



雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



Annual Report 2004

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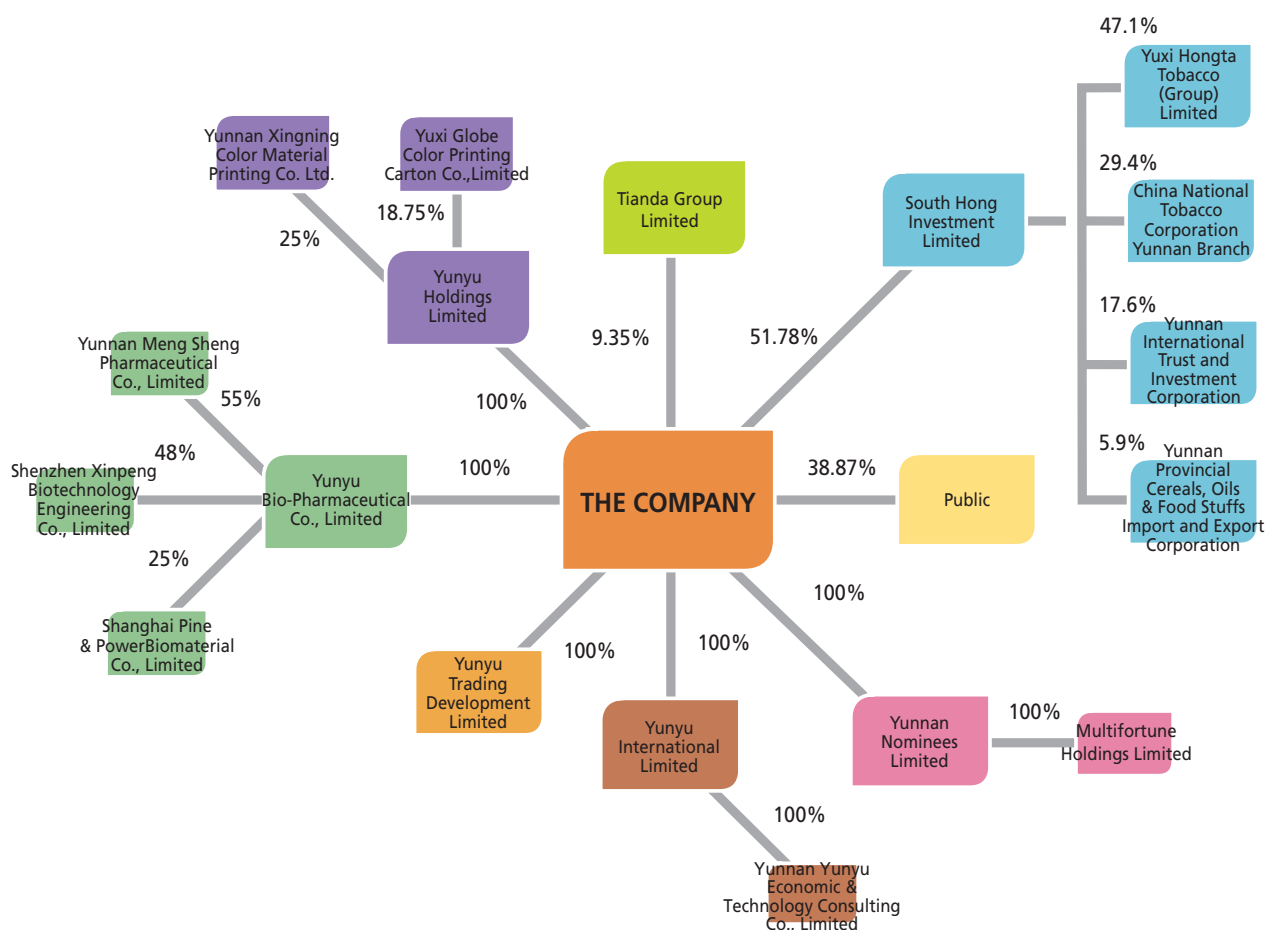
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CORPORATE PROFILE & INTRODUCTION TO YUXI HONGTA

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 sales of pharmaceutical products, property holding, provision of agency services for trading of cigarette and other related products, provision of management and consultancy services and the investment in cigarette packaging and printing joint venture in China. It also holds a 48% equity interest in Shenzhen Xinpeng Biotechnology Engineering Company Limited, a 25% equity interest in Shanghai Pine & Power Biomaterial Company Limited, and a 25% equity interest in Yunnan Xingning Color Material Printing Company Limited.

South Hong Investment Limited ("South Hong") is the controlling shareholder of the Company, holding 51.78% 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
Fang Wen Quan

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
No. 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 54, 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 48, 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 manager of Yunnan Hongta Industrial Co., Ltd. Mr. Ma is currently the managing director of the Company.

Mr. CHENG Hau Yan, aged 57, 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 48, 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 49, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (Cont'd)

Mr. LI Guanglin, aged 40, 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.

Mr. FANG Wen Quan, aged 35, is currently the Chairman and general manager of Tianda Group Limited, Tianda Enterprise (China) Ltd. and Tianda Pharmaceuticals Limited. He has been appointed as executive director of the Company in October 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HO Wing Fun, aged 71, has been an executive director of Henderson Land Development Company Limited, a company listed on The Stock Exchange of Hong Kong Limited, since 1997. He joined Henderson Development Limited in 1975 and has over 45 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 44, 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 38, 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.

CHAIRMAN'S STATEMENT

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 2004.

RESULTS

For the year ended 31 March 2004, turnover of the Group amounted to HK\$5.77 million, an increase of 68% from the previous year. During the year under review, the Group recorded a net loss of HK\$5.74 million, compared to a net loss of HK\$4.53 million for the previous financial year. Loss per share for the current year was 1.181 cents with loss per share for the previous year being 0.985 cents.

DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2004.

BUSINESS REVIEW

During the year under review, the Group completed the acquisition of additional 6% interest in Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical"). The interest of the Group in Meng Sheng Pharmaceutical was increased to 55% and this entity then became a non wholly-owned subsidiary of the Company. During the year under review, the Group was able to benefit from the sustained growth in sales revenues of Meng Sheng Pharmaceutical. As at 31 March 2004, the Group's total investment in Meng Sheng Pharmaceutical amounted to approximately Rmb21 million which signifies the Group's outlook on the future development potential of this entity. On the other hand, the Group also completed the acquisition of an additional 6.25% equity interest in Yuxi Globe

Color Printing Carton Co., Limited ("Yuxi Globe") during the year under review. The aggregate consideration for this acquisition was HK\$19.9 million and the Group's equity interest in Yuxi Globe was increased to 18.75%. The Group's share of dividend from Yuxi Globe would be increased following the acquisition of an additional 6.25% equity interest in Yuxi Globe.

The associated company Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering"), in which the Group held 48% equity interest, recorded losses during the year under review which was caused by the drop of its product prices. As a result, the Group has to share the relevant losses attributable to that associated company during the year under review. Under such tough operating environment, Xinpeng Biotechnology Engineering is actively developing new products with good potential for coping with the fierce competition in the domestic pharmaceutical market. Amongst those is Chuiluosu, an anti-cancer drug, on which Xinpeng Biotechnology Engineering had already commenced the research jointly at the end of 2002. During the year under review, the relevant research & development work for Chuiluosu continued to carry out smoothly. The management expects that Chuiluosu could act as a catalyst for the operating results of Xinpeng Biotechnology Engineering. On the other hand, Yunnan Xingning Color Material Printing Co., Limited ("Yunnan Xingning"), the Group's newly-acquired associated company during the year under review, has brought an immediate profit return to the Group in the current year. This fully reflects the development potential of this company as well as the extent of support from this company's major shareholder (which is Yunnan Hongta Group Co., Ltd.) to its printing business.

