: 0.01% to 3.9%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

30. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$40,724,000 (2006: HK$26,933,000) and their aged analysis is as follows:

	2007 HK$'000	2006 HK$'000
0 – 30 days	18,816	12,722
31 – 60 days	13,709	7,606
61 – 120 days	5,576	4,205
Over 120 days	2,623	2,400
	40,724	26,933
Other payables	32,504	26,569
	73,228	53,502

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

31. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**34**	305	**29**	270
More than one year, but not exceeding two years	**25**	79	**22**	71
More than two years, but not exceeding three years	**—**	29	**—**	25
More than three years, but not exceeding four years	**—**	10	**—**	8
	59	423	**51**	374
Less: Future finance charges	**(8)**	(49)	**—**	—
Present value of lease obligations	**51**	374	**51**	374
Less: Amount due within one year shown under current liabilities			**(29)**	(270)
Amount due after one year			**22**	104

The average lease term is three years. For the year ended 31 March 2007, the average effective borrowing rate ranges from 5.4% to 10.9% per annum (2006: 5.4% to 10.9%). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

32. BANK BORROWINGS

	2007 HK$'000	2006 HK$'000
Bank borrowings	59,223	131,901
Bank overdrafts	–	785
	59,223	132,686
Analysed as:		
Secured	53,250	77,091
Unsecured	5,973	55,595
	59,223	132,686
The above bank borrowings and bank overdrafts are repayable as follows:		
On demand or within one year	15,368	38,323
More than one year, but not exceeding two years	10,105	20,887
More than two years, but not exceeding five years	15,850	44,534
More than five years	17,900	28,942
	59,223	132,686
Less: Amount due within one year shown under current liabilities	(15,368)	(38,323)
Amount due after one year	43,855	94,363

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

	2007	2006
Effective interest rate:		
Variable-rate borrowings	4.97% – 8.25%	1.983% – 8%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

32. BANK BORROWINGS (CONTINUED)

During the year, the Group obtained new loans in an amount of approximately HK$43.2 million (2006: HK$27.8 million). These loans carry interest at 5.08% to 8.25% per annum (2006: 3.00% to 5.51% 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.

33. DEFERRED FRANCHISE INCOME

	2007	2006
	HK$'000	HK$'000
At beginning of the year	**252**	391
Additions during the year	**390**	319
Recognised during the year	**(419)**	(458)
At end of the year	**223**	252
Less: Amount due within one year shown under current liabilities	**(223)**	(234)
	–	18

34. CONVERTIBLE LOAN STOCK

	2007	2006
	HK$'000	HK$'000
£590 (2006: £590) 9.5% unsecured convertible loan stock	**8**	6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

35. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Revaluation of investment properties HK$'000	Allowance for bad and doubtful debt HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April 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
(Credit) charge to the income statement for the year	(862)	(148)	417	894	301
Exchange adjustment	5	—	—	—	5
At 31 March 2007	2,694	—	(108)	(589)	1,997

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007 HK$'000	2006 HK$'000
Deferred tax assets	(57)	(341)
Deferred tax liabilities	2,054	2,032
	1,997	1,691

At the balance sheet date, the Group had unused tax losses of approximately HK$96,749,000 (2006: HK$108,000,000) available to offset against future profits, of which HK$88,959,000 (2006: HK$90,949,000) are subject to the confirmation from Hong Kong Inland Revenue Department. A deferred tax asset has been recognised in respect of HK$3,363,000 (2006: HK$8,474,000) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

36. SHARE CAPITAL

	Number of shares	Amount HK$'000
Authorised:		
At 31 March 2006 and 31 March 2007, ordinary shares of HK$0.01 each	60,000,000,000	600,000
Issued and fully paid:		
At 1 April 2005, ordinary share of HK$0.01 each	3,490,869,225	34,909
Consolidation of shares *(note a)*	(3,141,782,303)	—
Adjustment to nominal value *(note a)*	—	(31,418)
Right issues *(note b)*	1,047,260,766	10,473
At 31 March 2006 and 31 March 2007, 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 for the year ended 31 March 2006 rank pari passu with the then existing ordinary shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

37. SHARE OPTION SCHEME

2004 Scheme

On 18 September 2003, the Company adopted a 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 scheme 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 10% 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 disclose movement in the 2004 Scheme during the year ended 31 March 2007.

