



雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0455)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2007

The board of directors (the “Directors”) of Yunnan Enterprises Holdings Limited (the “Company”) announce the audited consolidated income statement of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2007 and the audited consolidated balance sheet of the Group as at 31 March 2007, together with comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	NOTES	2007 HK\$	2006 HK\$
Continuing operations			
Revenue	4	19,970,014	15,207,865
Cost of sales		(8,379,793)	(5,563,868)
Gross profit		11,590,221	9,643,997
Other income		2,637,417	2,291,479
Distribution costs		(654,754)	(371,582)
Administrative expenses		(13,707,521)	(10,854,275)
Impairment loss on investment in an investee company	11	(22,480,000)	–
Gain arising from change in fair value of an investment property		1,800,000	4,600,000
Share of results of associates		(16,196,039)	1,805,102
(Loss) profit before tax	5	(37,010,676)	7,114,721
Income tax expense	6	(56,480)	(52,328)
(Loss) profit for the year from continuing operations		(37,067,156)	7,062,393
Discontinued operations			
Loss for the year from discontinued operations	7	–	(579,047)
(Loss) profit for the year		(37,067,156)	6,483,346

	<i>NOTES</i>	2007 <i>HK\$</i>	2006 <i>HK\$</i>
(Loss) profit attributable to:			
Equity holders of the Company		(39,811,376)	4,355,300
Minority interests		<u>2,744,220</u>	<u>2,128,046</u>
		<u>(37,067,156)</u>	<u>6,483,346</u>
		<i>HK cent</i>	<i>HK cent</i>
Basic (loss) earnings per share	8		
From continuing and discontinued operations		<u>(7.86)</u>	<u>0.86</u>
From continuing operations		<u>(7.86)</u>	<u>0.97</u>

CONSOLIDATED BALANCE SHEET

As at 31 March 2007

		2007	2006
	NOTES	HK\$	HK\$
NON-CURRENT ASSETS			
Investment property	9	17,400,000	15,600,000
Property, plant and equipment		24,755,418	20,898,469
Prepaid lease payments		3,640,439	3,532,837
Goodwill		5,250,359	5,107,576
Intangible assets		–	1,413,178
Interests in associates	10	42,472,664	56,850,656
Investment in an investee company	11	32,725,141	55,205,141
Deposit paid for the acquisition of plant and equipment		–	746,154
		126,244,021	159,354,011
CURRENT ASSETS			
Inventories		1,742,685	2,267,663
Loan to ultimate holding company		350,000	–
Loan to an investee company		49,583	728,806
Trade and other receivables	12	7,657,579	7,530,258
Prepaid lease payments		79,570	78,648
Tax recoverable		84,747	188,445
Bank deposits		57,596,225	43,151,728
Bank balances and cash		8,545,892	20,318,641
		76,106,281	74,264,189

		2007	2006
	NOTES	HK\$	HK\$
CURRENT LIABILITIES			
Trade and other payables	13	4,183,300	3,668,969
Government grants – current portion		400,135	211,538
Deposit received		303,515	961,538
Amount due to an associate		809,904	787,880
Tax payable		6,633	6,789
		<hr/>	<hr/>
		5,703,487	5,636,714
		<hr/>	<hr/>
NET CURRENT ASSETS		70,402,794	68,627,475
		<hr/>	<hr/>
Total assets less current liabilities		196,646,815	227,981,486
NON-CURRENT LIABILITY			
Government grants – non-current portion		2,536,882	1,903,847
		<hr/>	<hr/>
		194,109,933	226,077,639
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital		50,685,395	50,685,395
Reserves		126,169,803	161,666,397
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		176,855,198	212,351,792
Minority interests		17,254,735	13,725,847
		<hr/>	<hr/>
		194,109,933	226,077,639
		<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company and parent company is South Hong Investment Limited, a private limited company incorporated in Hong Kong.

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standards, amendments 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 years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the 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 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ⁶
HK(IFRIC) – INT 12	Service Concession Arrangements ⁷

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 May 2006*

⁴ *Effective for annual periods beginning on or after 1 June 2006*

⁵ *Effective for annual periods beginning on or after 1 November 2006*

⁶ *Effective for annual periods beginning on or after 1 March 2007*

⁷ *Effective for annual periods beginning on or after 1 January 2008*

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for the investment property, which is measured at fair value. 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 on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

4. SEGMENT INFORMATION

(a) Business segments

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

For management purposes, the Group is currently organised into three (2006: five) operating divisions – sales of pharmaceutical products, property rental and investment holding for dividend income. On 1 April 2006, the Group discontinued the business segments in respect of the provision of agency services and consultancy services, as there were no operations in these business segments over the past few years. The discontinuance has no material effect on the current year's results and financial position of the Group. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 March 2007