CHAIRMAN'S STATEMENT

PROSPECTS

Since the Group's acquisition of 49% interest in Meng Sheng Pharmaceutical in August 2001 till the acquisition of further 6% interest in the entity during the year under review, Meng Sheng Pharmaceutical has been maintaining stable operating performance throughout that period and brought about sustained profit contribution to the Group. Its production base consists of advanced production facilities and GMP-compliant production workshops, which could act as catalysts for its increasing sales trend. The Group believes that the pharmaceutical business will bring about favorable returns to the Group in the future. On the other hand, the Group believes that with its strong business foundations as well as its experienced management team, Xinpeng Biotechnology Engineering would be able to cope with the tough challenges prevailing in the domestic pharmaceutical market. Furthermore, the Group's investee company and the newly-acquired associated company (Yuxi Globe & Yunnan Xingning respectively), which are engaging in printing and sale of cigarette packaging packs and boxes in China, will generate fruitful returns to the Group in the future under the full support of Yunnan Hongta Group Co., Ltd. By virtue of the net loss incurred during the year under review, the Group will keep on to reduce operating expenses in stringent manner to improve the results 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.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

Liu Wandong

Chairman

Hong Kong, 16 July 2004

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 March 2004, the Group recorded a turnover of HK\$5.77 million which represented an increase of 68% when compared with HK\$3.42 million in previous year. The increase in turnover was due to the fact that Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical") formally became a non wholly-owned subsidiary of the Company during the year under review. Turnover of Meng Sheng Pharmaceutical for the relevant period amounting to Rmb3.77 million (or HK\$3.56 million) was then included in the consolidated turnover of the Group. The Group's effort in implementing stringent cost control measures continued to receive reward. During the year under review, administrative expenses for the Group (excluding deficit arising on revaluation of investment property) decreased by 15% compared to previous year.

On the other hand, sales revenues of the Group's associated company Shenzhen Xinpeng Biotechnology Engineering Company Limited were affected by the general reduction of its product prices with the entity subsequently recorded losses during the year under review. Accordingly, the Group has to share losses (before tax) of that associated company amounting to HK\$420,000 during the year under review. For the financial year ended 31 March 2004, the Group recorded a net loss of HK\$5.74 million, compared to a net loss of HK\$4.53 million for the previous year. Results for the previous year included a compensation of HK\$4.42 million in cash from Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta") in respect of the quantity differences arising from the import business for the previous two financial years. The import and export agency

agreements entered with Yuxi Hongta were also terminated upon their expiration in May 2003.

As at 31 March 2004, the shareholders' funds for the Group reached HK\$204 million, representing an increase of 7% when compared with HK\$190 million as at 31 March 2003. The increase of the shareholders' funds was mainly attributable to the completion of the Group's acquisition of an additional 6.25% equity interest in Yuxi Globe Color Printing Carton Co., Limited during the year under review, and the Company has allotted and issued 47,380,952 ordinary shares to the vendor in September 2003 for settling the consideration for the acquisition of HK\$19.9 million. As at 31 March 2004, the number of ordinary shares issued by the Company was 506,853,952 (2003: 459,473,000).

OPERATIONS ANALYSIS

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

Yuxi Globe Color Printing Carton Co., Limited ("Yuxi Globe") recorded a turnover of Rmb260 million in 2003, representing a decrease of 17% when compared with last year. The decrease of turnover was mainly resulted from the continued fierce competition in China's tobacco industry in 2003, which in turn affected the sales volume of Yuxi Globe's products. Despite that situation, Yuxi Globe's comprehensive production and quality control systems enable it to reduce the production costs effectively. As a result, the entity still recorded a net profit (after tax) of Rmb15 million for the financial year ended 31 December 2003 and is its tenth consecutive year of profitability. Accordingly, the Group was entitled to a corresponding dividend income of Rmb2.09

MANAGEMENT DISCUSSION AND ANALYSIS

million (or HK\$1.97 million) during the year under review. As such, the Group's total dividend income arising from investment in Yuxi Globe then amounted to HK\$21.5 million.

As the operating environment is expected to remain tough in the future, Yuxi Globe will continue to control costs in stringent manner as well as to strengthen technological innovation for the entity to achieving operating performance continuously. Given the strong foundation of Yuxi Globe, the Group is optimistic with regard to its business prospect. Moreover, following the completion of its acquisition of an additional 6.25% equity interest in Yuxi Globe in September 2003, the Group's equity interest in Yuxi Globe was then increased to 18.75%. The increase in interest in Yuxi Globe will enhance the income base of the Group.



Pharmaceutical business

The Group completed the acquisition of additional 6% interest in Meng Sheng Pharmaceutical in July 2003. The interest of the Group in Meng Sheng Pharmaceutical was increased from 49% to 55%, therefore Meng Sheng Pharmaceutical became a non wholly-owned subsidiary of the Company. Meng Sheng Pharmaceutical's turnover and

financial results were then consolidated into that of the Group. As a result, the pharmaceutical business of Meng Sheng Pharmaceutical was classified as one of the principal activities of the Group during the year under review.

Sales quantities of Meng Sheng Pharmaceutical's pharmaceutical products maintained a stable growth despite the current intensified competition in the domestic pharmaceutical market. Meng Sheng Pharmaceutical recorded a turnover of Rmb5.22 million for the year under review, representing an increase of 28% when compared with the corresponding amount in previous year. On the other hand, all the relevant construction work for the production base of Meng Sheng Pharmaceutical, which was located in the Kunming Economic and Technology Development Zone, have been completed by the end of 2003 with total investment amounted to Rmb20 million. Accordingly, provision for depreciation of the production base has been commenced in 2004. For the year under review, Meng Sheng Pharmaceutical recorded a profit of Rmb440,000 after providing the relevant depreciation charges. The Group was therefore entitled to a profit share of HK\$120,000 during the period from April to June 2003 (during that Meng Sheng Pharmaceutical was an associated company of the Group), and included its net profit of HK\$170,000 into the Group's consolidated results during the period from July 2003 to March 2004.

There are four production workshops in the production base of Meng Sheng Pharmaceutical. All these production workshops have successfully passed the inspections of State Drug Administration and have been accredited with GMP

MANAGEMENT DISCUSSION AND ANALYSIS

certificates. According to the notice issued by State Drug Administration, pharmaceutical manufacturers were required to comply with GMP standards by 30 June 2004, otherwise production will have to be terminated. Therefore, GMP compliance provides strong assurance for the quality of the products manufactured by Meng Sheng Pharmaceutical which will help boost sales volumes. With the current intensifying competition in the domestic pharmaceutical market, this places the entity in an advantageous position. Meng Sheng Pharmaceutical is also actively conducting research & development of other new products like health-care products. Two kinds of essence products have been applied in early 2004 and are expected to obtain production approvals in 2004 for commencement of sales. New health-care products could enhance the product diversification and competitiveness of the entity. The production base of Meng Sheng Pharmaceutical is also able to cater for future orders demand. The management is highly confident with regard to the future development of Meng Sheng Pharmaceutical and believes that the pharmaceutical business will bring about favorable returns to the Group in the future.

Associated Companies

(1) Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering")

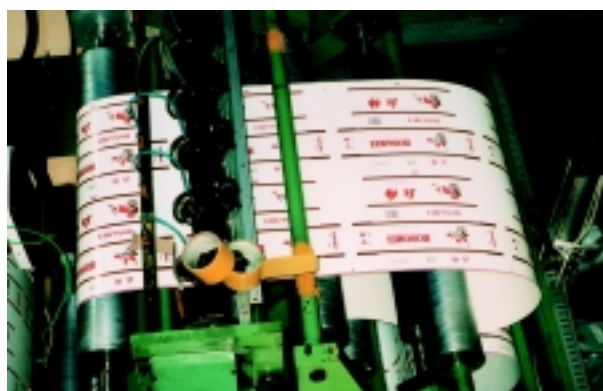
In 2003, the National Development and Reform Commission of China set up the highest retail selling prices in respect of a series of medicines for manufacturers' information. Amongst those medicines was rhG-CSF, Xinpeng Biotechnology Engineering's medical product. Pursuant to

that, the current reference selling prices for rhG-CSF represented an average reduction of up to 38% when compared with the previous selling prices. Accordingly, Xinpeng Biotechnology Engineering adjusted down the selling prices of rhG-CSF which therefore affected its sales revenues during the year under review. Despite the fact that sales quantities of rhG-CSF maintained a growing trend, the reduction of prices caused a turnover of Rmb25.46 million recorded during the year under review which represented a decrease of 14% when compared with the corresponding amount in previous year. Under such situation, Xinpeng Biotechnology Engineering recorded a loss (before tax) of Rmb920,000 during the year under review, compared to a profit (before tax) of Rmb710,000 in the previous year. As a result, the Group shared HK\$420,000 losses (before tax) attributable to that associated company during the year.

In order to meet the challenges resulting from the reduction of product prices, the sales team of Xinpeng Biotechnology Engineering further enhanced the sales and marketing efforts for rhG-CSF. Furthermore, the management also enforced stringent control on the entity's operating costs in order to minimize the impact on its results. On the other hand, Xinpeng Biotechnology Engineering is actively developing new products with good potential, including Chuiluosu (TR1). The research of TR1, an anti-cancer drug, was carried out jointly with the Institute of Basic Medical Sciences of the Chinese Academy of Medical Sciences.

