

ANNUAL REPORT 2003



雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

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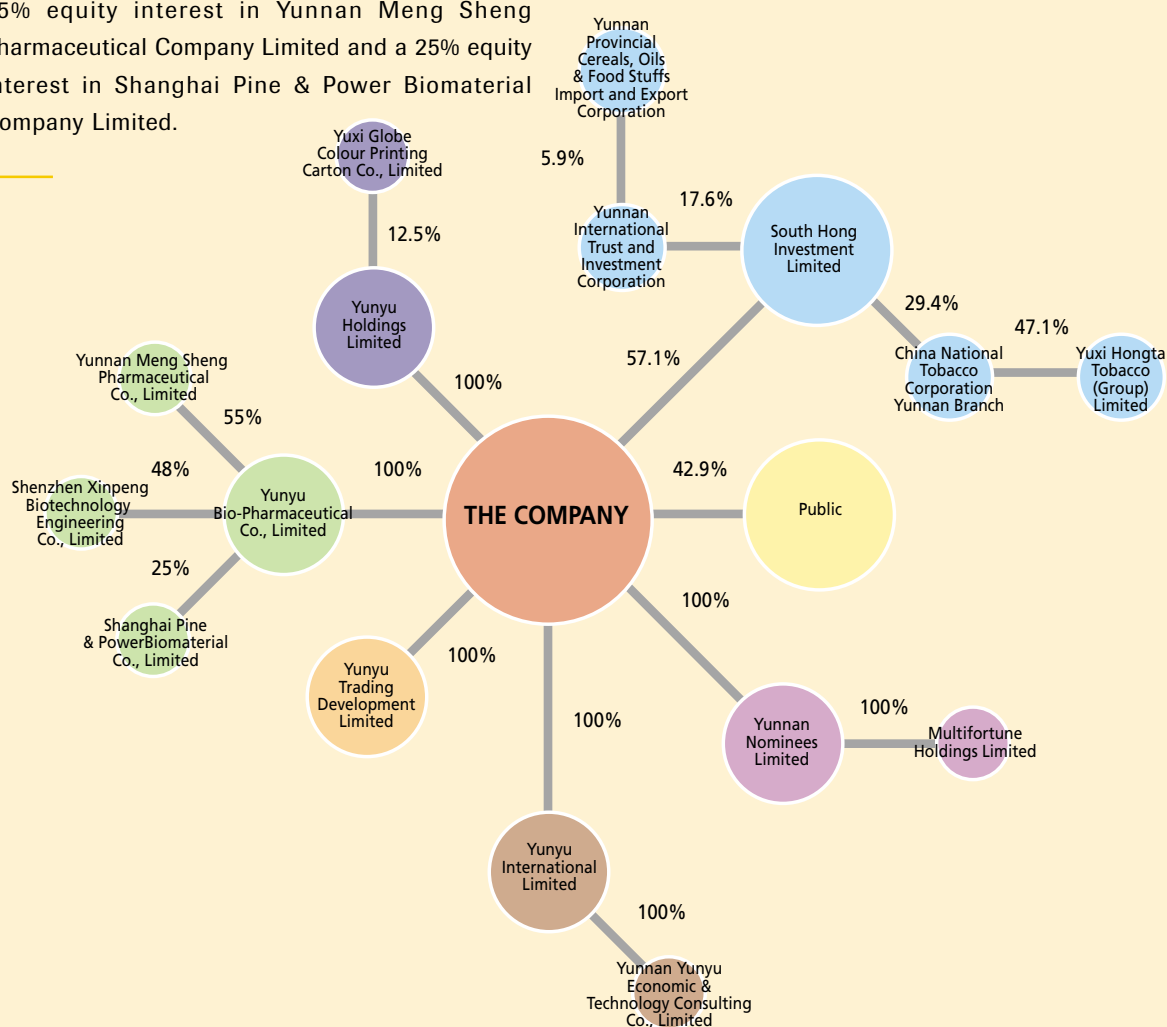
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CORPORATE PROFILE & INTRODUCTION TO YUXI HONGTA

Yunnan Enterprises Holdings Limited is a company incorporated in the Cayman Islands with limited liability and is listed on The Stock Exchange of Hong Kong Limited. Its principal activity is investment holding. The principle activities of its subsidiaries include property rental, provision of agency services for the trading of cigarette-related products, provision of management and consultancy services and investment in a cigarette packaging and printing joint venture in China. It also invests in biotechnology entities with promising prospects. As at the date of this report, it holds a 48% equity interest in Shenzhen Xinpeng Biotechnology Engineering Company Limited, a 55% equity interest in Yunnan Meng Sheng Pharmaceutical Company Limited and a 25% equity interest in Shanghai Pine & Power Biomaterial Company Limited.

South Hong Investment Limited ("South Hong") is the controlling shareholder of the Company, holding 57.1% of the issued share capital. South Hong is an investment company formed by a group of leading enterprises in Yunnan Province, the People's Republic of China, namely, China National Tobacco Corporation Yunnan Branch, Yuxi Hongta Tobacco (Group) Limited, Yunnan International Trust and Investment Corporation and Yunnan Provincial Cereals, Oils & Food Stuffs Import and Export Corporation.

The shareholding structure is shown as follows:



CORPORATE PROFILE & INTRODUCTION TO YUXI HONGTA

Yuxi Hongta Tobacco (Group) Limited (“Yuxi Hongta”) was established in 1995 after a business transform from Yuxi Cigarette Factory, which was founded in 1956. Since then, it has developed into a diversified business group, taking tobacco production as its core business.



Through a series of business reforms, the Group was able to grow and expand its capabilities. It is the leader in the tobacco industry in China and has become a trans-industry, trans-regional conglomerate. The Group’s cigarette manufacturing process has realized high efficiency, continuity and automation, while the management process is networked. Products such as “Hongtashan”, “Yuxi”, “Ashima”, “Hongmei” have gained honours both on a provincial and ministerial level for their quality. In addition, “Hongtashan” received the gold prize in the National Quality Awards, and was recognized as a leading brand name in China by the National Industry and Commerce Bureau of the PRC. The Group’s projects have achieved outstanding recognition with the following awards: “Economic Efficient Enterprise” from the Yunnan Provincial Government and the State Tobacco Monopoly Bureau for several years, the “State First Class Enterprise” award in 1991, “National Excellent Enterprise Management (Gold)” in 1993 and ISO9002 certification in July 1999.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Liu Wandong (*Chairman*)
Ma Pizhi (*Managing Director*)
Cheng Hau Yan
Dong Jianhua
Li Hong
Li Guanglin

Independent Non-executive Directors

Ho Wing Fun
Lee Ka Sze, Carmelo

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

HONG KONG LEGAL ADVISERS

Woo, Kwan, Lee & Lo
27th Floor, Jardine House
1 Connaught Place
Hong Kong

COMPANY SECRETARY

Lee Ka Sze, Carmelo

AUDIT COMMITTEE

Ho Wing Fun
Lee Ka Sze, Carmelo

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Bank of Communications
Merrill Lynch International Bank
Limited (Merchant Bank)

REGISTERED OFFICE

One Capital Place
P.O. Box 1787 GT
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 2401-2404, 24th Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Liu Wandong, aged 53, an engineer, graduated from the Department of Physics in Jilin University in 1977. Mr. Liu held the posts of workshop chief, deputy secretary and secretary of the committee of the communist party in Yunnan Natural Gas Chemical Factory from 1977 to 1995. In 1995, Mr. Liu served as director of Yunnan Industrial and Commercial Administration Bureau and in 1999, as deputy head of Organizing Department of CPC Yunnan Provincial Committee. Mr. Liu has succeeded Mr. Zi Guorui as the Chairman of Yuxi Hongta Tobacco (Group) Limited (“Yuxi Hongta”) in April 2002. He has also succeeded Mr. Zi as the Company’s Chairman and executive director in May 2002.

