



雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Annual Report
2005

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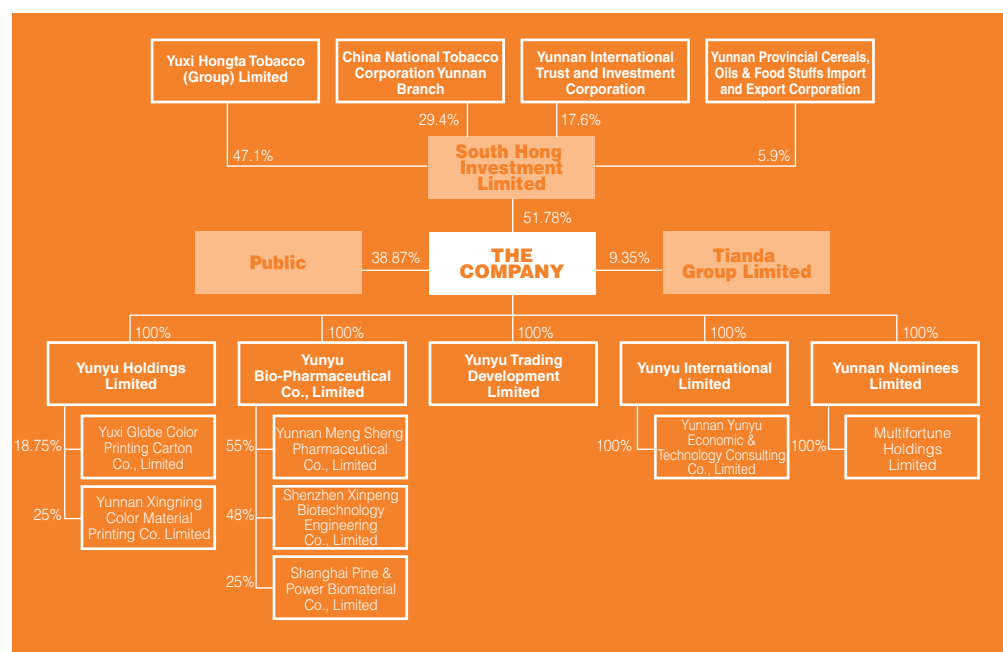
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CORPORATE PROFILE & INTRODUCTION TO YUXI HONGTA

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 and a 25% equity interest in Yunnan Xingning Color Material Printing Co., 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 as at 31 March 2005 is shown as follows:



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 People's Republic of China. The group's projects had 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

Li Suiming (*Chairman*)
Ma Pizhi (*Managing Director*)
Cheng Hau Yan
Dong Jianhua
Li Hong
Li Guanglin
Fang Wen Quan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ho Wing Fun
Wu Wen Jing, Benjamin
Lam Yat Fai

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

QUALIFIED ACCOUNTANT

Yip Sai Keung, Esmond

COMPANY SECRETARY

Lee Ka Sze, Carmelo

AUDIT COMMITTEE

Ho Wing Fun
Wu Wen Jing, Benjamin
Lam Yat Fai

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

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
ordinary shares (stock code: 455)

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. LI Suiming, aged 47, a senior engineer, graduated from Yunnan Polytechnic School. Mr. Li studied the master program of International Economic and Trade Relationships of Tianjin NanKai University in 2002 and obtained a master degree in 2004. Mr. Li held the posts of workshop chief and chief engineer in Yuxi Cigarette Factory from 1975 to 1997. He was the deputy officer of Hongta Group as from November 1997 and is now responsible for the diversified investment of Hongta Group. Mr. Li is also the director of South Hong Investment Limited which is the controlling shareholder of the Company. Mr. Li was appointed as Chairman and executive director of the Company in December 2004.

Mr. MA Pizhi, aged 49, 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 58, 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 49, 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 general manager of Yunnan Hongta Import & Export Corporation. She is also the chairlady of Hong Kong Hongta International Tobacco Co., Ltd.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS (Cont'd)

Mr. LI Hong, aged 50, graduated from Kunming Industry University in 1980 and has experience in international trade. He held the posts of vice director of The Office for Surrounding Countries of Foreign Trade & Economic Cooperation Bureau of Yunnan Province during the period from June 1991 to January 1994, and of vice director of Frontier Trade Bureau of Dehong. Between October 1997 to April 1999 he was president of China National Package Import & Export Corporation. Mr. Li is currently the general manager of Yunnan Provincial Cereals, Oils & Food Stuffs Import and Export Corporation.

Mr. LI Guanglin, aged 41, 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 became the director and chief accountant of Yuxi Hongta in April 2002. Mr. Li is also a non-executive director of Bank of Communications Co., Limited, a company listed on The Stock Exchange of Hong Kong Limited.

Mr. FANG Wen Quan, aged 36, is currently the Chairman and general manager of Tianda Group Limited, Tianda Enterprise (China) Ltd. and Tianda Pharmaceuticals Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HO Wing Fun, aged 72, 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. WU Wen Jing, Benjamin, aged 36, is presently an executive director of Watterson Asia Limited, a registered corporation with the Securities and Futures Commission in Hong Kong which is principally engaged in the provision of corporate financial advisory services and securities underwriting businesses. Mr. Wu graduated with a Bachelor degree in Information Systems from the Edith Cowan University, Australia in 1992 and a Master degree in Banking and Finance from the University of Technology, Sydney, Australia in 1995. Prior to co-founding Watterson Asia in 2001, he had

INDEPENDENT
NON-EXECUTIVE
DIRECTORS
(Cont'd)

served as Vice President at DBS Bank in Hong Kong responsible for managing and syndicating initial public offerings and other equity capital market transactions for both Hong Kong and Chinese corporations as well as advising them in mergers and acquisitions. Prior to joining DBS Bank in 1997, he was with Jardine Fleming Ord Minnett in Sydney, Australia for three years responsible for dealing and trading of various types of financial derivative products. Mr. Wu has over 10 years of investment banking experience in Hong Kong, Mainland China and Australia. Mr. Wu was appointed as an independent non-executive director of the Company in September 2004.