MANAGEMENT DISCUSSION AND ANALYSIS

Xinpeng Biotechnology Engineering has already invested Rmb5 million for part of technology purchase consideration in relation to TR1. The management expects that TR1 could facilitate Xinpeng Biotechnology Engineering's product diversification in the future. Xinpeng Biotechnology Engineering could also be leveraging TR1 to develop further anti-cancer drugs.



(2) *Yunnan Xingning Color Material Printing Co., Limited ("Yunnan Xingning")*

In August 2003, the Group entered into a sale and purchase agreement for the acquisition of a 25% interest in Yunnan Xingning. The aggregate consideration for the acquisition was Rmb10,270,000. Yunnan Xingning was established in Yunnan Province in 1996 with the registered capital being Rmb37,660,000. The entity is principally engaged in the printing and sale of cigarette packaging packs and boxes in China. The principal brands of cigarette packs and boxes printed by Yunnan Xingning include

Hongtashan, Ashima and Hongmei. Such acquisition has been formally completed in December 2003. Yunnan Xingning then became one of the associated companies of the Group. The joint venture partner is Yunnan Hongta Group Co., Ltd. ("Hongta Group") which holds 75% interest in Yunnan Xingning. After that shareholding restructure, Hongta Group provides full support to the business of Yunnan Xingning with the entity then recorded a turnover of Rmb5.11 million and a profit of Rmb440,000 for the period from January to March 2004. The Group was therefore entitled to an immediate profit share of HK\$100,000 for the year under review. With the strong business support from Hongta Group, Yunnan Xingning will have a promising development prospect. The Group believes that Yunnan Xingning will generate fruitful investment returns to the Group in the future and further strengthen its investment portfolio in China's cigarette packaging and printing entities.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy financial position. As at 31 March 2004, the Group held cash and bank balances of approximately HK\$63 million. Approximately 72% and 20% of the total cash and bank balances were denominated in US dollars and Renminbi respectively with the remaining in Hong Kong dollars. As in the past, the Group has no external borrowings. With this strong financial foundation, the Group has adequate resources to meet its working capital and future development requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGES ON ASSETS

The Group did not have any charges on assets as at 31 March 2004 and 31 March 2003.

EXCHANGE RATE EXPOSURE

The Group's assets, liabilities and transactions were denominated either in Hong Kong dollars, Renminbi or US dollars. As the exchange rate of Hong Kong dollars, Renminbi and US dollars were relatively stable during the year, the Group was not exposed to material exchange rate risk at the moment & no hedging measures are necessary at this stage.

EMPLOYEES

The Group has approximately 50 employees at 31 March 2004. Employees are remunerated according to nature of the job and market trends.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2004 is set out in note 4 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2004, the five largest customers of the Group accounted for approximately 86% of the Group's total turnover while the largest customer of the Group accounted for approximately 34% of the Group's turnover. In addition, for the year ended 31 March 2004, the five largest suppliers of the Group accounted for approximately 79% of the Group's total purchases while the largest supplier of the Group accounted for approximately 38% of the Group's total purchases.

None of the directors, any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest customers or suppliers.

RESULTS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 20.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 59 of this annual report.

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.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, 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 26 and 27 to the financial statements, respectively.

DIRECTORS

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

Executive directors:

Liu Wandong (*Chairman*)

Ma Pizhi (*Managing Director*)

Cheng Hau Yan

Dong Jianhua

Li Guanglin

Li Hong

Fang Wen Quan (appointed on 6 October 2003)

Independent non-executive directors:

Ho Wing Fun

Lee Ka Sze, Carmelo

In accordance with Articles 91 and 99 of the Company's Articles of Association, Messrs. Fang Wen Quan, Lee Ka Sze, Carmelo and Li Hong will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

There is no specific term of office for the independent non-executive directors and they will hold office up to their retirement by rotation in accordance with the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 31 March 2004, none of the director nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register as required to be kept by the Company under Section 352 of the SFO.

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 management fee income of HK\$240,000 from a substantial shareholder of the Company.

The independent non-executive directors have confirmed the transactions in relation to the management fee 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.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of the relevant interests in 5% or more of the issued share capital of the Company.

| Name of shareholder | Capacity | Number of shares held | % |
|----------------------------------------------------------|--------------------------------|-----------------------|-------|
| South Hong Investment Limited | Beneficial owner | 262,442,930 (Note 1) | 51.78 |
| China National Tobacco Corporation Yunnan Branch | Held by controlled corporation | 262,442,930 (Note 1) | 51.78 |
| Yuxi Hongta Tobacco (Group) Limited | Held by controlled corporation | 262,442,930 (Note 1) | 51.78 |
| Yunnan International Trust and Investment Corporation | Held by controlled corporation | 262,442,930 (Note 1) | 51.78 |
| Tianda Group Limited | Beneficial owner | 47,380,952 (Note 2) | 9.35 |

Note:

- (1) These 262,442,930 shares are beneficially owned by South Hong Investment Limited ("South Hong") which is owned as to 29.4% by China National Tobacco Corporation Yunnan Branch; 47.1% by Yuxi Hongta Tobacco (Group) Limited and 17.6% by Yunnan International Trust and Investment Corporation. 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, are deemed to be interested in the 262,442,930 shares owned by South Hong.
- (2) These 47,380,952 shares are beneficially owned by Tianda Group Limited.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(Cont'd)*

All the interests stated above represent long positions. As at 31 March 2004, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more in the Company's issued share capital as at 31 March 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding 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, the Company or any other body corporate and none of the directors nor any of their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

PURCHASE, SALE AND 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.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the year ended 31 March 2004, save that the non-executive directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the articles of association of the Company.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirement of the Code. The audit committee comprises Messrs. Ho Wing Fun and Lee Ka Sze, Carmelo, two independent non-executive directors of the Company. 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 reports of the Group.

REPORT OF THE DIRECTORS

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, 16 July 2004

REPORT OF THE AUDITORS



TO THE SHAREHOLDERS OF YUNNAN ENTERPRISES HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 20 to 58 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2004 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, 16 July 2004

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2004

| | NOTES | 2004 HK\$ | 2003 HK\$ |
|---------------------------------------------------------------|-------|----------------------|---------------|
| Turnover | 4 | 5,765,777 | 3,423,595 |
| Cost of sales | | (1,819,559) | – |
| Gross profit | | 3,946,218 | 3,423,595 |
| Compensation income | 35 | – | 4,417,920 |
| Other operating income | 5 | 1,418,153 | 1,503,208 |
| Distribution costs | | (556,816) | – |
| Administrative expenses | | (9,217,782) | (10,791,658) |
| Deficit arising on revaluation of investment property | | (500,000) | (3,499,486) |
| Loss from operations | 6 | (4,910,227) | (4,946,421) |
| Share of results of associates | | (484,514) | 651,055 |
| Amortisation of goodwill arising on acquisition of associates | | (75,990) | (214,057) |
| Loss before taxation | | (5,470,731) | (4,509,423) |
| Income tax expense | 8 | (190,715) | (17,288) |
| Loss after taxation | | (5,661,446) | (4,526,711) |
| Minority interests | | (77,367) | – |
| Net loss for the year | | (5,738,813) | (4,526,711) |
| Loss per share – basic | 9 | (1.181) cents | (0.985) cents |

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2004

| | NOTES | 2004 HK\$ | 2003 HK\$ |
|------------------------------------|-------|--------------------|--------------|
| NON-CURRENT ASSETS | | | |
| Investment property | 10 | 10,200,000 | 10,700,000 |
| Property, plant and equipment | 11 | 25,647,236 | 1,773,848 |
| Goodwill | 12 | 5,305,941 | – |
| Intangible assets | 13 | 1,556,604 | – |
| Interests in associates | 15 | 52,287,701 | 58,858,892 |
| Investments in an investee company | 16 | 55,205,141 | 35,548,696 |
| Loan to an investee company | 17 | 715,055 | 471,500 |
| Securities linked deposit | 18 | 3,017,282 | 3,017,282 |
| | | 153,934,960 | 110,370,218 |
| CURRENT ASSETS | | | |
| Inventories | 19 | 1,025,627 | – |
| Trade and other receivables | 20 | 5,002,919 | 4,964,371 |
| Bank deposits | | 46,383,796 | 60,336,890 |
| Bank balances and cash | | 13,501,258 | 16,077,207 |
| | | 65,913,600 | 81,378,468 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 21 | 2,552,336 | 1,054,593 |
| Government grants | 22 | 51,228 | – |
| Amount due to an associate | 24 | 773,014 | 773,014 |
| Amount due to a shareholder | 25 | 589,511 | – |
| | | 3,966,089 | 1,827,607 |
| NET CURRENT ASSETS | | | |
| | | 61,947,511 | 79,550,861 |
| | | 215,882,471 | 189,921,079 |
| CAPITAL AND RESERVES | | | |
| Share capital | 26 | 50,685,395 | 45,947,300 |
| Reserves | | 152,967,780 | 143,972,332 |
| | | 203,653,175 | 189,919,632 |
| MINORITY INTERESTS | | | |
| | | 12,229,296 | 1,447 |
| | | 215,882,471 | 189,921,079 |