Mr. MA Pizhi, aged 47, graduated from the postgraduate programme of International Economic and Trade of Yunnan University and has experience in management and trading. He held the posts of vice director of Kunming Prices of Commodities Bureau during the period from June 1986 to October 1992, and of vice president of Kunming International Trade Centre during the period from October 1992 to July 1998. He was also the chairman of Kunming Kumlong Exhibition Service Co., Ltd. and Kunming Ming Cheng Motor Service Co., Ltd., the vice chairman of Kunming Ming Cheng Communication Development Co., Ltd. and the assistant to general manage of Yunnan Hongta Industrial Co., Ltd. Mr. Ma is currently the managing director of the Company.

Mr. CHENG Hau Yan, aged 56, obtained a master of business administration degree from the Shanghai Jiao Tong University in 1983 and has experience in banking. Mr. Cheng held the posts of deputy division chief of the Finance and Planning Division of Yunnan Provincial Geology and Mining Bureau during the period from October 1984 to March 1986, and of deputy director of the Economic Commission of Kunming for the period from April 1986 to April 1988. During the period from May 1988 to 1996, he was president of the Yunnan Branch of Bank of Communications.

Ms. DONG Jianhua, aged 47, graduated from Yunnan Polytechnic University in 1985 and obtained a post-graduate diploma in Business Administration from Yunnan University in 1996. Ms. Dong has experience in industrial skill and management. She joined Yuxi Hongta in 1971 and is currently the vice chief engineer of Yuxi Hongta. She is also the managing director of Hong Kong Hongta International Tobacco Co., Ltd.

Mr. LI Hong, aged 48, graduated from Kunming Industry University in 1980 and has experience in international trade. He held the posts of vice director of The Office for Surrounding Countries of Foreign Trade & Economic Cooperation Bureau of Yunnan Province during the period from June 1991 to January 1994, and of vice director of Frontier Trade Bureau of Dehong. Between October 1997 to April 1999 he was president of China National Package Import & Export Corporation. Mr. Li is currently the general manager of Yunnan Provincial Cereals, Oils & Food Stuffs Import and Export Corporation.

Mr. Li Guanglin, aged 39, a senior accountant, graduated from the Yunnan Radio and TV University in 1987. He graduated from the postgraduate programme in Yunnan Institute of Finance and Trading in 1998. Mr. Li held the posts of section chief, deputy division chief and division chief of financial division of Chinese National Tobacco Corporation Yunnan Branch from 1993 to 2002. Mr. Li has become the director and chief accountant of Yuxi Hongta in April 2002. He has also been appointed as executive director of the Company in May 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. HO Wing Fun, aged 70, has been an executive director of Henderson Land Development Company Limited, a company listed on The Stock Exchange of Hong Kong Limited, since September 1997. He joined Henderson Development Limited in 1975 and has over 40 years' experience in operational management of property investment and development, specialising in accounting, auditing and taxation. Mr. Ho is also an executive director of Henderson Investment Limited and Henderson China Holdings Limited.

Mr. LEE Ka Sze Carmelo, aged 43, graduated from the University of Hong Kong with a Bachelor of laws degree. He is a practising solicitor in Hong Kong and a partner of Woo, Kwan, Lee & Lo. He is also a director of various companies listed on The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. YIP Sai Keung Esmond, aged 37, is the Financial Controller of the Group. He is responsible for the Group's overall finance and accounting matters. Mr. Yip holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow member of The Association of Chartered Certified Accountants and a fellow member of the Hong Kong Society of Accountants. Prior to joining the Group in 1999, Mr. Yip had worked in an international accounting firm in Hong Kong for over four years and in a listed company in Hong Kong as the financial controller and company secretary for over five years.

*On behalf of the Board of
Directors of Yunnan Enterprises
Holdings Limited (the "Company"),
I hereby present to shareholders
the annual report of the Company
and its subsidiaries (the "Group")
for the year ended 31 March
2003.*

BUSINESS REVIEW

During the year under review, the decrease in dividend income together with the fact that the Group did not have consultancy income caused the drop in the Group's turnover. At the same time, the Group continued to control costs in an effective manner with the administrative expenses decreased when compared with the previous year. Moreover, the Group's two associated companies engaging in biotechnology business continued to bring in a profit contribution to the Group during the year under review. Yunnan Meng Sheng Pharmaceutical Co. Limited ("Meng Sheng Pharmaceutical") has been successfully awarded GMP certification by the State Drug Administration during the year under review. This will greatly enhance the future sales of its medicines. Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering") has also carried out the researches and development of anti-cancer drug - Chuiluosu during the year under review which is encouraging in respect of its product diversification. Regarding Xinpeng Biotechnology Engineering, the entity was also affected by the intensifying competition in the domestic pharmaceutical market which led to the decline in its turnover and profit. This in turn results in the decrease of the Group's share of results of the associates during the year under review. On the other hand, the continued decline in the property market brought about a deficit of HK\$3.5 million on revaluation of the Group's investment property in the current year which was charged to the income statement. This in turn affected the Group's results during the year under review. For the year ended 31 March 2003, the Group recorded a net loss of HK\$4.53 million after including the revaluation deficit.

CHAIRMAN'S STATEMENT

ACQUISITION OF FURTHER INTERESTS IN THE INVESTEE COMPANY AND THE ASSOCIATE

Despite recording a net loss during the year under review, the Group is confident in the business foundation and development prospect of its investee company and the associates, including Yuxi Globe Color Printing Carton Co., Ltd. ("Yuxi Globe"), Meng Sheng Pharmaceutical and Xinpeng Biotechnology Engineering. The Group therefore determined to acquire additional interests in the relevant entities. Firstly, the Group has successfully completed the acquisition of an additional 6% interest in Meng Sheng Pharmaceutical recently. The interest of the Group in Meng Sheng Pharmaceutical has increased to 55% with the entity then becomes a non wholly-owned subsidiary of the Company. Secondly, the Group has agreed to acquire conditionally an additional 6.25% interest in Yuxi Globe at a total consideration of HK\$19.9 million in June 2003. Upon completion of that acquisition, the Group's interest in Yuxi Globe would be increased to 18.75%. Such acquisitions indicate that the Group is optimistic of the prospects of the relevant entities. The increase in interests would enhance the Group's investment returns from the relevant entities in the future.

PROSPECTS

Through their established solid foundations, comprehensive sales network, GMP-compliant production workshops and the capabilities in developing new products, the Group believes that Xinpeng Biotechnology Engineering & Meng Sheng

Pharmaceutical are well-equipped to meet the tough challenges in the domestic pharmaceutical market. These entities engaging in biotechnology business will therefore be able to attain more advantageous position in the market. Also, Yuxi Globe is a well-established entity in China which has ninth consecutive year of profitability and paid considerable amounts of dividends to the investors over the past years. On the other hand, the Group will continue to reduce operating expenses in a stringent manner. Looking ahead, the Group's financial results in the future will be able to benefit more from the acquisition of additional interests in Meng Sheng Pharmaceutical and Yuxi Globe. With the continued decline in operating expenses, I am optimistic of the Group's future development and performance. The Group will also actively seek to exploring new investment opportunities in order to strengthen the Group's investment portfolio for bringing better returns to the shareholders.

APPRECIATION

Finally, I take this opportunity to express my gratitude for the support of our shareholders, members of the Board and all the staff of the Group during the year.

Liu Wangdong

Chairman

Hong Kong, 18 July 2003

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 March 2003, the Group recorded a turnover of HK\$3.42 million with the corresponding amount for 2002 being HK\$10.96 million. The substantial drop in turnover was due to the fact that the Group did not have consultancy income as well as the decrease in the dividend income during the year under review. On the other hand, the Group received a cash payment of US\$566,400 (or HK\$4.42 million) from Yuxi Hongta Tobacco (Group) Limited (“Yuxi Hongta”) during the year under review as compensation in respect of the current and last financial years for the quantity differences which have arisen from the import agency business. Moreover, the Group was entitled to a share of profits (before tax) of the associated companies amounting to HK\$650,000 during the year under review with the corresponding amount in the previous year being HK\$3.8 million.

The Group continued to maintain its cost control measures. During the year under review, administrative expenses for the Group (excluding deficit arising on revaluation of investment property) decreased by 6% compared to previous year. At the same time, the Group’s investment property (located in Central) was revalued at 31 March 2003 by independent professional valuer, on an open market existing use basis. A deficit amounted to HK\$3.5 million was arisen from the revaluation. Such deficit was charged to the income statement of the current year. Including this revaluation deficit, the Group recorded a net loss of HK\$4.53 million for the financial year ended 31 March 2003, compared to a net profit of HK\$4.86 million in the previous year.

OPERATIONS ANALYSIS

Import and export agency businesses

The Group had entered into import and export agency agreements with Yuxi Hongta in May 1998, and was engaged in the import of cigarette-related materials and export of cigarettes products for Yuxi Hongta. Sluggish market conditions prevailing in the tobacco industry affected the Group’s import and export agency businesses over the past few years. Pursuant to the import agency agreement, Yuxi Hongta shall import materials with an annual aggregate quantity of not less than a specified quantity (or the “Minimum Import Quantity”) through the Group. The total import quantities for the current and last financial years were both lower than the Minimum Import Quantity. As a result, Yuxi Hongta, in accordance with the relevant terms of the import agency agreement, compensated the Group in respect of the difference in the import quantities for each financial year. Total compensation fees amounting to US\$566,400 (or HK\$4.42 million) were paid to the Group during the year under review.

On the other hand, pursuant to the import and export agency agreements, the initial term of the agreements was for a period of five years and was expired in May 2003. After due and careful consideration and discussion between the Group and Yuxi Hongta, both parties have agreed to terminate the agreements. Both parties then entered into termination agreements in May 2003 in accordance with the relevant terms for the termination of the import and export agency agreements. Despite that, the Group does not intend to discontinue this line of business. The Group will closely monitor market conditions for that business in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment in investee company – Yuxi Globe Color Printing Carton Co., Ltd.

The Group has received a dividend payment of Rmb3.22 million (or HK\$3.04 million) from Yuxi Globe Color Printing Carton Co., Ltd. (“Yuxi Globe”, in which the Group holds a 12.5% equity interest) for the



year under review. Since acquiring 12.5% equity interest in Yuxi Globe in 1999, the Group had received dividend payments of HK\$19.51 million in aggregate. This represents a successful investment decision for the Group. Yuxi Globe was established in China in 1992 as a Sino-foreign equity joint venture. The entity is principally engaged in the printing and sale of cigarette packaging packs and boxes. The principal labels of cigarette packs and boxes printed by the entity include Hongtashan, Ashima, Hongmei and Shilin which are well-known

brands in China. Yuxi Globe earned a profits after taxation of Rmb27.57 million (or HK\$26.0 million) for the financial year ended 31 December 2002, which is its ninth consecutive year of profitability. Moreover, when compared with the corresponding amount of Rmb6.29 million (or HK\$5.9 million) received for the previous year, the dividend payment received by the Group for the year under review has dropped by 48%. This was attributable to the general decline in the tobacco industry in China which resulted in pressure on the margins of Yuxi Globe’s products in last year. Despite that, the product prices of Yuxi Globe have stabilized in 2003. Yuxi Globe is a well-established and profitable company which paid considerable amounts of dividend to the Group over the past years. Therefore the Group is confident and optimistic with regard to the business prospect of Yuxi Globe.

In June 2003, the Group entered into a conditional sale and purchase agreement to acquire an additional 6.25% equity interest in Yuxi Globe. The aggregate consideration for the acquisition shall be HK\$19.9 million which shall be satisfied by way of allotment and issue of 47,380,952 ordinary shares of HK\$0.10 each of the Company at an issue price of HK\$0.42 per share. Upon completion of the sale and purchase agreement, the Group’s equity interest in Yuxi Globe would be increased to 18.75%. This could increase the share of dividends from Yuxi Globe and further enhance the income base of the Group. It is therefore beneficial to the Group to acquire an additional 6.25% equity interest in Yuxi Globe.

Associates

(1) *Shenzhen Xinpeng Biotechnology Engineering Company Limited (“Xinpeng Biotechnology Engineering”)*

Competition in China’s pharmaceutical market intensified in 2002. Sales of Xinpeng Biotechnology Engineering’s major product rhG-CSF were also affected under such tough market environment. During the year under review, turnover of rhG-CSG together with the inherent income amounted to Rmb33.2 million, representing a decrease of 15% when compared with the corresponding amount of Rmb39.2 million in the previous year. At the same time, in order to cope with the intense competition in the domestic pharmaceutical market as well as to minimize the impact of the market environment on turnover, the sales team of Xinpeng Biotechnology Engineering continued to enhance the sales and marketing efforts for rhG-CSF during the year under review.

Therefore Xinpeng Biotechnology Engineering's selling and related expenditures for the year under review increased by 10% compared to previous year. Under such situations, Xinpeng Biotechnology Engineering recorded a profit before taxation of Rmb710,000 during the year under review. The Group is entitled to a profit share (before taxation) of HK\$320,000 for the relevant year with the corresponding amount of profit share for the previous year being HK\$3.47 million.

During the year under review, Xinpeng Biotechnology Engineering cooperates with the Institute of Basic Medical Sciences of the Chinese Academy of Medical Sciences to jointly carry out the "Chuiluosu intermediate tests and clinical researches", which was approved under the Tenth 5-year plan Major Key Program in October 2002, to develop a Category I anti-cancer drug – Chuiluosu. Chuiluosu is a functional protein which naturally exists in human cells. It possesses a broad spectrum of anti-tumor functions. Compared to traditional chemotherapy drugs, Chuiluosu has two distinct characteristics. Firstly, Chuiluosu is able to kill targeted tumor cells with no toxic effects on normal cells. Secondly, Chuiluosu possesses a broad spectrum of anti-tumor activity, which induces various tumor cells, including rectum, lung, liver, mammary gland and kidney cancers, malignant melanomas, as well as glioma, to shrink away. Chuiluosu will therefore bring a new era of hope for many cancer patients. With its strong research capabilities and its many years of experience in R&D, Xinpeng Biotechnology Engineering will be leveraging Chuiluosu to create a R&D platform for further anti-cancer drugs development and promoting these drugs through its existing comprehensive sales channels. The Group is highly optimistic with regard to the future development of Chuiluosu, and believes that it will create considerable returns for Xinpeng Biotechnology Engineering in the future.

(2) *Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical")*

During the year under review, the Group injected further capital of Rmb5.39 million into Meng Sheng Pharmaceutical. As at 31 March 2003, the Group's total investment in Meng Sheng Pharmaceutical amounted to Rmb16.17 million which signifies that the Group is confident in the development prospect of the entity. Meng Sheng Pharmaceutical maintained progressive growth in its operating performance during the year under review, with a turnover of Rmb4.07 million and net profit of Rmb1.08 million being recorded. The Group was therefore entitled to a profit share of HK\$500,000 during the year under review.



MANAGEMENT DISCUSSION AND ANALYSIS

The first phase of construction work for Meng Sheng Pharmaceutical's production plant, located in the Kunming Economic and Technology Development Zone, was completed. The relevant production workshops have successfully passed inspections conducted by the State Drug Administration and been awarded the GMP certification in July 2002. This proves that the manufacturing process, including production facilities, equipment, raw materials, production management and quality control, are fully compliant with GMP standards. GMP compliance provides strong assurance for the quality of the products manufactured by Meng Sheng Pharmaceutical which will help boost sales volume. With the current intensifying competition in the domestic pharmaceutical market, this places the entity in a favorable position.

In order to further strengthen the Group's investment portfolio, the Group entered into a sale and purchase agreement to acquire an additional 6% interest in Meng Sheng Pharmaceutical at a cash consideration of Rmb3.0 million in April 2003. The sale and purchase agreement has been completed recently following the obtaining of the approval and consent by the relevant authority. The interest of the Group in Meng Sheng Pharmaceutical has been increased from 49% to 55%. Meng Sheng Pharmaceutical then becomes a non wholly-owned subsidiary of the Company. Meng Sheng Pharmaceutical's turnover and financial results could then be consolidated into that of the Group. The Group will be able to benefit more from the increase in its interest in Meng Sheng Pharmaceutical in the future given the development potential of the entity.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position remains strong. As at 31 March 2003, the Group held cash and bank balances of approximately HK\$79 million with no debts or borrowings. With this strong financial foundation, the Group has adequate resources to meet its working capital requirements and to pursue new investment opportunities should they arise.

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are property holding, the provision of agency services for the trading of cigarette and other related products, the provision of management and consultancy services and investment holding.

RESULTS

The results of the Group for the year ended 31 March 2003 are set out in the consolidated income statement on page 18.

MAJOR CUSTOMERS AND SUPPLIERS

The Group had only one customer, which is a substantial shareholder of the Company's ultimate holding company. The Group had no turnover other than rental income and dividend income for the year ended 31 March 2003. However, the Group received compensation income from that customer according to the agency agreement, as the agreed level of purchases was not achieved.

The Group had no supplier for the year ended 31 March 2003.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in the customer mentioned in the preceding paragraph.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the year are set out in note 10 to the financial statements.

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and outstanding warrants of the Company during the year are set out in notes 20 and 21 to the financial statements, respectively.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors:

Liu Wandong (<i>Chairman</i>)	(appointed on 29 May 2002)
Ma Pizhi (<i>Managing Director</i>)	
Cheng Hau Yan	
Dong Jianhua	
Li Hong	
Li Guanglin	(appointed on 29 May 2002)
Zi Guorui (<i>former Chairman</i>)	(resigned on 29 May 2002)
Chen Toliu	(resigned on 29 May 2002)

Independent non-executive directors:

Ho Wing Fun
Lee Ka Sze, Carmelo

In accordance with the Company's Articles of Association, Mr. Cheng Hau Yan and Mr. Ho Wing Fun shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

No director 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).

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 31 March 2003, none of the directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in Section 29 of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance"), and none of the directors, nor their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group received compensation income of HK\$4,417,920 from a substantial shareholder of the Company's ultimate holding company. According to the agency agreement between the Group and that substantial shareholder, the Group was entitled to receive compensation income from the substantial shareholder if the agreed level of purchases was not achieved.

The independent non-executive directors have confirmed the transactions in relation to the compensation income were entered into in accordance with the terms of the agreement of the underlying transactions, or arose in the ordinary and usual course of the Group's business and on terms no less favourable than terms available to or from independent third parties and were fair and reasonable so far as the shareholders of the Company are concerned. The independent non-executive directors have also confirmed that the aggregate amount of such transactions did not exceed the cap as approved by the independent shareholders at the Company's extraordinary general meeting held on 30 June 1998.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of shares held
South Hong Investment Limited	262,442,930
China National Tobacco Corporation Yunnan Branch	262,442,930 (<i>Note</i>)
Yuxi Hongta Tobacco (Group) Limited	262,442,930 (<i>Note</i>)
Yunnan International Trust and Investment Corporation	262,442,930 (<i>Note</i>)

Note: These shares refer to the 262,442,930 shares held by South Hong Investment Limited in which China National Tobacco Corporation Yunnan Branch, Yuxi Hongta Tobacco (Group) Limited and Yunnan International Trust and Investment Corporation, all being substantial shareholders of South Hong Investment Limited, are deemed to be interested.

Save as disclosed above, the Company has not been notified of any other parties with interests representing 10% or more of the issued share capital of the Company as at 31 March 2003.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, in the Company or any other body corporate.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year.

REPORT OF THE DIRECTORS

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 30 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by this report. During the year, the audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the interim and annual financials of the Group.

PRE-EMPTIVE RIGHTS

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

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Liu Wandong

Chairman

Hong Kong, 18 July 2003

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

執業會計師
香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF YUNNAN ENTERPRISES HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 18 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 18 July 2003

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2003

	NOTES	2003 HK\$	2002 HK\$
Turnover	4	3,423,595	10,962,940
Compensation income	29	4,417,920	–
Other operating income	5	1,503,208	2,699,803
Staff costs		(4,063,909)	(4,491,129)
Depreciation		(308,644)	(663,945)
Deficit arising on revaluation of investment property		(3,499,486)	–
Other operating expenses		(6,419,105)	(6,273,206)
(Loss) profit from operations	6	(4,946,421)	2,234,463
Share of results of associates		651,055	3,800,887
Amortisation of goodwill arising on acquisition of an associate		(214,057)	(107,029)
(Loss) profit before taxation		(4,509,423)	5,928,321
Taxation	8	(17,288)	(1,071,723)
Net (loss) profit for the year		(4,526,711)	4,856,598
(Loss) earnings per share – basic	9	(0.985) cents	1.057 cents

CONSOLIDATED BALANCE SHEET

At 31 March 2003

	NOTES	2003 HK\$	2002 HK\$
NON-CURRENT ASSETS			
Investment property	10	10,700,000	14,200,000
Plant and equipment	11	1,773,848	1,465,952
Interests in associates	13	58,858,892	52,470,430
Investments in an investee company	14	31,177,196	31,177,196
Loan to an investee company	15	4,843,000	4,843,000
Securities linked deposit	16	3,017,282	–
		110,370,218	104,156,578
CURRENT ASSETS			
Trade and other receivables	17	4,964,371	8,903,254
Pledged bank deposits	27	–	5,000,000
Bank deposits		60,336,890	65,989,650
Bank balances and cash		16,077,207	12,386,781
		81,378,468	92,279,685
CURRENT LIABILITIES			
Other payables		1,054,593	1,034,052
Amount due to an associate	19	773,014	773,014
Tax liabilities		–	180,893
		1,827,607	1,987,959
NET CURRENT ASSETS			
		79,550,861	90,291,726
		189,921,079	194,448,304
CAPITAL AND RESERVES			
Share capital	20	45,947,300	45,947,300
Reserves		143,972,332	148,499,557
		189,919,632	194,446,857
MINORITY INTEREST			
		1,447	1,447
		189,921,079	194,448,304

The financial statements on pages 18 to 47 were approved and authorised for issue by the Board of Directors on 18 July 2003 and are signed on its behalf by:

LIU WANDONG
Chairman

MA PIZHI
Managing Director

BALANCE SHEET

At 31 March 2003

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Yunnan Enterprises Holdings Limited

	NOTES	2003 HK\$	2002 HK\$
NON-CURRENT ASSETS			
Plant and equipment	11	1,228,691	1,154,499
Interests in subsidiaries	12	79,918,274	82,020,458
		81,146,965	83,174,957
CURRENT ASSETS			
Other receivables		1,340,134	1,089,937
Bank deposits		63,354,172	65,982,938
Bank balances and cash		956,167	906,139
		65,650,473	67,979,014
CURRENT LIABILITIES			
Other payables		666,753	708,881
Amounts due to subsidiaries	18	727,584	773,677
		1,394,337	1,482,558
NET CURRENT ASSETS			
		64,256,136	66,496,456
		145,403,101	149,671,413
CAPITAL AND RESERVES			
Share capital	20	45,947,300	45,947,300
Reserves	22	99,455,801	103,724,113
		145,403,101	149,671,413

LIU WANDONG
Chairman

MA PIZHI
Managing Director

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2003

	Share capital HK\$	Share premium HK\$	Capital redemption reserve HK\$	Goodwill reserve HK\$	Special reserve HK\$	Statutory surplus reserve fund HK\$	Enterprise expansion fund HK\$	Exchange reserve HK\$	Investment property revaluation reserve HK\$	Deficit HK\$	Total HK\$
THE GROUP											
At 1 April 2001	45,947,300	187,468,964	8,000	(7,938,469)	3,460,016	-	-	1,412,683	800,514	(40,768,749)	190,390,259
Revaluation decrease											
for the year	-	-	-	-	-	-	-	-	(800,000)	-	(800,000)
Net profit for the year	-	-	-	-	-	-	-	-	-	4,856,598	4,856,598
At 31 March 2002											
and 1 April 2002	45,947,300	187,468,964	8,000	(7,938,469)	3,460,016	-	-	1,412,683	514	(35,912,151)	194,446,857
Revaluation decrease											
for the year	-	-	-	-	-	-	-	-	(514)	-	(514)
Net loss for the year	-	-	-	-	-	-	-	-	-	(4,526,711)	(4,526,711)
Transfer to reserve	-	-	-	-	-	1,425,260	1,425,259	-	-	(2,850,519)	-
At 31 March 2003	<u>45,947,300</u>	<u>187,468,964</u>	<u>8,000</u>	<u>(7,938,469)</u>	<u>3,460,016</u>	<u>1,425,260</u>	<u>1,425,259</u>	<u>1,412,683</u>	<u>-</u>	<u>(43,289,381)</u>	<u>189,919,632</u>

The deficit of the Group include retained profits of HK\$2,954,646 (2002: HK\$2,714,269) attributable to associates.

- (i) The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of a subsidiary acquired by the Company pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1992.
- (ii) Statutory surplus reserve fund and enterprise expansion fund are stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, which require the PRC subsidiary of the Group to provide for reserve funds. Appropriations to such reserve funds are made out of net profit after taxation of the statutory financial statements of the PRC subsidiary and the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiary of the Group , if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiary of the Group by means of capitalisation.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2003

	2003 HK\$	2002 HK\$
OPERATING ACTIVITIES		
(Loss) profit from operations	(4,946,421)	2,234,463
Adjustments for:		
Deficit arising on revaluation of investment property	3,499,486	-
Depreciation	308,644	663,945
Dividend income from investment in an investee company	(3,036,000)	(5,908,055)
Interest income	(1,356,449)	(2,360,388)
Loss on write off of plant and equipment	813,129	3,500
Operating cash flows before movements in working capital	(4,717,611)	(5,366,535)
(Increase) decrease in trade and other receivables	(204,510)	116,262
Increase (decrease) in other payables	20,541	(513,720)
Increase in amount due to an associate	-	773,014
Cash used in operations	(4,901,580)	(4,990,979)
Tax paid in the People's Republic of China	(214,277)	(272,683)
NET CASH USED IN OPERATING ACTIVITIES	(5,115,857)	(5,263,662)
INVESTING ACTIVITIES		
Dividend received from investment in an investee company	5,908,055	7,311,629
Decrease in bank deposits	5,652,760	5,601,510
Decrease in pledged bank deposits	5,000,000	-
Dividend received from an associate	1,698,113	-
Interest received	1,356,449	2,360,388
Acquisition of an associate	(6,362,143)	(10,521,145)
Purchase of securities linked deposit	(3,017,282)	-
Purchases of plant and equipment	(1,429,669)	(82,318)
NET CASH FROM INVESTING ACTIVITIES	8,806,283	4,670,064
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,690,426	(593,598)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	12,386,781	12,980,379
CASH AND CASH EQUIVALENTS CARRIED FORWARD, represented by bank balances and cash	16,077,207	12,386,781
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as previously reported		78,376,431
Effect of reclassification of deposits held for investment		65,989,650
Cash and cash equivalents as restated		12,386,781

1. GENERAL

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

The Company acts as an investment holding company. The principal activities of the Group are property holding, the provision of agency services for trading of cigarette and other related products, the provision of management and consultancy services and investment holdings.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and an inclusion of the statements of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 “Foreign currency translation” have eliminated the choice of translating the income statements of subsidiaries operating outside Hong Kong at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash flow statement”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends received, which were previously presented under a separate heading is classified as investing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amount presented for cash and cash equivalents have been amended to exclude cash balance held for investment purposes. The re-definition of cash and cash equivalents has resulted in a restatement in the comparative amounts shown in the consolidated cash flow statement.

Employee Benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

3. *SIGNIFICANT ACCOUNTING POLICIES*

The financial statements have been prepared under the historical cost convention as modified for the revaluation of an investment property, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

The results of subsidiaries 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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries or associates prior to 1 April 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions of subsidiaries or associates on or after 1 April 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Revenue recognition

Agency fee and consultancy income are recognised when services are rendered.

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

3. *SIGNIFICANT ACCOUNTING POLICIES (CONT'D)***Revenue recognition (CONT'D)**

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment property except where the unexpired term of the relevant lease, including the renewable period, is 20 years or less.

Plant and equipment

Plant and equipment are stated at cost less depreciation and accumulated impairment losses.

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

Leasehold improvements	10% – 33 ¹ / ₃ %
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	20%

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

3. *SIGNIFICANT ACCOUNTING POLICIES (CONT'D)*

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Investments in subsidiaries

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

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Impairment

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 these 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. Impairment losses are recognised as an expense immediately.

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

3. *SIGNIFICANT ACCOUNTING POLICIES (CONT'D)***Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

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

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Retirement benefit costs

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions – property rental, provision of agency services, consultancy services and investment holding for dividend income. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 March 2003

	Property rental HK\$ (Note 1)	Agency services HK\$ (Note 2)	Consultancy services HK\$	Investment holding HK\$	Consolidated HK\$
TURNOVER	387,595	-	-	3,036,000	3,423,595
SEGMENT RESULTS	(3,774,586)	3,936,836	(932,443)	(859,730)	(1,629,923)
Other operating income					1,503,208
Unallocated corporate expenses					(4,819,706)
Loss from operations					(4,946,421)
Share of results of associates					651,055
Amortisation of goodwill arising on acquisition of an associate					(214,057)
Loss before taxation					(4,509,423)
Taxation					(17,288)
Net loss for the year					(4,526,711)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

BALANCE SHEET

At 31 March 2003

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Consolidated HK\$
ASSETS					
Segment assets	11,284,411	9,517	14,819,821	39,124,153	65,237,902
Unallocated corporate assets					126,510,784
Consolidated total assets					<u>191,748,686</u>
LIABILITIES					
Segment liabilities	178,459	25,000	26,954	9,000	239,413
Unallocated corporate liabilities					1,588,194
Consolidated total liabilities					<u>1,827,607</u>

OTHER INFORMATION

Year ended 31 March 2003

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
Amortisation of goodwill arising on acquisition of an associate	-	-	-	-	214,057	214,057
Deficit arising on revaluation of investment property	3,499,486	-	-	-	-	3,499,486
Depreciation	-	-	42,228	-	266,416	308,644
Loss on write off of plant and equipment	-	-	-	-	813,129	813,129

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

Year ended 31 March 2002

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Consolidated HK\$
TURNOVER	465,114	131,040	4,458,731	5,908,055	10,962,940
SEGMENT RESULTS	(110,922)	283,334	1,727,110	2,770,598	4,670,120
Other operating income					2,699,803
Unallocated corporate expenses					(5,135,460)
Profit from operations					2,234,463
Share of results of associates					3,800,887
Amortization of goodwill arising on acquisition of an associate					(107,029)
Profit before taxation					5,928,321
Taxation					(1,071,723)
Net profit for the year					4,856,598

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

BALANCE SHEET

At 31 March 2002

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Consolidated HK\$
ASSETS					
Segment assets	19,593,509	133,901	8,981,852	42,005,556	70,714,818
Unallocated corporate assets					125,721,445
Consolidated total assets					196,436,263
LIABILITIES					
Segment liabilities	167,339	25,000	180,894	9,000	382,233
Unallocated corporate liabilities					1,605,726
Consolidated total liabilities					1,987,959

OTHER INFORMATION

Year ended 31 March 2002

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
Amortisation of goodwill arising on acquisition of an associate	-	-	-	-	107,029	107,029
Depreciation	-	-	42,228	-	621,717	663,945

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

Note 1: During the year, the Group identified property rental as one of the principal activities and as a separate business segment of the Group. Accordingly, rental income was classified as turnover for the year and the comparative amount was also restated.

Note 2: The Group, as an import agent for Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta"), is engaged in the business of import of corresponding materials related to cigarette manufacturing. Pursuant to the import agency agreement entered into between the Group and Yuxi Hongta, Yuxi Hongta shall import materials with an annual aggregate value of not less than a specified quantity (or the "Minimum Import Quantity") through the Group. The Group's total import quantities for the current and last financial years were lower than the Minimum Import Quantity. As a result, Yuxi Hongta, in accordance with the terms of the import agency agreement, compensated the Group in respect of the difference in the import quantities for each financial year. Total compensation fees amounting to approximately HK\$4,418,000 (US\$566,400), prior to deducting related expenses, were received by the Group during the year.

(b) Geographical segments

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

5. OTHER OPERATING INCOME

	2003 HK\$	2002 HK\$
Interest income from bank deposits	1,356,449	2,360,388
Exchange gain	6,759	–
Others	140,000	339,415
	1,503,208	2,699,803

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

6. (LOSS) PROFIT FROM OPERATIONS

	2003 HK\$	2002 HK\$
(Loss) profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration	3,927,252	4,328,928
Retirement benefits scheme contributions	136,657	162,201
Total staff costs	4,063,909	4,491,129
Auditors' remuneration	367,000	300,000
Depreciation of plant and equipment	308,644	663,945
Loss on write off of plant and equipment	813,129	3,500
and after crediting:		
Dividend income from investment in an investee company	3,036,000	5,908,055
Gross rental income from an investment property less outgoings of HK\$23,000 (2002: HK\$16,000)	364,595	449,114

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2003 HK\$	2002 HK\$
Fees		
Executive directors	360,000	360,000
Independent non-executive directors	120,000	120,000
	480,000	480,000
Other emoluments (executive directors)		
Salaries and other benefits	1,448,494	1,437,709
Retirement benefits scheme contributions	53,934	53,975
	1,502,428	1,491,684
Total emoluments	1,982,428	1,971,684

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(a) Directors' emoluments (CONT'D)

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	9	7
HK\$1,000,001 to HK\$1,500,000	1	1

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2002: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2002: three) individuals were as follows:

	2003 HK\$	2002 HK\$
Salaries and other benefits	1,133,776	1,315,900
Retirement benefits scheme contributions	51,120	54,800
	1,184,896	1,370,700

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

During the years ended 31 March 2003 and 2002, no emoluments were paid by the Company to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Company or as compensation for loss of office.

8. TAXATION

The charge comprises:

	2003 HK\$	2002 HK\$
PRC income tax	33,384	453,576
Share of taxation attributable to associates	(16,096)	618,147
	17,288	1,071,723

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

8. TAXATION (CONT'D)

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

Taxation arising in the PRC is calculated at the rates prevailing in the relevant jurisdiction.

Details of unrecognised deferred taxation are set out in note 23.

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the following data:

	2003 HK\$	2002 HK\$
Net (loss) profit for the year	(4,526,711)	4,856,598
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	459,473,000	459,473,000

No diluted (loss) earnings per share is presented because the exercise price of the Company's warrants was higher than the fair value per share for both years.

10. INVESTMENT PROPERTY

	THE GROUP HK\$
At 1 April 2002	14,200,000
Revaluation deficit	(3,500,000)
At 31 March 2003	10,700,000

The Group's investment property is rented out under operating lease and is held under a medium-term lease in Hong Kong. The investment property was revalued at 31 March 2003 by LCH (Asia – Pacific) Surveyors Limited, an independent professional valuer, on an open market existing use basis. The deficit arising on the revaluation amounted to HK\$3,500,000 (2002: HK\$800,000), of which HK\$514 has been charged to the investment property revaluation reserve and the remaining balance of HK\$3,499,486, being the excess of the deficit over the balance on the investment property revaluation reserve, is charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

11. PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP				
COST				
At 1 April 2002	1,192,080	5,457,758	1,265,029	7,914,867
Additions	1,228,611	229,557	–	1,458,168
Written off	(1,008,611)	(4,362,707)	–	(5,371,318)
At 31 March 2003	1,412,080	1,324,608	1,265,029	4,001,717
DEPRECIATION				
At 1 April 2002	438,585	4,745,301	1,265,029	6,448,915
Provided for the year	152,589	156,055	–	308,644
Eliminated on write off	(394,945)	(4,134,745)	–	(4,529,690)
At 31 March 2003	196,229	766,611	1,265,029	2,227,869
NET BOOK VALUES				
At 31 March 2003	1,215,851	557,997	–	1,773,848
At 31 March 2002	753,495	712,457	–	1,465,952
THE COMPANY				
COST				
At 1 April 2002	1,192,080	700,858	1,265,029	3,157,967
Additions	936,111	143,079	–	1,079,190
Written off	(1,008,611)	(355,937)	–	(1,364,548)
At 31 March 2003	1,119,580	488,000	1,265,029	2,872,609
DEPRECIATION				
At 1 April 2002	438,585	299,854	1,265,029	2,003,468
Provided for the year	128,401	52,649	–	181,050
Eliminated on write off	(394,945)	(145,655)	–	(540,600)
At 31 March 2003	172,041	206,848	1,265,029	1,643,918
NET BOOK VALUES				
At 31 March 2003	947,539	281,152	–	1,228,691
At 31 March 2002	753,495	401,004	–	1,154,499

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$	2002 HK\$
Unlisted shares, at cost	11,338,022	11,338,022
Amounts due from subsidiaries	133,731,124	142,517,581
	145,069,146	153,855,603
Less: Impairment loss	(65,150,872)	(71,835,145)
	79,918,274	82,020,458

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, repayment will not be required in the next twelve months from the balance sheet date and, accordingly, the amounts are shown as non-current.

Details of the principal subsidiaries of the Company at 31 March 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by the company the subsidiary % %		Principal activity
Heroway Limited	British Virgin Islands/PRC	US\$1	100	-	Investment holding
Multifortune Holdings Limited	British Virgin Islands/PRC	US\$1	-	100	Provision of agency services
Yunnan Nominees Limited	Hong Kong	HK\$2	100	-	Investment holding
Yunnan Yunyu Economic & Technology Consulting Co., Ltd.	PRC*	US\$100,000	-	100	Provision of consultancy services
Yunyu Bio – Pharmaceutical Company Limited	British Virgin Islands/PRC	US\$1	-	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

12. INTERESTS IN SUBSIDIARIES (CONT'D)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by the company	the subsidiary	Principal activity
			%	%	
Yunyu Holdings Limited	Hong Kong	HK\$2	100	-	Investment holding
Yunyu International Limited	Hong Kong	HK\$2	100	-	Investment holding
Yunyu Management & Consultant Limited	Hong Kong	HK\$2	100	-	Provision of consultancy services
Yunyu Trading Development Limited	Hong Kong	HK\$5,000,000	100	-	Investment holding and property investment

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

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

* *It is wholly foreign owned enterprise.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$	2002 HK\$
Share of net assets	54,898,816	48,296,297
Goodwill arising on acquisition of an associate (note a)	3,960,076	4,174,133
	58,858,892	52,470,430

Note a:

	HK\$
COST	
At 1 April 2002 and 31 March 2003	4,281,162
AMORTISATION	
At 1 April 2002	107,029
Charge for the year	214,057
At 31 March 2003	321,086
NET BOOK VALUES	
At 31 March 2003	3,960,076
At 31 March 2002	4,174,133

Goodwill is amortised over its estimated useful life of 20 years.

Details of the associates of the Group at 31 March 2003 are as follows:

Name of associate	Form of business structure	Place of establishment and operation	Attributable interest in registered capital held by the Group %	Principal activity
雲南盟生藥業有限公司	Incorporated	PRC	49	Research, development, manufacture and sale of biotechnology products
深圳新鵬生物工程有限公司	Incorporated	PRC	48	Research, development, manufacture and sale of biotechnology products
深圳市雷克藥業有限公司*	Incorporated	PRC	44	Not yet commence business

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

13. INTERESTS IN ASSOCIATES (CONT'D)

Name of associate	Form of business structure	Place of establishment and operation	Attributable interest in registered capital held by the Group %	Principal activity
上海松力生物技術有限公司	Incorporated	PRC	25	Research, development, manufacture and sale of biotechnology products

* 深圳市雷克藥業有限公司 became a subsidiary of 深圳新鵬生物工程有限公 司 during the year. The post acquisition results for the period and financial position at 31 March 2003 are consolidated with 深圳新鵬生物工程有限公 司 for disclosure purpose.

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

Results for the year

	雲南盟生藥業有限公司		深圳新鵬 生物工程有限公 司		上海松力生物 技術有限公司
	1.4.2002 to 31.3.2003 HK\$	1.9.2001 (date of acquisition) to 31.3.2002 HK\$	1.4.2002 to 31.3.2003 HK\$	1.4.2001 to 31.3.2002 HK\$	21.6.2002 (date of incorporation) to 31.3.2003
Turnover	3,841,614	2,383,603	27,864,125	32,551,524	-
Depreciation	262,103	129,207	2,510,969	2,451,143	23,255
Profit (loss) before taxation	1,018,186	675,192	665,892	7,229,254	(669,935)
Profit (loss) before taxation attributable to the Group	498,911	330,844	319,628	3,470,043	(167,484)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

13. INTERESTS IN ASSOCIATES (CONT'D)

Financial position

	雲南盟生藥業有限公司		深圳新鵬 生物工程有限公司		上海松力生物 技術有限公司
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$
Non-current assets	22,923,159	13,210,380	65,424,318	26,923,714	2,800,890
Current assets	4,087,592	5,824,374	38,873,879	69,145,818	3,689,250
Current liabilities	(3,068,873)	(5,624,903)	(13,099,274)	(6,782,979)	(2,065,735)
Non-current liabilities	-	-	(3,571,434)	(2,358,491)	-
Net assets	23,941,878	13,409,851	87,627,489	86,928,062	4,424,405
Net assets attributable to the Group	11,731,520	6,570,827	42,061,195	41,725,470	1,106,101

14. INVESTMENTS IN AN INVESTEE COMPANY

	THE GROUP 2003 & 2002 HK\$
Investment securities	
Unlisted equity securities, at cost	31,177,196

The investment securities represents the Group's 12.5% interest in the registered capital of Yuxi Globe Colour Printing Carton Co., Ltd., a company registered in the PRC which is engaged in the business of printing and sale of cigarette packs and boxes. The directors consider that the investments worth at least their costs.

15. LOAN TO AN INVESTEE COMPANY

The loan to the investee company is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of the directors, the loan will not be received in the next twelve months from the balance sheet date and accordingly, the loan is shown as non-current.

16. SECURITIES LINKED DEPOSIT

The amount represents a deposit which will be converted into designated listed shares in Hong Kong at the maturity date of the deposit if the closing price of this designated share fall below the pre-determined price at that date. If the closing price of this designated share is higher than the pre-determined price at maturity, the Company will receive cash with pre-agreed interest amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

16. SECURITIES LINKED DEPOSIT (CONT'D)

In the opinion of directors, the fair value of the deposit at the balance sheet date are not materially different from their investment cost.

On 31 March 2003 and up to the date of the report, the closing prices of this share were higher than the pre-determined price.

17. TRADE AND OTHER RECEIVABLES

The Group allows a credit period of 21 days to its trade debtors.

	THE GROUP	
	2003 HK\$	2002 HK\$
Trade receivables, current	–	131,040
Dividends receivable	3,462,775	7,606,168
Other receivables	1,501,596	1,166,046
	4,964,371	8,903,254

18. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand.

19. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

20. SHARE CAPITAL

	Number of shares	Amount
	2003 & 2002	2003 & 2002 HK\$
Ordinary shares of HK\$0.10 each		
Authorised:		
At beginning and at end of the year	1,000,000,000	100,000,000
Issued and fully paid:		
At beginning and at end of the year	459,473,000	45,947,300

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

21. WARRANTS

On 6 December 1999, a bonus issue of 76,710,600 warrants was made on the basis of one warrant for every five issued shares held on 2 December 1999. Each warrant entitles its holder to subscribe in cash at a price of HK\$1.60 for one share in the Company at any time from 10 December 1999 to 30 September 2002, both days inclusive. No warrants were exercised and the warrants expired during the year.

22. RESERVES

	Share premium HK\$	Capital redemption reserve HK\$	Deficit HK\$	Total HK\$
THE COMPANY				
At 1 April 2001	187,468,964	8,000	(79,953,882)	107,523,082
Net loss for the year	—	—	(3,798,969)	(3,798,969)
At 31 March 2002 and 1 April 2002	187,468,964	8,000	(83,752,851)	103,724,113
Net loss for the year	—	—	(4,268,312)	(4,268,312)
At 31 March 2003	187,468,964	8,000	(88,021,163)	99,455,801

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Associations, provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can only be distributed out of the profits of the Company. Accordingly, no dividend can be distributed out of the share premium account of the Company but dividends can be distributed out of profits earned in the current financial year of the Company, regardless of losses of a prior financial year, provided the Company remains solvent throughout.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

23. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the amount of the net potential deferred tax asset in respect of timing differences which has not been recognised in the balance sheet is as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Tax effect of timing differences because of:				
Estimated tax losses	14,885,441	13,407,278	6,348,848	5,618,434
Excess of tax allowances over depreciation	(184,518)	(124,921)	(158,419)	(150,451)
	14,700,923	13,282,357	6,190,429	5,467,983

Deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will crystallise in the foreseeable future.

The amount of the net unrecognised deferred tax credit for the year is as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Tax effect of timing differences because of:				
Estimated tax losses	1,478,163	412,788	730,414	797,427
Excess of depreciation over tax allowances	(59,597)	68,006	(7,968)	15,693
	1,418,566	480,794	722,446	813,120

24. RETIREMENT BENEFITS SCHEME

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

24. RETIREMENT BENEFITS SCHEME (CONT'D)

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

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

The total cost charged to income of HK\$136,657 (2002: HK\$154,941) represents contributions paid to the scheme by the Group in respect of the current year.