			Number of options		
Date of grant	**Exercise price per share**	**Exercisable period**	**Outstanding at 1.4.2005 and 31.3.2006**	**Granted during the year**	**Outstanding at 31.3.2007**
	HK$				
Employees					
3.1.2007	0.415	2.1.2008 to 1.1.2012	—	4,120,000	4,120,000

For the year ended 31 March 2007, no share options were exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

37. SHARE OPTION SCHEME (CONTINUED)

2004 Scheme (Continued)

The options granted under the 2004 Scheme vest as follows:

On 2nd anniversary of the date of grant	30% vest
On 3rd anniversary of the date of grant	Further 30% vest
On 4th anniversary of the date of grant	Remaining 40% vest

The options will be expired upon the day before of 5th anniversary of the date of grant.

During the year ended 31 March 2007, 4,120,000 units of share options were granted on 3 January 2007. The estimated fair values of the options granted are HK$710,000.

These fair values were calculated by using the binomial model. The inputs into the model were as follows:

Grant date	3 January 2007
Share Price	HK$0.39
Exercise price	HK$0.415
Expected volatility	70%
Risk-free rate	3.56% to 3.7%
Expected dividend yield	0%
Sub optimal early exercise factor	1.5 times
Total option life	5 years

Expected volatility was determined by using the historical volatility of the price return of the shares of the Company and comparable listed companies over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group and the Company recognised the total expense of approximately HK$52,000 for the year ended 31 March 2007 in relation to share options granted by the Company.

38. ACQUISITION OF A SUBSIDIARY

In July 2006, a wholly-owned subsidiary of the Company acquired an additional 50% of the issued share capital of Superfine Limited ("Superfine") for a consideration of HK$1. Superfine became a wholly-owned subsidiary afterward. Superfine engages in retailing of Chinese pharmaceutical products. This acquisition has been accounted for using the purchase method. The amount of goodwill arising from the acquisition was HK$161,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

38. ACQUISITION OF A SUBSIDIARY (CONTINUED)

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year ended 31 March 2007 have no significant differences from their respective carrying amount. The effect of the acquisition is summarised as follows:

	2007 HK$'000	2006 HK$'000
Net assets acquired:		
Property, plant and equipment	618	471
Inventories	1,215	1,995
Trade and other receivables	112	718
Bank and cash balances	10	298
Trade and other payables	(2,116)	(3,132)
	(161)	350
Less: Interests acquired in previous acquisition:		
— net assets of associate	–	(70)
	(161)	280
Goodwill arising on acquisition	161	95
	–	375
Satisfied by:		
Cash consideration paid	–	375
Net inflow (outflow) arising on acquisition:		
Cash consideration paid	–	(375)
Cash and cash equivalents acquired	10	298
	10	(77)

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 subsidiary acquired during the year ended 31 March 2007 contributed approximately HK$2,904,000 (2006: HK$5,801,000) to the Group's revenue and a loss of approximately HK$126,000 (2006: a profit of approximately HK$44,000) to the Group's profit before taxation for the period between the date of acquisition and 31 March 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

38. ACQUISITION OF A SUBSIDIARY (CONTINUED)

If the acquisition had been completed on 1 April 2006, the total Group revenue for the period would have been approximately HK$381,847,000 and profit for the year would have been approximately HK$9,762,000. This proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that would actually have been achieved had the acquisitions been completed on 1 April 2006, nor is it intended to be a projection of future results.

39. DISPOSAL OF A SUBSIDIARY

On 27 March 2007, the Group disposed of its entire interest in Conful Limited ("Conful"). The major asset of Conful was Wai Yuen Tong Medicine Building ("WYT Building"). The Group has a leaseback arrangement for the WYT Building for ten years. Prior to the completion of the disposal and leaseback of WYT Building, a majority portion of the property was occupied by the group companies of the Company for operating use. Details of the disposal are set out in the circular dated 5 March 2007 and the details of the sales and leaseback arrangement are disclosed in note 44.

The net assets of Conful at the date of disposal were as follows:

	2007 HK$'000	2006 HK$'000
Net assets disposal of:		
Property, plant and equipment	40,534	—
Prepaid lease payments	40,718	—
Other payables	(84,609)	—
Tax payable	(200)	—
	(3,557)	—
Gain on disposal	100,618	—
Deferred income *(note)*	3,000	—
Total consideration	100,061	—
Satisfied by:		
Net inflow arising on disposal:		
Net cash consideration received	100,061	—

Note:

The deferred income represented the sales proceeds of Conful over the fair value of net assets disposed. The amount will be amortised over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2007, there are no 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 Health Food Pte Limited in the event that the aggregate profit after tax as defined in the Sale and purchase agreement is not more than S$800,000. The amount is not yet received and recognised as other receivable at the balance sheet date.

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$3,508,000 (2006: HK$2,746,000) charged to consolidated income statement represents contributions payable to these schemes by the Group in respect of the current accounting year. As at 31 March 2007, contributions of approximately HK$259,000 (2006: HK$250,000) due in respect of the reporting period had not been paid over to the schemes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

42. PLEDGE OF ASSETS

	2007 HK$'000	2006 HK$'000
Prepaid lease payments	98,952	143,156
Buildings	1,048	40,758
Investment properties	—	9,100
Bank deposits	—	42,703
	100,000	235,717

43. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'000
At the balance sheet date, the Group had contracted for but not provided in the financial statements in respect of acquisition of:		
— property, plant and equipment	1,324	2,990
— unlisted investment	—	12,000
— listed shares	—	34,500
	1,324	49,490

44 OPERATING LEASES

The Group as lessee:

The Group made minimum lease payments of approximately HK$31,435,000 (2006: HK$22,440,000) under operating leases during the year in respect of its office properties and retail shops.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

44 OPERATING LEASES (CONTINUED)

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

	2007 HK$'000	2006 HK$'000
Within one year	**40,519**	27,930
In the second to fifth years inclusive	**69,100**	10,638
Over five years	**65,800**	—
	175,419	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 one to ten years. Certain lease rentals are based on turnover of the relevant retail shops. The contingent rent paid for the year is approximately HK$63,000 (2006: HK$10,000).

As mentioned in note 39, the Group disposed of its property during the year and entered a sale and leaseback agreement with an independent third party. This sale and leaseback arrangement is classified as an operating lease.

The Group as lessor:

Property rental income and sub-lease income earned during the year were approximately HK$1,819,000 and HK$90,000 respectively (2006: HK$1,803,000 and Nil).

At 31 March 2007, the Group had contracted with tenants for future minimum lease payments due within one year of approximately HK$4,377,000 (2006: HK$405,000).

45. POST BALANCE SHEET EVENT

On 11 June 2007, the Company and Kingston Securities Limited ("Kingston") entered into a share placing agreement pursuant to which the Company has conditionally agreed to place, through Kingston on a fully underwritten basis, 279,000,000 shares ("Placing Share") to independent investors at a price of HK$0.46 per Placing Share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

45. POST BALANCE SHEET EVENT (CONTINUED)

In addition, the Company and Kingston also entered into a convertible note placing agreement pursuant to which Kingston agreed to place, on a fully underwritten basis, up to an aggregate principal amount of HK$250,000,000 convertible note which is exercisable and convertible into 431,034,482 shares of the Company at a conversion price of HK$0.58 per conversion share.

Details of the placement of share and convertible note were set out in the announcement dated 11 June 2007.

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:

Nature of related party	**Transactions**	**2007 HK$'000**	2006 HK$'000
(i) Substantial shareholder and its subsidiaries which exercise significant influence	Interest on convertible notes paid by the Group	**–**	330
	Management fee paid by the Group	**996**	972
	Rental paid by the Group	**134**	267
	Rental received by the Group	**1,845**	1,803
(ii) Associates	Sales of Chinese pharmaceutical products by the Group	**29,053**	32,903
	Subcontracting fee paid by the Group	**–**	115
	Management, advertising and promotion fees received by the Group	**2,459**	2,583
	Facilities granted by the Group	**45,000**	10,000
	Interest income received by the Group	**68**	472

In January 2007, the Group entered into the loan agreement with LeRoi Holdings in which, the Group granted LeRoi Holdings with an unsecured loan facility with a limit up to HK$35,000,000. The loan is interest bearing at 6.5% per annum. At the balance sheet date, an amount of HK$20,000,000 was advanced from the Group to LeRoi Holdings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

46. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

(iii) Compensation of key management personnel

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

	2007 HK$'000	2006 HK$'000
Short-term benefits	1,766	1,696
Post-employment benefits	24	24
	1,790	1,720

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 19.

47. PROFIT (LOSS) OF THE COMPANY FOR THE YEAR

The profit of the Company for the year ended 31 March 2007 amounting to HK$6,394,000 (2006: loss of HK$91,993,000) has been dealt with in the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

48. PRINCIPAL SUBSIDIARIES

Details of the Group's principal subsidiaries at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share registered capital	Proportion of issued share/ registered capital held by the Company Directly	Indirectly	Principal activity
Asia Brighter Investment Limited	Hong Kong	HK$2 Ordinary share	—	100%	Property investment
Billion Good Investment Limited	Hong Kong	HK$2 Ordinary share	—	100%	Property holding
Bright Leading Limited	Hong Kong	HK$2 Ordinary share	—	100%	Investment holding
CNT Health Food Pte Limited	Singapore	Singapore $1,610,000 Ordinary share	—	100%	Production and sales of Chinese health food
Global Winner Holdings Limited	Hong Kong	HK$360,000 Ordinary share	—	99.79%	Retailing of Chinese pharmaceutical products
Luxembourg Medicine Company Limited	Hong Kong	HK$434,747 Ordinary share	—	99.79%	Production and sale of Western pharmaceutical and health food products
Source Millennium Limited	British Virgin Islands	USD1 Ordinary share	—	100%	Investment holding
Total Smart Investments Limited	British Virgin Islands	USD1 Ordinary share	100%	—	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

48. PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share registered capital	Proportion of issued share/ registered capital held by the Company Directly	Proportion of issued share/ registered capital held by the Company Indirectly	Principal activity
Wai Yuen Tong (Retail) Limited	Hong Kong	HK$2 Ordinary share	—	99.79%	Retailing and sale of Chinese pharmaceutical and health food products
Wai Yuen Tong Medicine Company Limited ("WYT Medicine Company")	Hong Kong	HK$217,374 Ordinary share HK$17,373,750 non-voting deferred *	—	99.79%	Production and trading of Chinese pharmaceutical and health food products

* *The non-voting deferred shares carry no voting rights or rights to dividends. On the winding-up of the WYT Medicine 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 for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive lengths.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

49. PARTICULARS OF ASSOCIATES

Details of the Group's principal associates at 31 March 2007 are as follows:

Name of associate	Form of business structure	Place of incorporation/ operation	Class of shares held	Attributable proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
China Field Enterprises Limited	Incorporated	Hong Kong	Ordinary	49%	Investment holding
Chinese Leading Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Creation Sino Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Fortune Way Trading Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Hunan Xiangya Pharmaceutical Co., Ltd.	Incorporated	PRC	N/A	39.2%	Production of Chinese pharmaceutical products
LeRoi Holdings Limited*	Incorporated	Cayman Islands	Ordinary	25.32%	Investment holding and trading of fashion apparels
Longly Richly Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2007

49. PARTICULARS OF ASSOCIATES (CONTINUED)

Name of associate	Form of business structure	Place of incorporation/ operation	Class of shares held	Attributable proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
Lucky Planning Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Winning Forever Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products
Venko Limited	Incorporated	Hong Kong	Ordinary	50%	Retailing of Chinese pharmaceutical products

* *Listed on The Stock Exchange of Hong Kong Limited*

FIVE YEAR FINANCIAL SUMMARY

For the year ended 31 March 2007

RESULTS

	Year ended 31 March				
	2003 HK$'000	2004 HK$'000 *(note)*	2005 HK$'000 *(note)*	2006 HK$'000	**2007** **HK$'000**
Revenue	259,824	349,225	326,909	324,756	**381,266**
(Loss) profit before taxation	(26,615)	(30,652)	(62,639)	(107,392)	**10,905**
Income tax (expense) credit	(2,302)	(1,738)	(5,571)	1,240	**(982)**
(Loss) profit for the year	(28,917)	(32,390)	(68,210)	(106,152)	**9,923**
Attributable to:					
Equity holders of the Company	(28,946)	(32,410)	(67,958)	(98,370)	**9,895**
Minority interests	29	20	(252)	(7,782)	**28**
	(28,917)	(32,390)	(68,210)	(106,152)	**9,923**

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 March				
	2003 HK$'000	2004 HK$'000 *(note)*	2005 HK$'000 *(note)*	2006 HK$'000	**2007** **HK$'000**
Total assets	319,685	469,356	828,155	835,983	**792,911**
Total liabilities	(233,557)	(106,855)	(226,821)	(189,192)	**(135,213)**
	(86,128)	362,501	601,334	646,791	**657,698**
Equity attributable to equity holders of the Company	(86,128)	362,595	593,457	646,712	**657,591**
Minority interests	—	(94)	7,877	79	**107**
	(86,128)	362,501	601,334	646,791	**657,698**

Note: The summary of the results, assets and liabilities of the Group for the years ended 31 March 2004 and 2005 have been restated as a result of application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. Financial information for earlier years have not been adjusted to take into account the effect on the adoption of these new and revised HKFRSs as the directors considered that it is not practicable to do so.