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products HK\$	Property rental HK\$	Investment holding HK\$	Others HK\$	Total HK\$	Agency services HK\$	Consultancy services HK\$	Total HK\$	Consolidated HK\$
REVENUE – EXTERNAL	<u>17,644,534</u>	<u>530,707</u>	<u>1,794,773</u>	<u>–</u>	<u>19,970,014</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>19,970,014</u>
SEGMENT RESULTS	<u>2,224,402</u>	<u>888,523</u>	<u>(22,073,414)</u>	<u>–</u>	<u>(18,960,489)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(18,960,489)</u>
Other income	145,284			2,492,133	2,637,417				2,637,417
Unallocated corporate expenses					(4,491,565)				(4,491,565)
Share of results of associates	(17,148,852)	–	–	952,813	(16,196,039)	–	–	–	(16,196,039)
Loss before tax					(37,010,676)				(37,010,676)
Income tax expense					(56,480)				(56,480)
Loss for the year					<u>(37,067,156)</u>				<u>(37,067,156)</u>

BALANCE SHEET

At 31 March 2007

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products HK\$	Property rental HK\$	Investment holding HK\$	Others HK\$	Total HK\$	Agency services HK\$	Consultancy services HK\$	Total HK\$	Consolidated HK\$
ASSETS									
Segment assets	49,214,516	17,809,682	35,737,024	–	102,761,222	–	–	–	102,761,222
Interests in associates	30,491,927	–	–	11,980,737	42,472,664	–	–	–	42,472,664
Unallocated corporate assets					57,116,416				57,116,416
Consolidated total assets					<u>202,350,302</u>				<u>202,350,302</u>
LIABILITIES									
Segment liabilities	648,163	182,828	33,000	–	6,696,991	–	–	–	6,696,991
Unallocated corporate liabilities					1,543,378				1,543,378
Consolidated total liabilities					<u>8,240,369</u>				<u>8,240,369</u>

OTHER INFORMATION

Year ended 31 March 2007

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products	Property rental	Investment holding	Others	Total	Agency services	Consultancy services	Total	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Capital additions	4,464,273	958,410	438,265	4,300	5,865,248	–	–	–	5,865,248
Gain arising from change in fair value of an investment property	–	(1,800,000)	–	–	(1,800,000)	–	–	–	(1,800,000)
Depreciation of property, plant and equipment	2,475,450	293,536	109,254	4,879	2,883,119	–	–	–	2,883,119
Amortisation of intangible assets	59,099	–	–	–	59,099	–	–	–	59,099
Amortisation of prepaid lease payments	77,467	–	–	–	77,467	–	–	–	77,467
Impairment loss on intangible assets	1,426,224	–	–	–	1,426,224	–	–	–	1,426,224
Impairment loss on investment in an investee company	–	–	22,480,000	–	22,480,000	–	–	–	22,480,000
Impairment loss on loan to an investee company	–	–	717,255	–	717,255	–	–	–	717,255
Loss on write off of property, plant and equipment	32,278	–	–	2,862	35,140	–	–	–	35,140
Write-down of inventories	104,497	–	–	–	104,497	–	–	–	104,497

Year ended 31 March 2006

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products	Property rental	Investment holding	Others	Total	Agency services	Consultancy services	Total	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$ (restated)
REVENUE – EXTERNAL	13,241,280	459,151	1,507,434	–	15,207,865	–	–	–	15,207,865
SEGMENT RESULTS	2,872,546	3,837,381	643,484	–	7,353,411	(472,372)	(106,675)	(579,047)	6,774,364
Other income					2,291,479			–	2,241,479
Unallocated corporate expenses					(4,335,271)			–	(4,335,271)
Share of results of associates	982,083	–	–	823,019	1,805,102	–	–	–	1,805,102
Profit before tax					7,114,721			(579,047)	6,535,674
Income tax expense					(52,328)			–	(52,328)
Profit for the year					7,062,393			(579,047)	6,483,346