The financial statements on pages 20 to 58 were approved and authorised for issue by the Board of Directors on 16 July 2004 and are signed on its behalf by:

LIU WANDONG
Chairman

MA PIZHI
Managing Director

BALANCE SHEET

AT 31 MARCH 2004

| | NOTES | 2004 HK\$ | 2003 HK\$ |
|-----------------------------|-------|--------------------|--------------|
| NON-CURRENT ASSETS | | | |
| Plant and equipment | 11 | 939,879 | 1,228,691 |
| Interests in subsidiaries | 14 | 109,967,772 | 79,918,274 |
| Securities linked deposit | 18 | 3,017,282 | 3,017,282 |
| | | 113,924,933 | 84,164,247 |
| CURRENT ASSETS | | | |
| Other receivables | | 755,531 | 1,340,134 |
| Bank deposits | | 46,383,796 | 60,336,890 |
| Bank balances and cash | | 764,373 | 956,167 |
| | | 47,903,700 | 62,633,191 |
| CURRENT LIABILITIES | | | |
| Other payables | | 405,000 | 666,753 |
| Amounts due to subsidiaries | 23 | 676,070 | 727,584 |
| | | 1,081,070 | 1,394,337 |
| NET CURRENT ASSETS | | | |
| | | 46,822,630 | 61,238,854 |
| | | 160,747,563 | 145,403,101 |
| CAPITAL AND RESERVES | | | |
| Share capital | 26 | 50,685,395 | 45,947,300 |
| Reserves | 28 | 110,062,168 | 99,455,801 |
| | | 160,747,563 | 145,403,101 |

LIU WANDONG
Chairman

MA PIZHI
Managing Director

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2004

| | Share capital | Share premium | Capital redemption reserve | Goodwill reserve | Special reserve | Statutory surplus reserve fund | Enterprise expansion fund | Exchange reserve | Investment property revaluation reserve | Deficit | Total |
|-----------------------------------|-------------------|--------------------|----------------------------------|---------------------|--------------------|-----------------------------------------|---------------------------------|---------------------|--------------------------------------------------|---------------------|--------------------|
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| THE GROUP | | | | | | | | | | | |
| At 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 and 1 April 2003 | 45,947,300 | 187,468,964 | 8,000 | (7,938,469) | 3,460,016 | 1,425,260 | 1,425,259 | 1,412,683 | - | (43,289,381) | 189,919,632 |
| Issue of shares, net of expenses | 4,738,095 | 14,734,261 | - | - | - | - | - | - | - | - | 19,472,356 |
| Net loss for the year | - | - | - | - | - | - | - | - | - | (5,738,813) | (5,738,813) |
| Transfer to reserve | - | - | - | - | - | 916,891 | 4,714 | - | - | (921,605) | - |
| At 31 March 2004 | 50,685,395 | 202,203,225 | 8,000 | (7,938,469) | 3,460,016 | 2,342,151 | 1,429,973 | 1,412,683 | - | (49,949,799) | 203,653,175 |

The deficit of the Group include retained profits of HK\$2,287,794 (2003: HK\$2,954,646) 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 People's Republic of China (the "PRC"), which require the PRC subsidiaries 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 subsidiaries 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 subsidiaries 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 2004

| | NOTE | 2004 HK\$ | 2003 HK\$ |
|--------------------------------------------------------------------------------------------|------|--------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Loss from operations | | (4,910,227) | (4,946,421) |
| Adjustments for: | | | |
| Deficit arising on revaluation of investment property | | 500,000 | 3,499,486 |
| Depreciation and amortisation of property, plant and equipment | | 941,080 | 308,644 |
| Amortisation of goodwill | | 214,131 | – |
| Amortisation of intangible assets | | 89,622 | – |
| Dividend income from investment in an investee company | | (1,972,053) | (3,036,000) |
| Interest income | | (961,169) | (1,356,449) |
| Loss on write off of property, plant and equipment | | 20,815 | 813,129 |
| Research and development costs | | (229,904) | – |
| Operating cash flows before movements in working capital | | (6,307,705) | (4,717,611) |
| Increase in inventories | | (55,112) | – |
| Decrease (increase) in trade and other receivables | | 426,958 | (204,510) |
| (Decrease) increase in trade and other payables | | (633,370) | 20,541 |
| Increase in government grants | | 281,132 | – |
| Increase in amount due to a shareholder | | 589,511 | – |
| Cash used in operations | | (5,698,586) | (4,901,580) |
| Tax paid in the People's Republic of China | | (8,377) | (214,277) |
| NET CASH USED IN OPERATING ACTIVITIES | | (5,706,963) | (5,115,857) |
| INVESTING ACTIVITIES | | | |
| Decrease in bank deposits | | 13,953,094 | 5,652,760 |
| Dividend received from investment in an investee company | | 3,036,000 | 5,908,055 |
| Dividend received from an associate | | – | 1,698,113 |
| Acquisition of an associate | | (9,929,474) | (6,362,143) |
| Acquisition of a subsidiary, net of cash and cash equivalent acquired | 30 | (1,767,607) | – |
| Purchases of property, plant and equipment | | (2,694,524) | (1,429,669) |
| Purchase of securities linked deposit | | – | (3,017,282) |
| Decrease in pledged bank deposits | | – | 5,000,000 |
| Interest received | | 961,169 | 1,356,449 |
| NET CASH FROM INVESTING ACTIVITIES | | 3,558,658 | 8,806,283 |
| FINANCING ACTIVITIES | | | |
| Repayment of short term loan | | (1,273,584) | – |
| Expenses paid in connection with share issue | | (427,644) | – |
| Capital contributions by minority interests | | 1,273,584 | – |
| NET CASH USED IN FINANCING ACTIVITIES | | (427,644) | – |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (2,575,949) | 3,690,426 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 16,077,207 | 12,386,781 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | | 13,501,258 | 16,077,207 |

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 sales of pharmaceutical products, property holding, provision of agency services for trading of cigarette and other related products, provision of management and consultancy services and investment holdings.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

| | |
|-------------------|-------------------|
| SSAP 12 (Revised) | Income taxes |
| SSAP 35 | Government grants |

Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the revised accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior years. Accordingly, no prior year adjustment is required.

Government grants

The adoption of SSAP 35 has had no material effects on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been made.

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 acquisition 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.

Turnover

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

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

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.

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 consolidated income statement. Where a decrease has previously been charged to the consolidated income statement and a revaluation increase subsequently arises, this increase is credited to the consolidated income statement to the extent of the decrease previously charged.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

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

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

| | |
|-----------------------------------|----------------------------------------|
| Land and buildings | Over the terms of the leases |
| Plant and machinery | 5% – 10% |
| Leasehold improvements | 10% – 33 ¹ / ₃ % |
| Furniture, fixtures and equipment | 10% – 20% |
| Motor vehicles | 10% – 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 consolidated income statement.

Construction in progress

Construction in progress represents buildings, machinery and projects under construction or installation and is stated at cost less accumulated impairment losses. Cost comprises direct and other related costs, including interest expenses, attributable to the construction activities. Upon completion of construction, the relevant costs are transferred to appropriate categories of property, plant and equipment.

No depreciation or amortisation is provided on construction in progress until the asset is completed and put into productive use.

Intangible assets

Intangible assets represent production rights which are measured initially at cost less any identified impairment loss. They are amortised over their estimated useful lives.

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 plus the goodwill in so far as it has not already been amortised, 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.

Inventories

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

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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. An impairment loss is recognised as an expense immediately.

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such 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

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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

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

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

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expenses.

Operating leases

Rentals payable under operating leases are charged to the consolidated 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 2004

4. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into five operating divisions – sales of pharmaceutical products, 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 2004

| | Sales of pharmaceutical products HK\$ (Note 1) | Property rental HK\$ | Agency services HK\$ | Consultancy services HK\$ | Investment holding HK\$ | Others HK\$ | Consolidated HK\$ |
|------------------------------------------------------------------|------------------------------------------------------------|----------------------------|----------------------------|---------------------------------|-------------------------------|----------------|----------------------|
| TURNOVER – EXTERNAL | 3,561,167 | 232,557 | - | - | 1,972,053 | - | 5,765,777 |
| SEGMENT RESULTS | (1,571,368) | (1,137,013) | (469,710) | (150,862) | 816,357 | - | (2,512,596) |
| Other operating income | | | | | | | 1,418,153 |
| Unallocated corporate expenses | | | | | | | (3,815,784) |
| Loss from operations | | | | | | | (4,910,227) |
| Share of results of associates | (587,623) | - | - | - | - | 103,109 | (484,514) |
| Amortisation of goodwill arising on acquisition of associates | (53,514) | - | - | - | - | (22,476) | (75,990) |
| Loss before taxation | | | | | | | (5,470,731) |
| Income tax expense | | | | | | | (190,715) |
| Loss after taxation | | | | | | | (5,661,446) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

BALANCE SHEET

At 31 March 2004

| | Sales of pharmaceutical products HK\$ (Note 1) | Property rental HK\$ | Agency services HK\$ | Consultancy services HK\$ | Investment holding HK\$ | Others HK\$ | Consolidated HK\$ |
|-----------------------------------|------------------------------------------------------------|----------------------------|----------------------------|---------------------------------|-------------------------------|----------------|----------------------|
| ASSETS | | | | | | | |
| Segment assets | 35,066,693 | 10,686,650 | 2,861 | 12,043,765 | 58,521,767 | - | 116,321,736 |
| Interests in associates | 42,277,594 | - | - | - | - | 10,010,107 | 52,287,701 |
| Unallocated corporate assets | | | | | | | 51,239,123 |
| Consolidated total assets | | | | | | | 219,848,560 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 2,621,736 | 210,107 | 9,000 | 27,663 | 618,511 | - | 3,487,017 |
| Unallocated corporate liabilities | | | | | | | 479,072 |
| Consolidated total liabilities | | | | | | | 3,966,089 |

OTHER INFORMATION

Year ended 31 March 2004

| | Sales of pharmaceutical products HK\$ (Note 1) | Property rental HK\$ | Agency services HK\$ | Consultancy services HK\$ | Investment holding HK\$ | Others HK\$ | Consolidated HK\$ |
|----------------------------------------------------------------------|------------------------------------------------------------|----------------------------|----------------------------|---------------------------------|-------------------------------|----------------|----------------------|
| Capital additions | 26,394,137 | - | - | - | - | 87,372 | 26,481,509 |
| Amortisation of goodwill arising on acquisition of a subsidiary | 214,131 | - | - | - | - | - | 214,131 |
| Deficit arising on revaluation of investment property | - | 500,000 | - | - | - | - | 500,000 |
| Depreciation and amortisation of property, plant and equipment | 461,506 | - | - | 42,228 | - | 437,346 | 941,080 |
| Loss on write off of property, plant and equipment | 20,815 | - | - | - | - | - | 20,815 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Year ended 31 March 2003

| | Sales of pharmaceutical products <i>HK\$</i> (Note 1) | Property rental <i>HK\$</i> | Agency services <i>HK\$</i> (Note 2) | Consultancy services <i>HK\$</i> | Investment holding <i>HK\$</i> | Other <i>HK\$</i> | Consolidated <i>HK\$</i> |
|------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------|-----------------------------------------------|----------------------------------------|--------------------------------------|----------------------|-----------------------------|
| TURNOVER - EXTERNAL | - | 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 | - | - | - | - | - | 651,055 |
| Amortisation of goodwill arising on acquisition of associates | (214,057) | - | - | - | - | - | (214,057) |
| Loss before taxation | | | | | | | (4,509,423) |
| Income tax expense | | | | | | | (17,288) |
| Loss after taxation | | | | | | | (4,526,711) |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

BALANCE SHEET

At 31 March 2003

| | Sales of pharmaceutical products <i>HK\$</i> (Note 1) | Property rental <i>HK\$</i> | Agency services <i>HK\$</i> | Consultancy services <i>HK\$</i> | Investment holding <i>HK\$</i> | Others <i>HK\$</i> | Consolidated <i>HK\$</i> |
|-----------------------------------|-------------------------------------------------------------------|-----------------------------------|-----------------------------------|----------------------------------------|--------------------------------------|-----------------------|-----------------------------|
| ASSETS | | | | | | | |
| Segment assets | 699,629 | 11,284,411 | 9,517 | 14,819,821 | 39,124,153 | – | 65,937,531 |
| Interests in associates | 58,858,892 | – | – | – | – | – | 58,858,892 |
| Unallocated corporate assets | | | | | | | 66,952,263 |
| Consolidated total assets | | | | | | | 191,748,686 |
| LIABILITIES | | | | | | | |
| Segment liabilities | 64,000 | 178,459 | 25,000 | 26,954 | 9,000 | – | 303,413 |
| Unallocated corporate liabilities | | | | | | | 1,524,194 |
| Consolidated total liabilities | | | | | | | 1,827,607 |

OTHER INFORMATION

Year ended 31 March 2003

| | Sales of pharmaceutical products <i>HK\$</i> (Note 1) | Property rental <i>HK\$</i> | Agency services <i>HK\$</i> | Consultancy services <i>HK\$</i> | Investment holding <i>HK\$</i> | Others <i>HK\$</i> | Consolidated <i>HK\$</i> |
|----------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------|-----------------------------------|----------------------------------------|--------------------------------------|-----------------------|-----------------------------|
| Capital additions | – | – | – | – | – | 1,458,168 | 1,458,168 |
| Deficit arising on revaluation of investment property | – | 3,499,486 | – | – | – | – | 3,499,486 |
| Depreciation and amortisation of property, plant and equipment | – | – | – | 42,228 | – | 266,416 | 308,644 |
| Loss on write off of property, plant and equipment | – | – | – | – | – | 813,129 | 813,129 |

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Note 1: In current year, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Seng Pharmaceutical") has become a subsidiary of the Group. The Group has identified sales of pharmaceutical products as one of the principal activities and as a separate business segment of the Group. Accordingly, sales of pharmaceutical products was classified as turnover for the year.

Note 2: In prior year, the compensation income was received according to the import agency agreement entered into between the Group and Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta"), a substantial shareholder of the Company's ultimate holdings company, 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. No such compensation income was received in current year as the import agency agreement expired during the year.

(b) Geographical segments

The Group's activity of property holding for rental income is located in Hong Kong while sales of pharmaceutical products, the provision of agency services and consultancy services and investment holding for dividend income are located in 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. OTHER OPERATING INCOME

| | 2004 HK\$ | 2003 HK\$ |
|------------------------------------|------------------|------------------|
| Interest income from bank deposits | 961,169 | 1,356,449 |
| Exchange gain | 135,373 | 6,759 |
| Others | 321,611 | 140,000 |
| | 1,418,153 | 1,503,208 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

6. LOSS FROM OPERATIONS

| | 2004 HK\$ | 2003 HK\$ |
|----------------------------------------------------------------------------------------------|----------------------|--------------|
| Loss from operations has been arrived at after charging: | | |
| Staff costs, including directors' remuneration | | |
| Salaries and other benefits | 4,378,765 | 3,927,252 |
| Retirement benefits scheme contributions | 115,382 | 136,657 |
| Total staff costs | 4,494,147 | 4,063,909 |
| Amortisation of goodwill (included in administrative expenses) | 214,131 | — |
| Amortisation of intangible assets (included in administrative expenses) | 89,622 | — |
| Auditors' remuneration | 439,954 | 367,000 |
| Depreciation and amortisation of property, plant and equipment | 941,080 | 308,644 |
| Loss on write off of property, plant and equipment | 20,815 | 813,129 |
| Research and development costs | 229,904 | — |
| Less: Government grants received | (229,904) | — |
| Net research and development costs | — | — |
| and after crediting: | | |
| Dividend income from investment in an investee company | 1,972,053 | 3,036,000 |
| Gross rental income from an investment property less negligible outgoings (2003: HK\$23,000) | 232,557 | 364,595 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

| | 2004 HK\$ | 2003 <i>HK\$</i> |
|------------------------------------------|----------------------------|---------------------|
| Fees | | |
| Executive directors | 389,194 | 360,000 |
| Independent non-executive directors | 120,000 | 120,000 |
| | 509,194 | 480,000 |
| Other emoluments (executive directors) | | |
| Salaries and other benefits | 1,449,525 | 1,448,494 |
| Retirement benefits scheme contributions | 54,000 | 53,934 |
| | 1,503,525 | 1,502,428 |
| Total emoluments | 2,012,719 | 1,982,428 |

The emoluments of the directors were within the following bands:

| | Number of directors | |
|--------------------------------|----------------------------|------|
| | 2004 | 2003 |
| Nil to HK\$1,000,000 | 8 | 9 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2003: three) individuals were as follows:

| | 2004 HK\$ | 2003 HK\$ |
|------------------------------------------|------------------|--------------|
| Salaries and other benefits | 1,056,416 | 1,133,776 |
| Retirement benefits scheme contributions | 47,520 | 51,120 |
| | 1,103,936 | 1,184,896 |

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 2004 and 2003, no emoluments were paid by the Group to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Group or as compensation for loss of office.

8. INCOME TAX EXPENSE

| | 2004 HK\$ | 2003 HK\$ |
|----------------------------------------------|----------------|--------------|
| The income tax expense comprises: | | |
| Current year | | |
| PRC income tax | 8,377 | 33,384 |
| Share of taxation attributable to associates | 182,338 | (16,096) |
| | 190,715 | 17,288 |

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

Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/04 year of assessment. The effect of this increase has been reflected in the calculation of deferred tax balances at 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

8. INCOME TAX EXPENSE (Cont'd)

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

Details of deferred tax assets and liabilities for the year are set out in note 29.

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

| | 2004 | | 2003 | |
|--------------------------------------------------------------------------------|--------------------|---------------|-------------|--------|
| | HK\$ | % | HK\$ | % |
| Loss before taxation | (5,470,731) | | (4,509,423) | |
| Tax at Hong Kong profits tax rate of 17.5% (2002: 16%) | (957,378) | (17.5) | (721,508) | (16.0) |
| Tax effect of share of results of associates | 267,128 | 4.9 | (120,265) | (2.6) |
| Tax effect of expenses that are not deductible for tax purpose | 170,464 | 3.1 | 789,514 | 17.5 |
| Tax effect of income that is not taxable for tax purpose | (511,105) | (9.3) | (1,620,015) | (35.9) |
| Tax effect on deferred tax assets not recognised | 12,364 | 0.2 | 79,128 | 1.8 |
| Tax effect of tax losses not recognised | 1,239,640 | 22.6 | 1,628,394 | 36.1 |
| Utilisation of tax losses previously not recognised | (1,919) | – | (3,116) | (0.1) |
| Utilisation of deferred tax assets previously not recognised | – | – | (26,300) | (0.6) |
| Effect of tax exemptions granted to the PRC subsidiaries | (34,636) | (0.6) | (11,455) | (0.3) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 6,157 | 0.1 | 22,911 | 0.5 |
| Tax expense and effective tax rate for the year | 190,715 | 3.5 | 17,288 | 0.4 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

9. LOSS PER SHARE

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

| | 2004 HK\$ | 2003 HK\$ |
|---------------------------------------------------------------------------------------|----------------------|--------------|
| Net loss for the year | (5,738,813) | (4,526,711) |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 485,824,598 | 459,473,000 |

No diluted loss per share is presented for the year as there was no potential dilutive shares.

No diluted loss per share was presented for the year ended 31 March 2003 because the exercise price of the Company's warrants was higher than the fair value per share that year and the warrants expired on 30 September 2002.

10. INVESTMENT PROPERTY

| | THE GROUP HK\$ |
|-------------------------|---------------------------|
| At 1 April 2003 | 10,700,000 |
| Revaluation deficit | (500,000) |
| At 31 March 2004 | 10,200,000 |

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 2004 by LCH (Asia – Pacific) Surveyors Limited, an independent professional valuer, on an open market existing use basis. The deficit arising on the revaluation amounting to HK\$500,000, has been charged to the income statement. For the year ended 31 March 2003, the deficit arising on the revaluation amounted to HK\$3,500,000, of which HK\$514 had 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, had been charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

11. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK\$ | Plant and machinery HK\$ | Leasehold improvements HK\$ | Furniture, fixtures and equipment HK\$ | Motor vehicles HK\$ | Construction in progress HK\$ | Total HK\$ |
|--------------------------------------------|-------------------------------|--------------------------------|-----------------------------------|-------------------------------------------------|---------------------------|-------------------------------------|-------------------|
| THE GROUP | | | | | | | |
| COST | | | | | | | |
| At 1 April 2003 | – | – | 1,412,080 | 1,324,608 | 1,265,029 | – | 4,001,717 |
| Acquired on acquisition of a subsidiary | – | 1,518,988 | – | 279,809 | 1,048,377 | 19,293,585 | 22,140,759 |
| Additions | – | 875,343 | – | 90,674 | – | 1,728,507 | 2,694,524 |
| Transfer | 17,813,593 | 3,208,499 | – | – | – | (21,022,092) | – |
| Written off | – | (21,132) | – | – | – | – | (21,132) |
| At 31 March 2004 | 17,813,593 | 5,581,698 | 1,412,080 | 1,695,091 | 2,313,406 | – | 28,815,868 |
| DEPRECIATION AND AMORTISATION | | | | | | | |
| At 1 April 2003 | – | – | 196,229 | 766,611 | 1,265,029 | – | 2,227,869 |
| Provided for the year | 136,639 | 211,684 | 359,634 | 153,304 | 79,819 | – | 941,080 |
| Eliminated on write off | – | (317) | – | – | – | – | (317) |
| At 31 March 2004 | 136,639 | 211,367 | 555,863 | 919,915 | 1,344,848 | – | 3,168,632 |
| NET BOOK VALUES | | | | | | | |
| At 31 March 2004 | 17,676,954 | 5,370,331 | 856,217 | 775,176 | 968,558 | – | 25,647,236 |
| At 31 March 2003 | – | – | 1,215,851 | 557,997 | – | – | 1,773,848 |
| THE COMPANY | | | | | | | |
| COST | | | | | | | |
| At 1 April 2003 | – | – | 1,119,580 | 488,000 | 1,265,029 | – | 2,872,609 |
| Additions | – | – | – | 82,402 | – | – | 82,402 |
| At 31 March 2004 | – | – | 1,119,580 | 570,402 | 1,265,029 | – | 2,955,011 |
| DEPRECIATION | | | | | | | |
| At 1 April 2003 | – | – | 172,041 | 206,848 | 1,265,029 | – | 1,643,918 |
| Provided for the year | – | – | 330,384 | 40,830 | – | – | 371,214 |
| At 31 March 2004 | – | – | 502,425 | 247,678 | 1,265,029 | – | 2,015,132 |
| NET BOOK VALUES | | | | | | | |
| At 31 March 2004 | – | – | 617,155 | 322,724 | – | – | 939,879 |
| At 31 March 2003 | – | – | 947,539 | 281,152 | – | – | 1,228,691 |

The land and buildings are situated in the PRC and the Group is in the process of obtaining the land use right certificate for the medium-term leasehold land and the ownership certificate for the buildings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

12. GOODWILL

THE GROUP

HK\$

COST

| | |
|--------------------------------------------------|-----------|
| Arising on acquisition of a subsidiary (Note 30) | 1,613,510 |
| Transfer from goodwill on associates (Note 15) | 4,281,162 |

At 31 March 2004

5,894,672

AMORTISATION

| | |
|---------------------------------------------------|---------|
| Transferred from goodwill on associates (Note 15) | 374,600 |
| Provided for the year | 214,131 |

At 31 March 2004

588,731

NET BOOK VALUE

At 31 March 2004

5,305,941

Goodwill is amortised over a period of 20 years.

13. INTANGIBLE ASSETS

Production rights

HK\$

THE GROUP

COST

| | |
|---------------------------------------------------------------------|-----------|
| Arising on acquisition of a subsidiary and balance at 31 March 2004 | 1,646,226 |
|---------------------------------------------------------------------|-----------|

AMORTISATION

| | |
|----------------------------------------------------|--------|
| Provided for the year and balance at 31 March 2004 | 89,622 |
|----------------------------------------------------|--------|

NET BOOK VALUE

At 31 March 2004

1,556,604

Production rights are amortised over a period of 20 years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

14. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|-------------------------------|---------------------|--------------|
| | 2004 | 2003 |
| | HK\$ | HK\$ |
| Unlisted shares, at cost | 11,338,022 | 11,338,022 |
| Amounts due from subsidiaries | 163,780,622 | 133,731,124 |
| | 175,118,644 | 145,069,146 |
| Less: Impairment loss | (65,150,872) | (65,150,872) |
| | 109,967,772 | 79,918,274 |

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 2004 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 Meng Sheng Pharmaceutical Co., Limited | PRC** | RMB36,000,000 | – | 55 | Research, development, manufacture and sale of biotechnology products |

14. 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 |
|------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|-----|-----------------------------------------------|
| | | | % | % | |
| Yunnan Nominees Limited | Hong Kong | HK\$2 | 100 | – | Investment holding |
| Yunnan Yunyu Economic & Technology Consulting Co., Limited | PRC* | US\$100,000 | – | 100 | Provision of consultancy services |
| Yunyu Bio – Pharmaceutical Company Limited | British Virgin Islands/PRC | US\$1 | – | 100 | Investment holding |
| 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.

* Company registered as wholly foreign owned enterprise.

** Company incorporated as cooperative joint venture enterprise.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

15. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|---------------------------------------------------------------|-------------------|------------|
| | 2004 | 2003 |
| | HK\$ | HK\$ |
| Share of net assets | 50,512,100 | 54,898,816 |
| Goodwill arising on acquisition of associates (<i>Note</i>) | 1,775,601 | 3,960,076 |
| | 52,287,701 | 58,858,892 |

Note: HK\$

COST

| | |
|-------------------------------------------------------|-------------|
| At 1 April 2003 | 4,281,162 |
| Arising on acquisition of an associate | 1,798,077 |
| Transfer to goodwill of subsidiary (<i>Note 12</i>) | (4,281,162) |

At 31 March 2004 **1,798,077**

AMORTISATION

| | |
|-------------------------------------------------------|-----------|
| At 1 April 2003 | 321,086 |
| Provided for the year | 75,990 |
| Transfer to goodwill of subsidiary (<i>Note 12</i>) | (374,600) |

At 31 March 2004 **22,476**

NET BOOK VALUES

At 31 March 2004 **1,775,601**

At 31 March 2003 3,960,076

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

15. INTERESTS IN ASSOCIATES (Cont'd)

Details of the associates of the Group at 31 March 2004 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 |
|-------------------|----------------------------|--------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------------|
| 深圳新鵬生物工程有限公司 | Incorporated | PRC | 48 | Research, development, manufacture and sale of biotechnology products |
| 上海松力生物技術有限公司 | Incorporated | PRC | 25 | Research, development, manufacture and sale of biotechnology products |
| 雲南華寧興寧彩印有限公司 | Incorporated | PRC | 25 | Printing and sale of cigarette packaging packs and boxes |

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

Results for the year

| | 深圳新鵬 生物工程有限公司 | | 上海松力生物 技術有限公司 | | 雲南華寧興寧 彩印有限公司 |
|---------------------------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------------------------------------|----------------------------------------------------------------|
| | 1.4.2003 to 31.3.2004 HK\$ | 1.4.2002 to 31.3.2003 HK\$ | 1.4.2003 to 31.3.2004 HK\$ | 21.6.2002 (date of incorporation) to 31.3.2003 HK\$ | 18.12.2003 (date of acquisition) to 31.3.2004 HK\$ |
| Turnover | 24,022,358 | 27,864,125 | 560,347 | – | 4,822,180 |
| Depreciation | 1,822,595 | 2,510,969 | 111,817 | 23,255 | 509,224 |
| (Loss) profit before taxation | (867,333) | 665,892 | (1,169,630) | (669,935) | 412,438 |
| (Loss) profit before taxation attributable to the Group | (416,320) | 319,628 | (292,408) | (167,484) | 103,109 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

15. INTERESTS IN ASSOCIATES (Cont'd)

Financial position

| | 深圳新鵬 生物工程有限公司 | | 上海松力生物 技術有限公司 | | 雲南華寧興寧 彩印有限公司 |
|--------------------------------------|------------------|--------------|------------------|--------------|------------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ |
| Non-current assets | 62,051,031 | 65,424,318 | 3,104,549 | 2,800,890 | 16,468,723 |
| Current assets | 43,595,708 | 38,873,879 | 2,427,301 | 3,689,250 | 17,795,753 |
| Current liabilities | (10,447,929) | (13,099,274) | (2,277,078) | (2,065,735) | (1,326,452) |
| Non-current liabilities | (8,815,683) | (3,571,434) | - | - | - |
| Net assets | 86,383,127 | 87,627,489 | 3,254,772 | 4,424,405 | 32,938,024 |
| Net assets attributable to the Group | 41,463,901 | 42,061,195 | 813,693 | 1,106,101 | 8,234,506 |

16. INVESTMENTS IN AN INVESTEE COMPANY

| | THE GROUP | |
|-------------------------------------|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ |
| Investment securities | | |
| Unlisted equity securities, at cost | 55,205,141 | 35,548,696 |

The investment represents the Group's 18.75% (2003: 12.50%) 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"), a company registered in the People's Republic of China which is engaged in the business of printing and sale of cigarette packaging pack and boxes. The directors consider that the investment worth at least its cost.

On 10 September 2003, the Group acquired an additional 6.25% equity interest in, and a loan receivable from, Yuxi Globe for a consideration of HK\$19,656,445 and HK\$243,555 respectively, by issuing 47,380,952 shares in the Company of HK\$0.10 each at HK\$0.42 per share. As a result of the acquisition, the Group's interest in Yuxi Globe increased from 12.50% to 18.75%.

17. 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.

18. 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.

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

At 31 March 2004 and up to the date of the report, the closing prices of this designated share were higher than the pre-determined price.

19. INVENTORIES

| | THE GROUP | |
|------------------|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ |
| Raw materials | 345,311 | — |
| Work in progress | 123,153 | — |
| Finished goods | 557,163 | — |
| | 1,025,627 | — |

All inventories are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

20. TRADE AND OTHER RECEIVABLES

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

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

| | THE GROUP | |
|----------------------|------------------|-------------|
| | 2004 | 2003 |
| | HK\$ | HK\$ |
| Within 60 days | 189,700 | — |
| 61 – 90 days | 42,581 | — |
| Over 90 days | 93,867 | — |
| | 326,148 | — |
| Dividends receivable | 2,561,564 | 3,462,775 |
| Other receivables | 2,115,207 | 1,501,596 |
| | 5,002,919 | 4,964,371 |

21. TRADE AND OTHER PAYABLES

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

| | THE GROUP | |
|----------------|------------------|-------------|
| | 2004 | 2003 |
| | HK\$ | HK\$ |
| Within 60 days | 54,315 | — |
| 61 – 90 days | 164,673 | — |
| Over 90 days | 126,694 | — |
| | 345,682 | — |
| Other payables | 2,206,654 | 1,054,593 |
| | 2,552,336 | 1,054,593 |

22. GOVERNMENT GRANTS

Government grants of HK\$281,132 (2003: nil) have been received in the current year for the development of biotechnology products. The amount of HK\$229,904 (2003: nil) have been deducted in reported research and development costs for biotechnology products.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

23. AMOUNTS DUE TO SUBSIDIARIES

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

24. AMOUNT DUE TO AN ASSOCIATE

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

25. AMOUNT DUE TO A SHAREHOLDER

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

26. SHARE CAPITAL

| | Number of shares | | Amount | |
|-------------------------------------|------------------|---------------|--------------|--------------|
| | 2004 HK\$ | 2003 HK\$ | 2004 HK\$ | 2003 HK\$ |
| Ordinary shares of HK\$0.10 each | | | | |
| Authorised: | | | | |
| At beginning and at end of the year | 1,000,000,000 | 1,000,000,000 | 100,000,000 | 100,000,000 |
| Issued and fully paid: | | | | |
| At beginning of the year | 459,473,000 | 459,473,000 | 45,947,300 | 45,947,300 |
| Increased during the year (Note) | 47,380,952 | – | 4,738,095 | – |
| At end of the year | 506,853,952 | 459,473,000 | 50,685,395 | 45,947,300 |

Note: On 10 September 2003, the Group acquired an additional 6.25% equity interest in, and a loan receivable from, Yuxi Globe by issuing 47,380,952 shares in the Company of HK\$0.10 each at HK\$0.42 per share.

27. 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 entitled 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 on 30 September 2002.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

28. RESERVES

| | Share premium <i>HK\$</i> | Capital redemption reserve <i>HK\$</i> | Deficit <i>HK\$</i> | Total <i>HK\$</i> |
|--------------------------------------------------------------|---------------------------------|-------------------------------------------------|------------------------|----------------------|
| THE COMPANY | | | | |
| At 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 and 1 April 2003 | 187,468,964 | 8,000 | (88,021,163) | 99,455,801 |
| Share premium arising on issue of shares, net of expenses | 14,734,261 | — | — | 14,734,261 |
| Net loss for the year | — | — | (4,127,894) | (4,127,894) |
| At 31 March 2004 | 202,203,225 | 8,000 | (92,149,057) | 110,062,168 |

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 2004

29. DEFERRED TAXATION

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

THE GROUP

| | Accelerated tax depreciation <i>HK\$</i> | Tax losses <i>HK\$</i> | Total <i>HK\$</i> |
|-----------------------------------------------|--------------------------------------------------------|--------------------------------------|-----------------------------|
| At 1 April 2002 | | | |
| – as previously stated | – | – | – |
| – adjustment on adoption of SSAP 12 (Revised) | 58,648 | (58,648) | – |
| – as restated | 58,648 | (58,648) | – |
| Charge (credit) to income statement | 3,116 | (3,116) | – |
| At 31 March 2003 and 1 April 2003 | 61,764 | (61,764) | – |
| (Credit) charge to income for the year | (40,805) | 40,805 | – |
| Effect of change in tax rate | | | |
| – charge (credit) to income statement | 5,791 | (5,791) | – |
| At 31 March 2004 | 26,750 | (26,750) | – |

At the balance sheet date, the Group had unused tax losses of approximately HK\$99,148,000 (2003: HK\$92,309,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK\$153,000 (2003: HK\$386,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$98,995,000 (2003: HK\$91,923,000) due to the unpredictability of future profit streams. All these losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$674,000 (2003: HK\$603,000). No deferred tax asset has been recognised in relation to such deductible temporary differences, as it is not probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

29. DEFERRED TAXATION (Cont'd)

THE COMPANY

| | Accelerated tax depreciation <i>HK\$</i> | Tax losses <i>HK\$</i> | Total <i>HK\$</i> |
|-----------------------------------------------|------------------------------------------------|------------------------------|----------------------|
| At 1 April 2002 | | | |
| – as previously stated | – | – | – |
| – adjustment on adoption of SSAP 12 (Revised) | 50,202 | (50,202) | – |
| – as restated | 50,202 | (50,202) | – |
| (Credit) charge to income statement | (4,426) | 4,426 | – |
| At 31 March 2003 and 1 April 2003 | 45,776 | (45,776) | – |
| (Credit) charge to income for the year | (41,961) | 41,961 | – |
| Effect of change in tax rate | | | |
| – charge (credit) to income statement | 4,292 | (4,292) | – |
| At 31 March 2004 | 8,107 | (8,107) | – |

At the balance sheet date, the Company had unused tax losses of approximately HK\$45,127,000 (2003: HK\$40,412,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK\$46,000 (2003: HK\$286,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$45,081,000 (2003: HK\$40,126,000) due to the unpredictability of future profit streams. All these losses may be carried forward indefinitely.

30. ACQUISITION OF A SUBSIDIARY

On 15 April 2003, the Group entered into an agreement to acquire an additional 6% equity interest in Meng Sheng Pharmaceutical. The acquisition was completed on 10 July 2003 and after the acquisition, the Group's interest in Meng Sheng Pharmaceutical increased from 49% to 55% and Meng Sheng Pharmaceutical became a subsidiary of the Group. This transaction has been accounted for using the purchase method of accounting.

| | 2004 HK\$ | 2003 HK\$ |
|----------------------------------------------------|--------------|--------------|
| Net assets acquired: | | |
| Property, plant and equipment | 22,140,759 | — |
| Intangible assets | 1,646,226 | — |
| Inventories | 970,515 | — |
| Trade and other receivables | 1,956,228 | — |
| Bank balances and cash | 1,296,638 | — |
| Trade and other payables | (2,131,113) | — |
| Short term loan | (1,273,584) | — |
| Dividend payable | (426,775) | — |
| Minority interests | (10,876,898) | — |
| | 13,301,996 | — |
| Goodwill arising on acquisition (<i>Note 12</i>) | 1,613,510 | — |
| Total consideration | 14,915,506 | — |
| Satisfied by: | | |
| Cash paid on acquisition | 3,064,245 | — |
| Reclassification from interest in associate | 11,851,261 | — |
| | 14,915,506 | — |
| Net cash outflow arising on acquisition: | | |
| Cash consideration paid | (3,064,245) | — |
| Bank balances and cash acquired | 1,296,638 | — |
| | (1,767,607) | — |

The subsidiary acquired contributed HK\$3,561,166 to the Group's turnover, and a profit of HK\$171,927 to the Group's loss from operation between the date of acquisition and the balance sheet date.

31. 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.

The ORSO Scheme is funded by monthly contributions from both 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\$102,270 (2003: HK\$136,657) 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. This subsidiary is exempted for the contributions to the retirement benefit schemes in both years.

The employees of Yunnan Meng Sheng Pharmaceutical Co., Limited (雲南盟生藥業有限公司) are members of state-managed retirement benefit schemes operated by the PRC government. This subsidiary is required to contribute 24% 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 2004, the total cost charged to income statement of HK\$13,112 (2003: nil) represents contributions paid to the state-managed retirement benefit schemes by the Group in respect of current year.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payment paid under operating leases in respect of premises during the year amounted to HK\$875,280 (2003: HK\$2,498,587).

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 | |
|---------------------------------------|------------------|------------------|
| | 2004 HK\$ | 2003 HK\$ |
| Within one year | 934,000 | 875,000 |
| In the second to fifth year inclusive | 817,000 | 1,751,000 |
| | 1,751,000 | 2,626,000 |

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.

The Group as lessor

Property rental income earned during the year was HK\$232,557 (2003: HK\$387,595). The property is expected to generate rental yields of 4.5% (2003: 3.6%) on an ongoing basis. The premise held has committed tenants for the next 3 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 | |
|---------------------------------------|------------------|----------------|
| | 2004 HK\$ | 2003 HK\$ |
| Within one year | 459,000 | 426,000 |
| In the second to fifth year inclusive | 918,000 | 427,000 |
| | 1,377,000 | 853,000 |

33. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

| | THE GROUP | |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------|
| | 2004 HK\$ | 2003 HK\$ |
| Commitments for acquisition of property, plant and equipment – contracted for but not provided in the financial statements | 271,749 | – |
| Commitments for acquisition of additional interests in an investee company – authorised but not contracted for | – | 19,900,000 |
| | 271,749 | 19,900,000 |

34. NON-CASH TRANSACTION

During the year, the Group acquired an additional 6.25% equity interest in, and a loan receivable from, Yuxi Globe for a consideration of HK\$19,656,445 and HK\$243,555 respectively, by issuing 47,380,952 shares in the Company of HK\$0.10 each at HK\$0.42 per share.

For the year ended 31 March 2003, the Group entered into a trade-in arrangement in respect of an equipment for a trade-in value of HK\$28,499.

35. RELATED PARTY TRANSACTIONS

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

| | 2004 HK\$ | 2003 HK\$ |
|-------------------------------------------------------------|----------------------|--------------|
| Management fee income received from Tianda Group Limited | 240,000 | 140,000 |
| Compensation income from Yuxi Hongta | – | 4,417,920 |

Tianda Group Limited is a substantial shareholder of the Company.

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

In prior year, the compensation income was received 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.

FINANCIAL SUMMARY

RESULTS

| | Year ended 31 March | | | | |
|--------------------------------------------------------------------|---------------------|------------------|------------------|------------------|------------------|
| | 2000 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 |
| Turnover | 14,649 | 14,276 | 10,963 | 3,424 | 5,766 |
| Profit (loss) from operations | 758 | 6,874 | 2,234 | (4,946) | (4,910) |
| Share of results of associates | – | 1,593 | 3,801 | 651 | (485) |
| Amortisation of goodwill arising on acquisition of an associate | – | – | (107) | (214) | (76) |
| Profit (loss) before taxation | 758 | 8,467 | 5,928 | (4,509) | (5,471) |
| Income tax expense | – | (203) | (1,072) | (17) | (191) |
| Profit (loss) after taxation | 758 | 8,264 | 4,856 | (4,526) | (5,662) |
| Minority interests | – | – | – | – | (77) |
| Net profit (loss) for the year | 758 | 8,264 | 4,856 | (4,526) | (5,739) |

ASSETS AND LIABILITIES

| | At 31 March | | | | |
|---------------------|------------------|------------------|------------------|------------------|------------------|
| | 2000 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 |
| Non-current assets | 54,336 | 93,643 | 104,156 | 110,370 | 153,935 |
| Net current assets | 134,354 | 96,749 | 90,292 | 79,551 | 61,947 |
| | 188,690 | 190,392 | 194,448 | 189,921 | 215,882 |
| Shareholders' funds | 188,689 | 190,391 | 194,447 | 189,920 | 203,653 |
| Minority interests | 1 | 1 | 1 | 1 | 12,229 |
| | 188,690 | 190,392 | 194,448 | 189,921 | 215,882 |

PARTICULARS OF INVESTMENT PROPERTY

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