Mr. LAM Yat Fai, aged 39, is a Certified Public Accountant (Practising). He is also a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Lam worked with Kwan Wong Tan & Fong and Deloitte Touche Tohmatsu for over 10 years. Mr. Lam has over 15 years of experience in auditing, taxation, corporate finance and accounting. Mr. Lam is also an independent non-executive director of G-Prop (Holdings) Limited and Oriental Press Group Ltd., both are companies listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Lam was appointed as an independent non-executive director of the Company in September 2004.

SENIOR
MANAGEMENT

Mr. Lee Ka Sze, Carmelo, aged 45, is the Company Secretary of the Company. Mr. Lee is a partner of Woo, Kwan, Lee & Lo. He received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from The University of Hong Kong. Mr. Lee is also a non-executive director of several listed public companies in Hong Kong, namely China Pharmaceutical Group Limited, Termbray Industries International (Holdings) Limited, Yugang International Limited, Y. T. Realty Group Limited, The Cross-Harbour (Holdings) Limited, Safety Godown Company, Limited and Hopewell Holdings Limited.

Mr. YIP Sai Keung Esmond, aged 39, 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 audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005.

RESULTS REVIEW

For the year ended 31 March 2005, turnover of the Group amounted to HK\$10.11 million, an increase of 75% from the previous year (2004: HK\$5.77 million). Turnover was mainly derived from sales of pharmaceutical products carried out by Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical", a non-wholly owned subsidiary of the Company) and the dividend income from investment in Yuxi Globe Color Printing Carton Co., Limited ("Yuxi Globe"). During the year under review, the operating performance of both Meng Sheng Pharmaceutical and Yuxi Globe were improved when compared to previous year. The Group was therefore able to benefit from such improvement. Moreover, the Group was entitled to a share of profits (before tax) of those associated companies during the year under review. This actually represented a turnaround when compared to a share of losses (before tax) of the associated companies for the previous year. The Group finally recorded a net loss of HK\$650,000 during the year under review, compared to a net loss of HK\$5.74 million for the previous financial year. Loss per share for the current year was 0.129 cent with loss per share for the previous year being 1.181 cents.

DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2005.

PROSPECTS

Since July 2003 when Meng Sheng Pharmaceutical formally became a subsidiary of the Company, the operating performance of the entity maintained a stable growth. Meng Sheng Pharmaceutical is expected to launch several new products to the market in near future, which will then facilitate the pharmaceutical business of the Group. Yuxi Globe is also an outstanding entity in the mainland China which has enjoyed its eleventh consecutive year of profitability and had declared considerable amounts of dividend to its investors over the past years. The Group's total dividend income arising from investment in Yuxi Globe amounted to HK\$24.9 million, which provide a strong foundation for the income base of the Group. Moreover, the Group's associated companies consist of Shenzhen Xinpeng Biotechnology Engineering Company Limited as well as Yunnan Xingning Color Material Printing Co., Limited. The operating results of the former associate will continue to improve with its experienced management team, whilst the profitability of the latter associate will further increase under the full support of Yunnan Hongta Group Co., Ltd. The Group is therefore optimistic with regard to the prospect of theses associated companies. The Group will continue to implement effective cost control measures and believes that better results could be achieved in the coming years. As the new Chairman of the Company, I will endeavor to work with the members of the Board for bringing promising returns to the shareholders.

APPRECIATION

Finally, on behalf of the Board, I would like to express my sincere gratitude to all staff for their hard work and commitment during the past year, as well as to our shareholders for their continued support of the Group.

Li Suiming

Chairman

Hong Kong, 22 July 2005

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 March 2005, the Group recorded a turnover of HK\$10.11 million which represented an increase of 75% when compared with HK\$5.77 million in previous year. The increase in turnover was due to the increase in both sales of pharmaceutical products and dividend income during the year under review. The Group continued to implement its cost control strategy. During the year under review, the administrative expenses for the Group (excluding surplus arising on revaluation of investment property) decreased by 5% compared to previous year. On the other hand, the turnover and final results of the Group's associated companies during the year under review were improved when compared to previous year. The Group was therefore entitled to a share of profits (before tax) of associated companies amounting to HK\$690,000 during the year under review (a share of losses (before tax) of associated companies of HK\$480,000 for the previous year). Taking into account the income tax expense and the minority interests, the Group recorded a net loss of HK\$650,000 for the financial year ended 31 March 2005, compared to a net loss of HK\$5.74 million for the previous year.

OPERATIONS ANALYSIS

Pharmaceutical business

The business of the Company's non wholly-owned subsidiary, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical", which was located in Kunming, the Yunnan Province), was enhanced by the launch of new products to the market in 2004. The entity recorded a turnover of Rmb6.69 million during the year under review, representing an increase of 28% over the comparative amount in last year. The operating results of Meng Sheng Pharmaceutical also maintained its growing trend. During the year under review, Meng Sheng Pharmaceutical recorded a net profit of Rmb1.23 million (or HK\$1.16 million).

With its strong research and development foundation, Meng Sheng Pharmaceutical will continue to explore and develop other new products. Relevant production approvals for new products are expected to obtain in 2005 for commencement of sales. Diversified product portfolio and modern production facilities enable the entity to cope with the intense competition in the domestic pharmaceutical market effectively. The management therefore believes that the pharmaceutical business will have considerable development potential.

OPERATIONS
ANALYSIS
(Cont'd)

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

Yuxi Globe Color Printing Carton Co., Limited (“Yuxi Globe”), in which the Group holds 18.75% equity interest, recorded a net profit (after tax) of Rmb20.3 million for the financial year ended 31 December 2004 (2003: net profit (after tax) of Rmb15.1 million). This was attributable to its comprehensive production and quality control systems which enabled the entity to reduce the operating costs effectively. Accordingly, the Group was entitled to a corresponding dividend income of Rmb3.59 million (or HK\$3.39 million) for the year under review. This represented a large increase of 72% when compared to the dividend income of Rmb2.09 million (or HK\$1.97 million) for the previous year. The increase of the Group’s equity interest in Yuxi Globe to 18.75% in 2003 was therefore proved to be a successful decision. The Group is optimistic with regard to the business prospect of Yuxi Globe, and strongly believes that such investment will continue to bring favorable returns to the Group.