BALANCE SHEET

At 31 March 2006

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products HK\$	Property rental HK\$	Investment holding HK\$	Others HK\$	Total HK\$	Agency services HK\$	Consultancy services HK\$	Total HK\$	Consolidated HK\$
ASSETS									
Segment assets	43,679,207	16,013,400	57,778,644	–	117,471,251	2,861	13,239,247	13,242,108	130,713,359
Interests in associates	45,722,047	–	–	11,128,609	56,850,656	–	–	–	56,850,656
Unallocated corporate assets					46,054,185			–	46,054,185
					<u>220,376,092</u>			<u>13,242,108</u>	<u>233,618,200</u>
Consolidated total assets					<u>220,376,092</u>			<u>13,242,108</u>	<u>233,618,200</u>
LIABILITIES									
Segment liabilities	5,793,830	136,254	33,000	–	5,963,084	9,000	32,844	41,844	6,004,928
Unallocated corporate liabilities					1,535,633			–	1,535,633
					<u>7,498,717</u>			<u>41,844</u>	<u>7,540,561</u>
Consolidated total liabilities					<u>7,498,717</u>			<u>41,844</u>	<u>7,540,561</u>

OTHER INFORMATION

Year ended 31 March 2006

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products HK\$	Property rental HK\$	Investment holding HK\$	Others HK\$	Total HK\$	Agency services HK\$	Consultancy services HK\$	Total HK\$	Consolidated HK\$
Capital additions	866,048	–	–	–	866,048	–	–	–	866,048
Gain arising from change in fair value of an investment property	–	(4,600,000)	–	–	(4,600,000)	–	–	–	(4,600,000)
Depreciation of property, plant and equipment	1,720,413	54,616	9,351	332,587	2,116,967	–	5,276	5,276	2,122,243
Amortisation of intangible assets	86,373	–	–	–	86,373	–	–	–	86,373
Amortisation of prepaid lease payments	75,269	–	–	–	75,269	–	–	–	75,269
Loss on disposals of property, plant and equipment	3,393	–	–	–	3,393	–	–	–	3,393

(b) Geographical segments

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

5. (LOSS) PROFIT BEFORE TAX

	2007 HK\$	2006 HK\$
(Loss) profit before tax has been arrived at after charging:		
Staff costs, including directors' emoluments		
Salaries and other benefits	3,877,422	4,735,497
Retirement benefits scheme contributions	146,000	162,348
Total staff costs	4,023,422	4,897,845
Amortisation of intangible assets (included in cost of sales)	59,099	86,373
Amortisation of prepaid lease payments	77,467	75,269
Auditors' remuneration	620,458	577,620
Cost of inventories recognised as expense	6,789,973	5,477,495
Depreciation of property, plant and equipment	2,883,119	2,122,243
Impairment loss on intangible assets (included in cost of sales)	1,426,224	–
Impairment loss on loan to an investee company (included in administrative expenses)	717,255	–
Loss on disposal of an associate	–	266,381
Loss on write off/disposals of property, plant and equipment	35,140	3,393
Net foreign exchange losses	–	24,779
Research and development costs	1,057,261	235,976
Less: Government grants received	(491,997)	–
Net research and development costs	565,264	235,976
Share of tax of an associate (included in share of results of associates)	49,007	–
Write-down of inventories (included in cost of sales)	104,497	–
and after crediting:		
Dividend income from investment in an investee company	1,794,773	1,507,434
Gross rental income from an investment property		
less negligible outgoings	530,707	459,151
Net foreign exchange gain	63,059	–

6. INCOME TAX EXPENSE

2007	2006
HK\$	HK\$

The income tax expense comprises:

Current tax

PRC enterprise income tax	<u>56,480</u>	<u>52,328</u>
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No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for both years presented.

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

On 16 March 2007, the Enterprise Income Tax Law of the PRC (the "New Law") was approved by the National People's Congress and promulgated by Order No. 63 of the President of the PRC. The New Law will be effective on 1 January 2008 and will apply to the Group's PRC subsidiaries.

7. DISCONTINUED OPERATIONS

On 1 April 2006, the Group discontinued the business segments for the provision of agency services and consultancy services, as there were no operations in these business segments over the past few years.

The results of the business segments for provision of agency services and consultancy services are as follows:

2007	2006
HK\$	HK\$

Administrative expenses	<u>—</u>	<u>(579,047)</u>
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Loss for the year	<u>—</u>	<u>(579,047)</u>
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During the year ended 31 March 2007, the business segments for the provision of agency services and consultancy services have no material contributions to the Group's cash flows. During the year ended 31 March 2006, the business segments for the provision of agency services and consultancy services incurred HK\$579,047 in respect of the Group's net operating cash flows.

8. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

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

	2007 HK\$	2006 HK\$
(Loss) earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share	<u>(39,811,376)</u>	<u>4,355,300</u>
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earning per share	<u>506,853,952</u>	<u>506,853,952</u>

For continuing operations

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

	2007 HK\$	2006 HK\$
(Loss) earnings		
(Loss) profit for the year attributable to equity holders of the Company	(39,811,376)	4,355,300
Add: loss for the year from discontinued operations	<u>–</u>	<u>579,047</u>
(Loss) earnings for the purpose of basic (loss) earnings per share from continuing operations	<u>(39,811,376)</u>	<u>4,934,347</u>
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earning per share	<u>506,853,952</u>	<u>506,853,952</u>

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

9. INVESTMENT PROPERTY

HK\$

Fair value

At 1 April 2005	11,000,000
Increase in fair value recognised in the income statement	4,600,000
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At 31 March 2006	15,600,000
Increase in fair value recognised in the income statement	1,800,000
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At 31 March 2007	17,400,000
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Investment property of the Group are property interests held under long term lease in Hong Kong for the purposes of earning rentals and are measured using the fair value model.

The fair value of the Group's investment property at 31 March 2007 have been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected with the Group. LCH (Asia-Pacific) Surveyors Limited has among its staff members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Valuation Standards on Properties of Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

10. INTERESTS IN ASSOCIATES

	2007	2006
	HK\$	HK\$
Cost of unlisted investment in associates	52,246,744	52,246,744
Share of post-acquisition (loss) profits, net of dividends received	(13,320,361)	3,582,377
Exchange realignment	3,546,281	1,021,535
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	42,472,664	56,850,656
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11. INVESTMENT IN AN INVESTEE COMPANY

The investment in an investee company at 31 March 2007 is accounted for as an available-for-sale investment which represents the Group's 18.75% equity interest in the registered capital of 玉溪環球彩印紙盒有限公司 (Yuxi Globe Colour Printing Carton Co., Ltd.) ("Yuxi Globe"), an unlisted company registered in the PRC engaged in the business of printing and sale of cigarette packaging packs and boxes. This investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

During the year ended 31 March 2007, management of the Group performed a review of the recoverable amount of the investment in Yuxi Globe and recognised an impairment loss of HK\$22,480,000 in the consolidated income statement as a consequence of decreasing demand and falling market share.

The recoverable amount of the investment in Yuxi Globe has been determined based on expected dividend income covering a nineteen-year period which is the estimated project life of the investment, using a discount rate of 7.35%.

12. TRADE AND OTHER RECEIVABLES

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

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

	2007 HK\$	2006 HK\$
Trade receivables aged		
Within 60 days	3,309,135	1,770,745
61 – 90 days	7,133	–
Over 90 days	18,212	19,712
	<hr/>	<hr/>
	3,334,480	1,790,457
Dividends receivable	2,501,472	1,831,076
Other receivables	1,821,627	3,908,725
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	7,657,579	7,530,258

13. TRADE AND OTHER PAYABLES

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

	2007 HK\$	2006 HK\$
Trade payables aged		
Within 60 days	786,362	632,951
61 – 90 days	250,466	56,938
Over 90 days	249,600	327,374
	<hr/>	<hr/>
	1,286,428	1,017,263
Other payables	2,896,872	2,651,706
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	4,183,300	3,668,969
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DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the year ended 31 March 2007, the Group recorded a turnover of HK\$19.97 million which represented an increase of 31% when compared with HK\$15.21 million in previous year. The increase in turnover was due to the increase in sales of pharmaceutical products during the year under review. On the other hand, the fair value of the Group's investment property at 31 March 2007 was determined as HK\$17.4 million on the basis of a valuation carried out by qualified professional valuers. The resulting gain arising from change in fair value of the investment property of HK\$1.8 million was recognized in the income statement for the year under review according to the Hong Kong Financial Reporting Standard.

The Group shared the loss of associated companies amounting to HK\$16.2 million during the year under review (a share of profits of associated companies amounting to HK\$1.8 million for the previous year), in which the Group shared the profit from Yunnan Xingning color Material Printing Co., Ltd amounting to HK\$0.95 million and shared the loss from Shenzhen Xinpeng amounting to HK\$17.1 million. Taking into account the income tax expense and the minority interests, the Group recorded a loss attributable to shareholders of the Company of HK\$39.8 million for the financial year ended 31 March 2007, compared to a net profit of HK\$4.4 million for the previous year. Loss per share for the current year was 7.86 cent with profit per share of 0.856 cent for the previous year.

Operations analysis

Pharmaceutical business

The Group's pharmaceutical business is carried out by its non-wholly owned subsidiary, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical"), which is located in Kunming, the Yunnan Province. Sales orders for its new product "Cerebroprotein Hydrolysate for Injection" (launched in November 2004) surged up in an encouraging pace following its well response from the market. During the year under review, Meng Sheng Pharmaceutical recorded a turnover of HK\$17.6 million, represented an increase of 33% over the comparative amount in last year. Accordingly, Meng Sheng Pharmaceutical recorded a net profit of HK\$6.1 million during the year under review and continued to maintain its growing trend in its operating results.