The employees of Yunnan Yunyu Economic & Technology Consultancy Co., Ltd. (雲南雲玉經濟技術諮詢有限公司) are members of state-managed retirement benefit schemes operated by the PRC government. This subsidiary is required to contribute 27.5% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

For the year ended 31 March 2002, the total costs charged to income statement of HK\$7,260 represents contributions paid to the state-managed retirement benefit schemes by the Group in respect of last year. For current year, this subsidiary is exempted for the contributions to the retirement benefit schemes.

25. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payment paid under operating leases in respect of premises during the year amounted to HK\$2,498,587 (2002: HK\$2,591,820).

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

	THE GROUP	
	2003	2002
	HK\$	HK\$
Within one year	875,000	2,120,000
In the second to fifth year inclusive	1,751,000	–
	2,626,000	2,120,000

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

25. OPERATING LEASE COMMITMENTS (CONT'D)

The Group as lessor

Property rental income earned during the year was HK\$387,595 (2002: HK\$465,114). The property is expected to generate rental yields of 3.6% (2002: 3.3%) on an ongoing basis. The premise held have committed tenants for the next 2 years.

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

	THE GROUP	
	2003 HK\$	2002 HK\$
Within one year	426,000	387,000
In the second to fifth year inclusive	427,000	853,000
	853,000	1,240,000

26. CAPITAL COMMITMENTS

At 31 March 2003, the Group was in the process of negotiating with a third party to acquire an additional 6.25% interest in the registered capital of its investee company, Yuxi Globe Colour Printing Carton Co., Ltd. Details of the capital commitments please refer to note 30(c).

There was no capital commitment at 31 March 2002.

27. PLEDGE OF ASSETS

At 31 March 2002, fixed bank deposits of the Group amounting to HK\$5,000,000 and the Group's investment property had been pledged to secure the general banking facilities granted to the Group. The pledged assets were released upon the expiry of the banking facilities during the year.

28. NON-CASH TRANSACTION

During the year, the Group entered into a trade-in arrangement in respect of an equipment for a trade-in value of HK\$28,499.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

29. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2003 HK\$	2002 HK\$
Agency fee income from Yuxi Hongta	–	131,040
Consultancy income from Yuxi Hongta	–	353,774
Consultancy income from Yunnan Hongta Import & Export Co. Ltd. ("Yunnan Hongta")	–	4,104,957
Compensation income from Yuxi Hongta	4,417,920	–

Yuxi Hongta is a substantial shareholder of the Company's ultimate holding company.

Yunnan Hongta is a wholly-owned subsidiary of Yuxi Hongta.

Agency fee income was carried out at cost plus a percentage profit mark-up.

Consultancy income was negotiated with the related companies at the prevailing market price.

Compensation income was paid according to the import agency agreement entered into between the Group and Yuxi Hongta, pursuant to which the Group was entitled to receive compensation income from Yuxi Hongta if the agreed volume of purchase was not achieved by Yuxi Hongta.

30. POST BALANCE SHEET EVENTS

- (a) On 15 April 2003, the Group entered into an agreement to acquire an additional 6% equity interest in an associate, 雲南盟生藥業有限公司 for a cash consideration of RMB3 million, (approximately HK\$2.8 million). After the acquisition, 雲南盟生藥業有限公司 becomes the Group's subsidiary with 55% equity interest held by the Group.
- (b) On 22 May 2003, the Group entered into termination agreements with Yuxi Hongta. Pursuant to the termination agreements, the Group and Yuxi Hongta agreed to terminate the import and export agency agreements. Despite the termination, the Group does not intend to discontinue this line of business.
- (c) On 17 June 2003, the Group entered into a conditional agreement to acquire an additional 6.25% interest in the registered capital of its investee company, Yuxi Globe Colour Printing Carton Co., Ltd. for a consideration of HK\$19.9 million by issuing 47,380,952 shares in the Company at HK\$0.42 per share. Upon completion of the acquisition, the Group's interest in the registered capital of Yuxi Globe Colour Printing Carton Co., Ltd. will become 18.75%.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				2003
	1999	2000	2001	2002	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover (<i>Note</i>)	44,072	14,649	14,276	10,963	3,424
Profit (loss) from operations	192	758	6,874	2,234	(4,946)
Finance costs	(288)	-	-	-	-
Share of results of associates	-	-	1,593	3,801	651
Amortisation of goodwill arising on acquisition of an associate	-	-	-	(107)	(214)
(Loss) profit before taxation	(96)	758	8,467	5,928	(4,509)
Taxation	-	-	(203)	(1,072)	(17)
(Loss) profit after taxation	(96)	758	8,264	4,856	(4,526)
Minority interests	6	-	-	-	-
Net (loss) profit for the year	(90)	758	8,264	4,856	(4,526)

ASSETS AND LIABILITIES

	At 31 March				2003
	1999	2000	2001	2002	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Non-current assets	24,030	54,336	93,643	104,156	110,370
Net current (liabilities) assets	94,203	134,354	96,749	90,292	79,551
	118,233	188,690	190,392	194,448	189,921
Shareholders' funds	118,232	188,689	190,391	194,447	189,920
Minority interests	1	1	1	1	1
	118,233	188,690	190,392	194,448	189,921

Note: During the year, the Group has identified property rental as one of the principal activities of the Group. Accordingly, rental income was classified as turnover for comparative purposes.

PARTICULARS OF INVESTMENT PROPERTY

Location	Lease term	Type
3rd Floor, Alliance Building Nos. 130-136 Connaught Road Central Hong Kong	Medium-term lease	Commercial

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting of the Company will be held at Suites 2401-2404, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong on Friday, 22 August 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the Directors and Auditors for the year ended 31 March 2003;
2. To re-elect Directors and to fix the remuneration of Directors;
3. To re-appoint Auditors and to authorise the Directors to fix their remuneration;
4. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate of the nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
 - (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company.”

5. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.10 each in the capital of the Company and to

make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;

- (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) an issue of shares as scrip dividends pursuant to the articles of association of the Company from time to time, shall not exceed 20% of the aggregate of the nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to the holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

6. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT subject to the passing of the Resolutions Nos. 4 and 5 set out in the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares pursuant to Resolution No. 5 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate

NOTICE OF ANNUAL GENERAL MEETING

nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 4 set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution.”

7. As special business, to consider and, if thought fit, pass the following resolution as a special resolution:

“**THAT** the existing Articles of Association of the Company be and are hereby amended in the following manner:

- (a) by adding the following new definition after the existing definition “capital” in Article 2:

“Clearing House” means a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction.”

- (b) by replacing the existing Article 86.(A) with the following new Article:

86.(A) If a Clearing House (or its nominee) is a member of the Company, it may appoint such person or persons as it thinks fit to act as its proxy of proxies or as its corporate representative or representatives to the extent permitted by the Companies Act at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one proxy or corporate representative is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy or corporate representative is so appointed. A person so appointed under the provisions of this Article shall be entitled to exercise the same powers on behalf of the Clearing House (or its nominee) which he represents as that Clearing House (or its nominee) could exercise as if it were an individual member of the Company.”

By Order of the Board

MA Pizhi

Managing Director

Hong Kong, 18 July 2003

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the principal place of business of the Company in Hong Kong at Suites 2401-2404, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. A circular setting out further information regarding Resolutions Nos. 4 to 6 above will be dispatched to members of the Company together with the 2003 annual report.
4. On 1 April 2003, Securities and Futures (Clearing House) Ordinance was repealed and Securities and Futures Ordinance came into effect. The Directors noted that the words “clearing house” in the existing Company’s Article 86.(A) needs to be changed as it refers to the repealed Securities and Futures (Clearing House) Ordinance. The Directors therefore propose to amend the Company’s Articles of Association by adoption of a new definition of “Clearing House” and to replace the existing Article 86.(A) to enable the Clearing House to appoint multiple proxies/corporate representatives to attend and vote at any shareholders’ meeting of the Company.