Associated Companies

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

For the year ended 31 March 2005, Xinpeng Biotechnology Engineering recorded a turnover of Rmb28.5 million which represented an increase of 12% when compared with the corresponding amount in previous year. Xinpeng Biotechnology Engineering then recorded a loss (before tax) of Rmb140,000 during the year under review, compared to a loss (before tax) of Rmb920,000 in the previous year. The improvement in both the turnover and the results of the entity for the year under review was mainly attributable to the entity’s sales team further enhancing the marketing efforts for the product, as well as the stringent control on the entity’s operating costs implemented by the management. As a result, the Group shared HK\$60,000 loss (before tax) attributable to that associated company during the year under review. On the other hand, Xinpeng Biotechnology Engineering is preparing to launch other new products to the market in the near future. The relevant pre-clinical trial of the anti-cancer drug “Chuiluosu” (TR1), carried out jointly with the Institute of Basic Medical Sciences of the Chinese Academy of Medical Sciences, has also been progressing well. The existing comprehensive sales network and flexible marketing strategies will provide a main force for the future sales & marketing of the entity’s new products, so that better results performance could be achieved for the entity.

OPERATIONS ANALYSIS (Cont'd)

Associated Companies (Cont'd)

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

Yunnan Xingning (located in the Yunnan Province) became an associated company of the Group in December 2003. The entity is engaged in the printing and sale of cigarette packaging packs and boxes in China. The principle brands include Ashima, Hongmei etc. Under the full support of the joint venture partner Yunnan Hongta Group Co., Ltd to the business, Yunnan Xingning recorded encouraging results during the year under review. The turnover and profit of the entity was Rmb28.08 million and Rmb2.14 million respectively. The Group was therefore entitled to a profit share of HK\$500,000 for the year under review from that associated company. The Group is confident with regard to the future development of Yunnan Xingning, and believes that the associated company will continue to bring profit contribution to the Group in the future.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to sustain a liquidity position. As at 31 March 2005, the Group had cash and bank balances of approximately HK\$61 million. Approximately 71% and 22% of the total cash and bank balances were denominated in United States dollar and Renminbi respectively with the remaining in Hong Kong dollar. As in the past, the Group has no external borrowings. With this strong financial position, the Group has sufficient financial resources to meet its operations and future development needs.

EXCHANGE RATE EXPOSURE

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

CHARGES ON ASSETS

The Group did not have any charges on assets as at 31 March 2005 and 31 March 2004.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2005, the Group employed approximately 65 employees in Hong Kong and China. The Group remunerates its employees based on market terms, and the qualifications and experience of the employees concerned.

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

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 the 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 2005 is set out in note 4 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2005, the five largest customers of the Group accounted for approximately 89% 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 2005, the five largest suppliers of the Group accounted for approximately 35% of the Group's total purchases while the largest supplier of the Group accounted for approximately 8% 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 during the year.

RESULTS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated income statement on page 21.

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 pages 60 to 61 of this annual report.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the year are set out in note 11 to the financial statements.

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 12 to the financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL Details of the Company's share capital are set out in note 28 to the financial statements.

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

Executive directors:

Li Suiming (<i>Chairman</i>)	(appointed on 15 December 2004)
Liu Wandong (<i>Chairman</i>)	(resigned on 15 December 2004)
Ma Pizhi (<i>Managing Director</i>)	
Cheng Hau Yan	
Dong Jianhua	
Fang Wen Quan	
Li Guanglin	
Li Hong	

Independent non-executive directors:

Ho Wing Fun	
Lam Yat Fai	(appointed on 22 September 2004)
Wu Wen Jing, Benjamin	(appointed on 22 September 2004)
Lee Ka Sze, Carmelo	(resigned on 22 September 2004)

In accordance with Articles 91 and 99 of the Company's Articles of Association, Messrs. Li Suiming, Dong Jianhua, Li Guanglin, Lam Yat Fai and Wu Wen Jing, Benjamin will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

DIRECTORS' SERVICE CONTRACTS The Company has entered into letters of appointment with the independent non-executive directors, pursuant to which the independent non-executive directors are appointed for a term of 2 years until 31 December 2006 and are subject to retirement 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).

**DIRECTORS'
INTERESTS IN
SHARES AND
UNDERLYING
SHARES**

At 31 March 2005, save for the corporate interest of a director as disclosed under the section "Substantial Shareholders", no other directors 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 2005, 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 (<i>Note 1</i>)	51.78
China National Tobacco Corporation Yunnan Branch	Held by controlled corporation	262,442,930 (<i>Note 1</i>)	51.78
Yuxi Hongta Tobacco (Group) Limited	Held by controlled corporation	262,442,930 (<i>Note 1</i>)	51.78
Yunnan International Trust and Investment Corporation	Held by controlled corporation	262,442,930 (<i>Note 1</i>)	51.78
Tianda Group Limited	Beneficial owner	47,380,952 (<i>Note 2</i>)	9.35

Notes:

- (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 Yuanna 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. Mr. Fang Wen Quan, a director of the Company, has 100% share interests in Tianda Group Limited and, accordingly, is deemed to have a corporate interest in the said 47,380,952 shares owned by Tianda Group Limited.

All the interests stated above represent long positions. As at 31 March 2005, 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 2005.

**DIRECTORS'
RIGHTS TO
ACQUIRE SHARES
OR DEBENTURES**

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

**CORPORATE
GOVERNANCE**

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice 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"), which has been replaced by the Code on Corporate Governance Practices ("New Code") with effect on 1 January 2005. Pursuant to the New Code, listed issuers are expected to comply with the New Code provisions starting from 1 January 2005.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all directors that they have complied with the Model Code throughout the year ended 31 March 2005.

**AUDIT
COMMITTEE**

The Company has an audit committee which was established in accordance with the requirement of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The audit committee comprises Messrs. Ho Wing Fun, Lam Yat Fai and Wu Wen Jing, Benjamin, three 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 March 2005.

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

Li Suiming

Chairman

Hong Kong, 22 July 2005



TO THE SHAREHOLDERS OF YUNNAN ENTERPRISES HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 59 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 Institute of Certified Public 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.

AUDITORS' REPORT

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 2005 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
22 July 2005

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	NOTES	2005 HK\$	2004 HK\$
Turnover	4	10,112,805	5,765,777
Cost of sales		(3,524,272)	(1,819,559)
Gross profit		6,588,533	3,946,218
Other operating income	5	1,424,879	1,418,153
Distribution costs		(423,585)	(556,816)
Administrative expenses		(8,785,575)	(9,217,782)
Surplus (deficit) arising on revaluation of investment property		800,000	(500,000)
Loss from operations	6	(395,748)	(4,910,227)
Finance costs	7	(43,147)	–
Share of results of associates		687,844	(484,514)
Amortisation of goodwill arising on acquisition of an associate		(89,905)	(75,990)
Profit (loss) before taxation		159,044	(5,470,731)
Income tax expense	9	(291,515)	(190,715)
Loss after taxation		(132,471)	(5,661,446)
Minority interests		(521,806)	(77,367)
Net loss for the year		(654,277)	(5,738,813)
Loss per share – basic	10	(0.129) cents	(1.181) cents

CONSOLIDATED BALANCE SHEET

AT 31 MARCH 2005

	NOTES	2005 HK\$	2004 HK\$
NON-CURRENT ASSETS			
Investment property	11	11,000,000	10,200,000
Property, plant and equipment	12	25,319,555	25,647,236
Goodwill	13	5,011,207	5,305,941
Intangible assets	14	1,471,692	1,556,604
Interests in associates	16	52,639,388	52,287,701
Investments in an investee company	17	55,205,141	55,205,141
Loan to an investee company	18	715,055	715,055
Securities linked deposit	19	–	3,017,282
		151,362,038	153,934,960
CURRENT ASSETS			
Inventories	20	1,743,038	1,025,627
Trade and other receivables	21	6,059,881	5,002,919
Securities linked deposits	19	3,017,282	–
Bank deposits		43,662,111	46,383,796
Bank balances and cash		14,464,636	13,501,258
		68,946,948	65,913,600
CURRENT LIABILITIES			
Trade and other payables	22	2,565,081	2,552,336
Government grants	23	–	51,228
Amount due to an associate	25	773,014	773,014
Amount due to a shareholder	26	–	589,511
		3,338,095	3,966,089
NET CURRENT ASSETS			
		65,608,853	61,947,511
Total assets less current liabilities		216,970,891	215,882,471
NON CURRENT LIABILITY			
Deposit received	27	1,226,415	–
MINORITY INTERESTS			
		12,751,102	12,229,296
		202,993,374	203,653,175
CAPITAL AND RESERVES			
Share capital	28	50,685,395	50,685,395
Reserves		152,307,979	152,967,780
		202,993,374	203,653,175

The financial statements on pages 21 to 59 were approved and authorised for issue by the Board of Directors on 22 July 2005 and are signed on its behalf by:

LI SUIMING
Chairman

MA PIZHI
Managing Director

BALANCE SHEET

AT 31 MARCH 2005

	NOTES	2005 HK\$	2004 HK\$
NON-CURRENT ASSETS			
Plant and equipment	12	588,927	939,879
Interests in subsidiaries	15	109,461,066	109,967,772
Securities linked deposit	19	–	3,017,282
		110,049,993	113,924,933
CURRENT ASSETS			
Other receivables		783,561	755,531
Securities linked deposits	19	3,017,282	–
Bank deposits		43,190,413	46,383,796
Bank balances and cash		954,346	764,373
		47,945,602	47,903,700
CURRENT LIABILITIES			
Other payables		773,167	405,000
Amounts due to subsidiaries	24	640,333	676,070
		1,413,500	1,081,070
NET CURRENT ASSETS		46,532,102	46,822,630
		156,582,095	160,747,563
CAPITAL AND RESERVES			
Share capital	28	50,685,395	50,685,395
Reserves	29	105,896,700	110,062,168
		156,582,095	160,747,563

LI SUIMING
Chairman

MA PIZHI
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2005

	Share capital HK\$	Share premium HK\$	Capital redemption reserve HK\$	Goodwill reserve HK\$	Special reserve HK\$ Note (i)	Statutory reserves HK\$ Note (ii)	Exchange reserve HK\$	Deficit HK\$	Total HK\$
THE GROUP									
At 1 April 2003	45,947,300	187,468,964	8,000	(7,938,469)	3,460,016	2,850,519	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 reserves	-	-	-	-	-	921,605	-	(921,605)	-
At 31 March 2004 and 1 April 2004	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,772,124	1,412,683	(49,949,799)	203,653,175
Net loss for the year	-	-	-	-	-	-	-	(654,277)	(654,277)
Transfer to reserves	-	-	-	-	-	192,828	-	(192,828)	-
Utilization of statutory surplus reserves	-	-	-	-	-	(5,524)	-	-	(5,524)
At 31 March 2005	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,959,428	1,412,683	(50,796,904)	202,993,374

The deficit of the Group include retained profits of HK\$2,729,386 (2004: HK\$2,287,794) attributable to associates.

Notes:

- (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) The statutory reserves represent the appropriation of certain percentages of profit after taxation of subsidiaries in The People's Republic of China (the "PRC") as recommended by the directors of those subsidiaries as reported under the PRC statutory financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	NOTE	2005 HK\$	2004 HK\$
OPERATING ACTIVITIES			
Loss from operations		(395,748)	(4,910,227)
Adjustments for:			
Amortisation of goodwill		294,734	214,131
Amortisation of intangible assets		84,912	89,622
Depreciation and amortisation of property, plant and equipment		1,804,468	941,080
Interest income		(1,150,990)	(961,169)
Loss on write off of property, plant and equipment		53,783	20,815
Allowance for inventories		403,406	–
Research and development costs		(51,228)	(229,904)
(Surplus) deficit arising on revaluation of investment property		(800,000)	500,000
Operating cash flows before movements in working capital		243,337	(4,335,652)
Increase in inventories		(1,120,817)	(55,112)
(Increase) decrease in trade and other receivables		(1,056,962)	1,490,905
Increase (decrease) in trade and other payables		12,745	(633,370)
Increase in government grants		–	281,132
(Decrease) increase in amount due to a shareholder		(589,511)	589,511
Increase in deposit received		1,226,415	–
Utilisation of statutory reserves		(5,524)	–
Cash used in operations		(1,290,317)	(2,662,586)
Tax paid in the PRC		(45,263)	(8,377)
NET CASH USED IN OPERATING ACTIVITIES		(1,335,580)	(2,670,963)
INVESTING ACTIVITIES			
Decrease in bank deposits		2,721,685	13,953,094
Interest received		1,150,990	961,169
Purchases of property, plant and equipment		(1,530,570)	(2,694,524)
Acquisition of an associate		–	(9,929,474)
Acquisition of a subsidiary, net of cash and cash equivalent acquired	31	–	(1,767,607)
NET CASH FROM INVESTING ACTIVITIES		2,342,105	522,658
FINANCING ACTIVITIES			
Repayment of short term loan		(943,396)	(1,273,584)
Interest expenses paid		(43,147)	–
Short term loan raised		943,396	–
Expenses paid in connection with share issue		–	(427,644)
Capital contributions by minority interests		–	1,273,584
NET CASH USED IN FINANCING ACTIVITIES		(43,147)	(427,644)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		963,378	(2,575,949)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		13,501,258	16,077,207
CASH AND CASH EQUIVALENTS AT END OF THE YEAR , represented by bank balances and cash		14,464,636	13,501,258

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

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. 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 the trading of cigarette and other related products, provision of management and consultancy services and investment holdings.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 Business Combinations. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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 but prior to 1 January 2005 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.

Goodwill arising on acquisitions of subsidiaries or associates on or after 1 January 2005 is carried at cost less any accumulated impairment losses.

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.

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.

Property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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

Land and buildings	Over the term of the leases
Plant and machinery	5% – 10%
Leasehold improvements	10% – 33 $\frac{1}{3}$ %
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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments in securities *(Cont'd)*

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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expenses 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 foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

On consolidation, the assets and liabilities of the Group's overseas operations 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 exchange 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.

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, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. 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.

4. SEGMENT INFORMATION

(a) Business segments

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.

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.

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Segment information about these businesses is presented below.

Year ended 31 March 2005

	Sales of pharmaceutical products HK\$	Property rental HK\$	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
TURNOVER - EXTERNAL	6,309,221	417,410	-	-	3,386,174	-	10,112,805
SEGMENT RESULTS	(398,479)	404,237	(462,603)	(90,242)	2,375,402	-	1,828,315
Other operating income							1,424,879
Unallocated corporate expenses							(3,648,942)
Loss from operations							(395,748)
Finance costs							(43,147)
Share of results of associates	184,226	-	-	-	-	503,618	687,844
Amortisation of goodwill arising on acquisition of an associate	-	-	-	-	-	(89,905)	(89,905)
Profit before taxation							159,044
Income tax expense							(291,515)
Loss after taxation							(132,471)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

BALANCE SHEET

At 31 March 2005

	Sales of pharmaceutical products HK\$	Property rental HK\$	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
ASSETS							
Segment assets	36,045,989	11,474,003	2,861	12,189,790	59,321,797	-	119,034,440
Interests in associates	42,215,568	-	-	-	-	10,423,820	52,639,388
Unallocated corporate assets							48,635,158
Consolidated total assets							220,308,986
LIABILITIES							
Segment liabilities	3,462,039	194,051	9,000	29,113	29,000	-	3,723,203
Unallocated corporate liabilities							841,307
Consolidated total liabilities							4,564,510

OTHER INFORMATION

Year ended 31 March 2005

	Sales of pharmaceutical products HK\$	Property rental HK\$	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
Capital additions	1,454,230	51,600	-	-	-	24,740	1,530,570
Amortisation of goodwill arising on acquisition of a subsidiary	294,734	-	-	-	-	-	294,734
Surplus arising on revaluation of investment property	-	(800,000)	-	-	-	-	(800,000)
Depreciation and amortisation of property, plant and equipment	1,356,248	54,386	-	5,276	-	388,558	1,804,468
Loss on write off of property, plant and equipment	53,783	-	-	-	-	-	53,783
Amortisation of intangible assets	84,912	-	-	-	-	-	84,912
Allowance for inventories	403,406	-	-	-	-	-	403,406

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Year ended 31 March 2004

	Sales of pharmaceutical products HK\$	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 an associate	(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 2005

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

BALANCE SHEET

At 31 March 2004

	Sales of pharmaceutical products HK\$	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\$	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	51,918	–	42,228	–	385,428	941,080
Loss on write off of property, plant and equipment	20,815	–	–	–	–	–	20,815
Amortisation of intangible assets	89,622	–	–	–	–	–	89,622

4. SEGMENT INFORMATION *(Cont'd)*

(b) Geographical segments

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

	2005 HK\$	2004 HK\$
Interest income from bank deposits	1,150,990	961,169
Exchange gain	–	135,373
Others	273,889	321,611
	1,424,879	1,418,153

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

6. LOSS FROM OPERATIONS

	2005 HK\$	2004 HK\$
Loss from operations has been arrived at after charging:		
Staff costs, including directors' emoluments		
Salaries and other benefits	3,975,855	4,378,765
Retirement benefits scheme contributions	133,693	115,382
Total staff costs	4,109,548	4,494,147
Amortisation of goodwill (included in administrative expenses)	294,734	214,131
Amortisation of intangible assets (included in administrative expenses)	84,912	89,622
Auditors' remuneration	477,421	439,954
Cost of inventories recognised as expenses	1,643,319	1,030,109
Depreciation and amortisation of property, plant and equipment	1,804,468	941,080
Loss on write off of property, plant and equipment	53,783	20,815
Allowance for inventories	403,406	–
Research and development costs	171,012	229,904
Less: Government grants received	(51,228)	(229,904)
Net research and development costs	119,784	–
and after crediting:		
Dividend income from investment in an investee company	3,386,174	1,972,053
Gross rental income from an investment property less outgoings of HK\$13,150 (2004: Negligible)	404,260	232,557

7. FINANCE COSTS

	2005 HK\$	2004 HK\$
Interest on:		
Bank loan wholly repayable within five years	12,896	—
Amount due to a minority shareholder of a subsidiary	30,251	—
	43,147	—

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2005 HK\$	2004 HK\$
Fees		
Executive directors	420,000	389,194
Independent non-executive directors	151,667	120,000
	571,667	509,194
Other emoluments (executive directors)		
Salaries and other benefits	1,449,847	1,449,525
Retirement benefits scheme contributions	53,963	54,000
	1,503,810	1,503,525
Total emoluments	2,075,477	2,012,719

The emoluments of the directors were within the following bands:

	Number of directors	
	2005	2004
Nil to HK\$1,000,000	11	8
HK\$1,000,001 to HK\$1,500,000	1	1

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)
(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2004: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005 HK\$	2004 HK\$
Salaries and other benefits	1,051,200	1,056,416
Retirement benefits scheme contributions	51,480	47,520
	1,102,680	1,103,936

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 2005 and 2004, 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.

9. INCOME TAX EXPENSE

The income tax expense comprises:

	2005 HK\$	2004 HK\$
Current year		
PRC income tax	45,263	8,377
Share of taxation attributable to associates	246,252	182,338
	291,515	190,715

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

9. INCOME TAX EXPENSE (Cont'd)

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

Details of deferred taxation are set out in note 30.

The tax expense for the year can be reconciled to the profit (loss) before taxation per the income statement as follows:

	2005 HK\$	2004 HK\$
Profit (loss) before taxation	159,044	(5,470,731)
Tax at Hong Kong Profits Tax rate of 17.5%	27,833	(957,378)
Tax effect of share of results of associates	125,879	267,128
Tax effect of expenses that are not deductible for tax purpose	190,680	170,464
Tax effect of income that is not taxable for tax purpose	(870,378)	(511,105)
Tax effect of tax losses not recognised	1,074,289	1,239,640
Tax effect on deferred tax assets not recognised	59,082	12,364
Utilisation of tax losses previously not recognised	(25,098)	(1,919)
Utilisation of deferred tax assets previously not recognised	(39,266)	–
Effect of tax exemptions granted to a PRC subsidiary	(234,445)	(34,636)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(17,061)	6,157
Tax expense for the year	291,515	190,715

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

10. LOSS PER SHARE

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

	2005 HK\$	2004 HK\$
Net loss for the year	(654,277)	(5,738,813)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	506,853,952	485,824,598

No diluted loss per share is presented for both years as there were no potential dilutive shares.

11. INVESTMENT PROPERTY

	THE GROUP HK\$
At 1 April 2004	10,200,000
Revaluation surplus	800,000
At 31 March 2005	11,000,000

The Group's investment property is rented out under an operating lease and is held under a medium-term lease in Hong Kong. The investment property was revalued at 31 March 2005 by LCH (Asia – Pacific) Surveyors Limited, an independent professional valuer, on an open market existing use basis. The surplus arising on the revaluation amounting to HK\$800,000, has been credited to the income statement.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$	Plant and machinery HK\$	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP						
COST						
At 1 April 2004	17,813,593	5,581,698	1,412,080	1,695,091	2,313,406	28,815,868
Additions	147,686	1,233,455	51,600	46,888	50,941	1,530,570
Written off	–	(42,818)	–	(64,638)	(256)	(107,712)
At 31 March 2005	17,961,279	6,772,335	1,463,680	1,677,341	2,364,091	30,238,726
DEPRECIATION AND AMORTISATION						
At 1 April 2004	136,639	211,367	555,863	919,915	1,344,848	3,168,632
Provided for the year	681,057	519,813	364,364	130,509	108,725	1,804,468
Eliminated on write off	–	(15,566)	–	(38,187)	(176)	(53,929)
At 31 March 2005	817,696	715,614	920,227	1,012,237	1,453,397	4,919,171
NET BOOK VALUES						
At 31 March 2005	17,143,583	6,056,721	543,453	665,104	910,694	25,319,555
At 31 March 2004	17,676,954	5,370,331	856,217	775,176	968,558	25,647,236
THE COMPANY						
COST						
At 1 April 2004	–	–	1,119,580	570,402	1,265,029	2,955,011
Additions	–	–	–	24,740	–	24,740
At 31 March 2005	–	–	1,119,580	595,142	1,265,029	2,979,751
DEPRECIATION						
At 1 April 2004	–	–	502,425	247,678	1,265,029	2,015,132
Provided for the year	–	–	330,384	45,308	–	375,692
At 31 March 2005	–	–	832,809	292,986	1,265,029	2,390,824
NET BOOK VALUES						
At 31 March 2005	–	–	286,771	302,156	–	588,927
At 31 March 2004	–	–	617,155	322,724	–	939,879

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

13. GOODWILL

THE GROUP
HK\$

COST

At 1 April 2004 and 31 March 2005	5,894,672
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AMORTISATION

At 1 April 2004	588,731
Provided for the year	294,734

At 31 March 2005	883,465
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NET BOOK VALUES

At 31 March 2005	5,011,207
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At 31 March 2004	5,305,941
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Goodwill is amortised over its estimated useful life of 20 years.

14. INTANGIBLE ASSETS

**Production
rights**
HK\$

THE GROUP

COST

At 1 April 2004 and 31 March 2005	1,646,226
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AMORTISATION

At 1 April 2004	89,622
Provided for the year	84,912

At 31 March 2005	174,534
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NET BOOK VALUES

At 31 March 2005	1,471,692
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At 31 March 2004	1,556,604
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Production rights are amortised over its estimated useful life of 20 years.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$	2004 HK\$
Unlisted shares, at cost	11,338,020	11,338,022
Amounts due from subsidiaries	163,211,916	163,780,622
	174,549,936	175,118,644
Less: Impairment loss	(65,088,870)	(65,150,872)
	109,461,066	109,967,772

During the year, the Company reviewed the carrying amounts of interests in subsidiaries and identified that the estimated net future cash flows from certain subsidiaries are less than the carrying amount. Accordingly, the carrying amount of these subsidiaries are reduced to their respective recoverable amounts.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, repayment will not be required within one year from the balance sheet date and is therefore shown as non-current.

Details of the principal subsidiaries of the Company at 31 March 2005 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		Principal activity
			the company %	the subsidiary %	
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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

15. 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		Principal activity
			the company %	the subsidiary %	
Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical")	PRC*	RMB36,000,000	–	55	Research, development, manufacture and sale of biotechnology products
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 holding

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 incorporated as cooperative joint venture enterprise.

** Company registered as wholly foreign owned enterprise.

16. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK\$	HK\$
Share of net assets	50,953,692	50,512,100
Goodwill arising on acquisition of an associate (<i>Note</i>)	1,685,696	1,775,601
	52,639,388	52,287,701
<i>Note:</i>		HK\$
GOODWILL		
At 1 April 2004 and 31 March 2005		1,798,077
AMORTISATION		
At 1 April 2004		22,476
Provided for the year		89,905
At 31 March 2005		112,381
NET BOOK VALUES		
At 31 March 2005		1,685,696
At 31 March 2004		1,775,601

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

16. INTERESTS IN ASSOCIATES (Cont'd)

Details of the associates of the Group at 31 March 2005 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 ended 31 March

	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	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	18.12.2003 (date of acquisition) to 31.3.2004 HK\$
Turnover	26,883,895	24,022,358	4,974,575	560,347	26,491,880	4,822,180
Depreciation	2,828,886	1,822,595	361,795	111,817	1,640,951	509,224
Profit/(loss) before taxation	(130,968)	(867,333)	988,365	(1,169,630)	2,014,472	412,438
Profit/(loss) before taxation attributable to the Group	(62,865)	(416,320)	247,091	(292,408)	503,618	103,109

16. INTERESTS IN ASSOCIATES (Cont'd)

Financial position as at 31 March

	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	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Non-current assets	64,835,146	62,051,031	3,196,463	3,104,549	14,953,147	16,468,723
Current assets	46,006,421	43,595,708	1,970,508	2,427,301	23,016,484	17,795,753
Current liabilities	(7,028,539)	(10,447,929)	(923,836)	(2,277,078)	(3,017,136)	(1,326,452)
Non-current liabilities	(18,073,894)	(8,815,683)	-	-	-	-
Net assets	85,739,134	86,383,127	4,243,135	3,254,772	34,952,495	32,938,024
Net assets attributable to the Group	41,154,784	41,463,901	1,060,784	813,693	8,738,124	8,234,506

17. INVESTMENTS IN AN INVESTEE COMPANY

	THE GROUP	
	2005 HK\$	2004 HK\$
Investment securities		
Unlisted equity securities, at cost	55,205,141	55,205,141

The investment represents the Group's 18.75% equity interest in the registered capital of 玉溪環球彩印紙盒有限公司 Yuxi Globe Colour Printing Carton Co., Ltd. ("Yuxi Globe"), a company registered in the PRC 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.

18. LOAN TO AN INVESTEE COMPANY

THE GROUP

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 within one year from the balance sheet date and is therefore shown as non-current.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

19. SECURITIES LINKED DEPOSIT THE GROUP AND THE COMPANY

The amount represents a deposit which will be converted into designated listed share in Hong Kong at the maturity date of the deposit if the closing price of this designated share falls 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 is not materially different from their investment cost.

At March 31, 2005 and up to the date of the report, the closing prices of this designated share were higher than the pre-determined price.

20. INVENTORIES

	THE GROUP	
	2005	2004
	HK\$	HK\$
Raw materials	803,433	345,311
Work in progress	348,798	123,153
Finished goods	590,807	557,163
	1,743,038	1,025,627

All inventories are stated at cost.

21. 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 sheet date:

	THE GROUP	
	2005	2004
	HK\$	HK\$
Within 60 days	598,811	189,700
61 – 90 days	36,327	42,581
Over 90 days	64,845	93,867
	699,983	326,148
Dividends receivable	3,386,174	2,561,564
Other receivables	1,973,724	2,115,207
	6,059,881	5,002,919

22. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2005	2004
	HK\$	HK\$
Within 60 days	458,858	54,315
61 – 90 days	105,535	164,673
Over 90 days	424,314	126,694
	988,707	345,682
Other payables	1,576,374	2,206,654
	2,565,081	2,552,336

23. GOVERNMENT GRANTS

THE GROUP

No government grants have been received in current year (2004: HK\$281,132) for the development of biotechnology products. The amount of HK\$51,228 (2004: HK\$229,904) have been deducted in reported research and development costs for biotechnology products.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

24. AMOUNTS DUE TO SUBSIDIARIES THE COMPANY

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

25. AMOUNT DUE TO AN ASSOCIATE THE GROUP

The amount is unsecured, non-interest bearing and repayable on demand.

26. AMOUNT DUE TO A SHAREHOLDER THE GROUP

The amount was unsecured, non-interest bearing and had been settled during the year.

27. DEPOSIT RECEIVED THE GROUP

The amount represents deposit received from a customer. The amount is unsecured, non-interest bearing and repayable upon the sales contract expires. Since the amount is not repayable within one year from the balance sheet date and is therefore shown as non-current.

28. SHARE CAPITAL

	Number of shares		Amount	
	2005	2004	2005 HK\$	2004 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	506,853,952	459,473,000	50,685,395	45,947,300
Increased during the year (Note)	–	47,380,952	–	4,738,095
At end of the year	506,853,952	506,853,952	50,685,395	50,685,395

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.

29. 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 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 and 1 April 2004	202,203,225	8,000	(92,149,057)	110,062,168
Net loss for the year	–	–	(4,165,468)	(4,165,468)
At 31 March 2005	202,203,225	8,000	(96,314,525)	105,896,700

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 Association, 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 the year. At 31 March 2005 and 2004, the Company has no distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

30. DEFERRED TAXATION

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

THE GROUP

	Accelerated tax depreciation	Tax losses	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 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 and 1 April 2004	26,750	(26,750)	–
(Credit) charge to income statement	(3,388)	3,388	–
At 31 March 2005	23,362	(23,362)	–

At the balance sheet date, the Group had unused tax losses of approximately HK\$104,708,000 (2004: HK\$98,733,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK\$133,000 (2004: HK\$153,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$104,575,000 (2004: HK\$98,580,000) 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\$709,000 (2004: HK\$596,000). 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.

30. DEFERRED TAXATION (Cont'd)
THE COMPANY

	Accelerated tax depreciation HK\$	Tax losses HK\$	Total HK\$
At 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 and 1 April 2004	8,107	(8,107)	–
(Credit) charge to income statement	(8,107)	8,107	–
At 31 March 2005	–	–	–

At the balance sheet date, the Company had unused tax losses of approximately HK\$49,500,000 (2004: HK\$45,127,000) available to offset against future profits. In 2004, a deferred tax asset had been recognised in respect of tax losses of approximately HK\$46,000. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$49,500,000 (2004: HK\$45,081,000) due to the unpredictability of future profit streams. All these losses may be carried forward indefinitely.

At the balance sheet date, the Company has deductible temporary difference of HK\$259,000 (2004: Nil). No deferred tax asset has been recognised in relation to such deductible temporary difference, 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 2005

31. 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.

	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	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)

For the year ended 31 March 2004, 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 operations between the date of acquisition and the balance sheet date.

32. 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\$108,743 (2004: HK\$102,270) represents contributions paid to the scheme by the Group in respect of the current year.

The employees of Yunnan Yunyu Economic & Technology Consulting Co., Limited (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 Meng Sheng Pharmaceutical (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 2005, the total cost charged to income statement of HK\$24,950 (2004: HK\$13,112) represents contributions paid to the state-managed retirement benefit schemes by the Group in respect of current year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

33. OPERATING LEASE COMMITMENTS

The Group and the Company as lessee

Minimum lease payment paid under operating leases in respect of office premises during the year amounted to HK\$933,632 (2004: HK\$875,280).

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

	2005 HK\$	2004 HK\$
Within one year	817,000	934,000
In the second to fifth year inclusive	–	817,000
	817,000	1,751,000

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\$417,410 (2004: HK\$232,557). The property is expected to generate rental yields of 4.2% (2004: 4.5%) on an ongoing basis. The premise held has committed tenants for the next 2 years.

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

	2005 HK\$	2004 HK\$
Within one year	459,000	459,000
In the second to fifth year inclusive	459,000	918,000
	918,000	1,377,000

34. CAPITAL COMMITMENTS

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

	THE GROUP	
	2005	2004
	HK\$	HK\$
Commitments for acquisition of property, plant and equipment – contracted for but not provided in the financial statements	50,000	272,000

35. NON-CASH TRANSACTION

No non-cash transaction entered into the Group for the year ended 31 March 2005.

For the year ended 31 March 2004, 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.

36. RELATED PARTY TRANSACTIONS

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

	2005	2004
	HK\$	HK\$
Management fee income received from Tianda Group Limited *	240,000	240,000
Interest expenses paid to a minority shareholder of a subsidiary	30,251	–

* *Tianda Group Limited is a substantial shareholder of the Company.*

FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				2005 HK\$'000
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	
Turnover	14,276	10,963	3,424	5,766	10,113
Profit (loss) from operations	6,874	2,234	(4,946)	(4,910)	(396)
Finance costs	–	–	–	–	(43)
Share of results of associates	1,593	3,801	651	(485)	688
Amortisation of goodwill arising on acquisition of an associate	–	(107)	(214)	(76)	(90)
Profit (loss) before taxation	8,467	5,928	(4,509)	(5,471)	159
Income tax expense	(203)	(1,072)	(17)	(191)	(291)
Profit (loss) after taxation	8,264	4,856	(4,526)	(5,662)	(132)
Minority interests	–	–	–	(77)	(522)
Net profit (loss) for the year	8,264	4,856	(4,526)	(5,739)	(654)

ASSETS AND LIABILITIES

	At 31 March				
	2001	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	93,643	104,156	110,370	153,935	151,362
Net current assets	96,749	90,292	79,551	61,947	65,608
Non-current liability	–	–	–	–	(1,226)
	190,392	194,448	189,921	215,882	215,744
Shareholders' funds	190,391	194,447	189,920	203,653	202,993
Minority interests	1	1	1	12,229	12,751
	190,392	194,448	189,921	215,882	215,744

PARTICULARS OF INVESTMENT PROPERTY

Location

3rd Floor, Alliance Building
Nos. 130-136 Connaught Road Central
Hong Kong

Lease term

Medium-term lease

Type

Commercial