Associated companies

The product selling price of Shenzhen Xinpeng Biotechnology Engineering Company Limited (“Xinpeng Biotechnology Engineering”, one of the Group’s associated companies) continued to face downward pressure during the period under review. Nevertheless, sales quantity of the corresponding product was able to record mild growth, which was attributable to the enhanced marketing efforts enforced by the entity’s sales team. However, turnover of Xinpeng Biotechnology Engineering dropped during the year under review in view of tough competition in the domestic pharmaceutical market. Despite that, the management of the entity continued to exercise stringent control on its operating costs during the year under review. As a result, Xinpeng Biotechnology Engineering recorded a loss of HK\$35.7 million during the year under review, mainly arising from impairment loss on certain of its operating assets and investment amounted to HK\$27.5 million. On the other hand, the Group’s another associated company Yunnan Xingning Color Material Printing Co., Limited (“Yunnan Xingning”) continued its increasing trend in operating results. Yunnan Xingning recorded a net profit of HK\$3.8 million during the year under review (a net profit of Rmb3.45 million for the previous year) with HK\$0.95 million shared by the Group, further indicating the full support of the joint venture partner in its business. Accordingly, the Group shares loss of associated companies amounting to HK\$16.2 million during the year under review.

Investment

During the year ended 31 March 2007, the Group conducts a review of the recoverable amount of the investment in Yuxi Globe and determines that impairment loss of HK\$22.48 million was charged to the consolidated income statement. The recoverable amount calculation requires the Group to estimate the future dividend income expected to receive from the investment and a suitable discount rate in order to calculate the present value. The expected dividend income is based on the past performance and the management’s expectations for market development.

OUTLOOK

Despite that an impairment loss on Yuxi Globe amounting of HK\$22.48 million has to be recognized during the period under review, it is anticipated that Yuxi Globe will continue to record profit for its financial year ending 31 December 2007. Given the strong foundation of Yuxi Globe, the Group is still optimistic with regard to its prospect.

With strong research and development foundation, Meng Sheng Pharmaceutical will continue to explore and develop other new products. Diversified product portfolio and modern production facilities enable the entity to cope with the intense competition in the domestic pharmaceutical market effectively. The Group therefore believes that the pharmaceutical business will be further enhanced in the future. Moreover, the operating results of the Group's two main associated companies, Xinpeng Biotechnology Engineering and Yunnan Xingning, will expect to improve by Research & development of new medicine and increase under their existing experienced management team. The Group will also commit to maintain its effective cost control measures. The Group therefore believes that satisfactory results could be achieved in the coming years.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to sustain a liquidity position. As at 31 March 2007, the Group had cash and bank balances of approximately HK\$66 million. Approximately 55% and 44% of the total cash and bank balances were denominated in United States dollar and Renminbi respectively with the remaining in Hong Kong dollar. As in the past, the Group has no external borrowings. With this strong financial position, the Group has sufficient financial resources to meet its operations and future development needs.

EXCHANGE RATE EXPOSURE

The Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, Renminbi or United States dollar. The Group considers that the exchange rate risk is minimal and no hedging measures are necessary at this stage.

CHARGES ON ASSETS

The Group did not have any charges on assets as at 31 March 2007 and 31 March 2006.

EMPLOYEES

As at 31 March 2007, the Group employed approximately 80 employees in Hong Kong and China. The Group remunerates its employees based on market terms, and the qualifications and experience of the employees concerned.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company is firmly committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance, emphasizing transparency and accountability to the shareholders.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices. The Company has met the code provisions as set out in the Code during the year ended 31 March 2007 except the code provision E.1.2 of the Code which provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. Li Suiming, the Chairman of the Board who resides in Yunnan, was unable to attend the annual general meeting of the Company held on 25 August 2006 in Hong Kong.

AUDIT COMMITTEE

The Company has established an audit committee comprising three independent non-executive directors. Terms of reference of the audit committee have been updated in compliance with the Code. The audit committee has reviewed together with the management of the Company the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including review of the financial results for the year ended 31 March 2007.

By order of the Board

Ma Pizhi

Managing director

Hong Kong, 16 July 2007

As at the date of this announcement, the Company's executive directors are Mr. Li Suiming, Mr. Ma Pizhi, Mr. Li Guanglin, Mr. Liu Huijiang and Mr. Fang Wen Quan; independent non-executive directors are Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai.