雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability) (stock code: 455)

Annual Report 2006

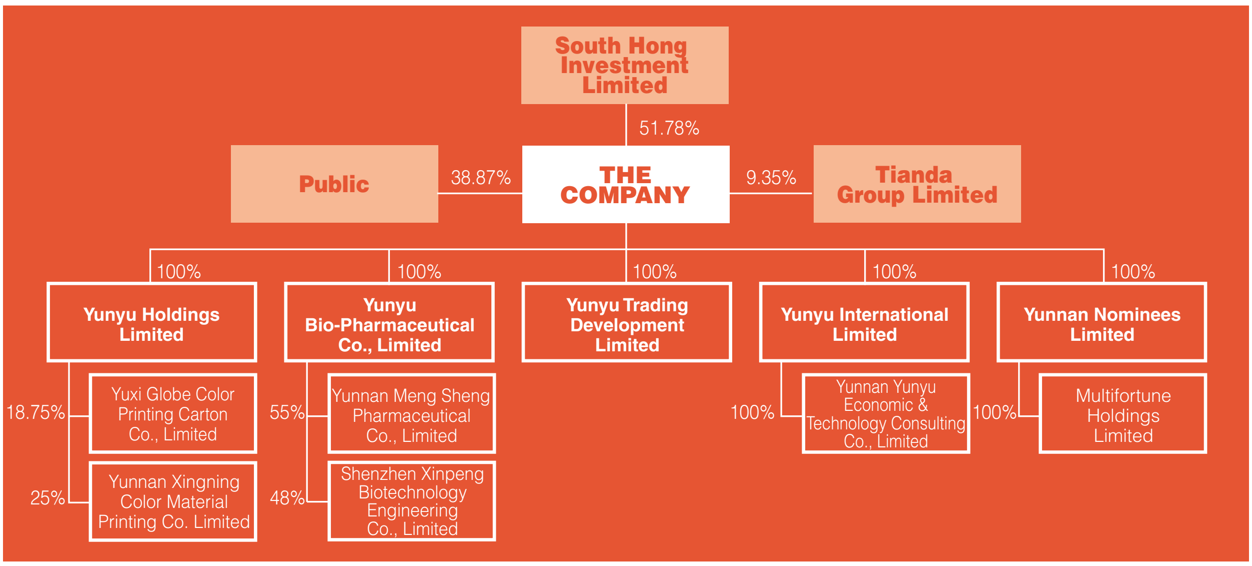
Contents

Corporate Profile & Introduction to Hongta Tobacco

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, and 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 incorporated in Hong Kong and the controlling shareholder of South Hong is Hongta Tobacco (Group) Limited (formerly known as Yuxi Hongta Tobacco (Group) Limited) which is a state-owned enterprise in Yunnan Province, the People's Republic of China.

The shareholding structure as at 31 March 2006 is shown as follows:



Hongta Tobacco (Group) Limited ("Hongta Tobacco", formerly known as Yuxi Hongta Tobacco (Group) Limited) 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)*
Li Guanglin
Liu Huijiang
Fang Wen Quan

Independent Non-Executive Directors

Ho Wing Fun
Wu Wen Jing, Benjamin
Lam Yat Fai

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
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

REMUNERATION COMMITTEE

Ma Pizhi
Ho Wing Fun
Wu Wen Jing, Benjamin
Lam Yat Fai

PRINCIPAL BANKERS

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

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 2405-2410, 24th Floor
CITIC Tower
No. 1 Tim Mei Avenue
Central, Hong Kong

HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
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 48, 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 currently the Chairman of the Company.

Mr. MA Pizhi, aged 50, graduated from the postgraduate programme of International Economic and Trade of Yunnan University and has experience in management and trading. He held the posts of vice director of Kunming Prices of Commodities Bureau during the period from June 1986 to October 1992, and of vice president of Kunming International Trade Centre during the period from October 1992 to July 1998. He was also the chairman of Kunming Kumlong Exhibition Service Co., Ltd. and Kunming Ming Cheng Motor Service Co., Ltd., the vice chairman of Kunming Ming Cheng Communication Development Co., Ltd. and the assistant to general manage of Yunnan Hongta Industrial Co., Ltd. Mr. Ma is currently the managing director of the Company.

Mr. LI Guanglin, aged 42, 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 Hongta Tobacco in April 2002, and the deputy officer of Hongta Tobacco as from April 2006. 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. LIU Huijiang, aged 50, a senior engineer, graduated from College of Water Resources and Hydroelectric Engineering (now Wuhan University). Mr. Liu held the posts of design department head, assistant factory manager and factory manager of Yuxi Hydropower Supplies Factory from 1976 to 1993. He was appointed as deputy general manager of Yunnan Hongta Group Co., Ltd. as from 1994. Mr. Liu is also the director of Sdic Yunnan Dachaoshan Hydropower Co., Ltd., Yunnan Huaneng Lancang River Hydropower Co., Ltd., Hongta Financial Investment Co., Ltd., China and China Everbright Bank Co., Ltd.. Mr. Liu was appointed as an executive director of the Company in March 2006.

Mr. FANG Wen Quan, aged 37, is currently the Chairman and general manager of Tianda Group Limited, Tianda Enterprise (China) Ltd. and Tianda Pharmaceuticals Limited.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HO Wing Fun, aged 73, has over 45 years' experience in operational management of property investment and development, specialising in accounting, auditing and taxation. Mr. Ho was the executive director of Henderson Land Development Company Limited, Henderson Investment Limited and Henderson China Holdings Limited.

Mr. Wu Wen Jing, Benjamin, aged 37, is presently a director of Evolution Watterson Securities 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. Prior to co-founding Evolution Watterson Securities Limited in 2001, he had served as Vice President at DBS Asia Capital Limited in Hong Kong responsible for various investment banking businesses including IPOs and merger and acquisition transactions. Prior to joining DBS Asia 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 possesses a Master degree in Banking and Finance from the University of Technology, Sydney, Australia. He is also a non-executive director at Century Sunshine Ecological Technology Holdings Limited, a company listed on the Hong Kong GEM Board.

Mr. LAM Yat Fai, aged 40, 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 16 years of experience in auditing, taxation, corporate finance and accounting. Mr. Lam is also an independent non-executive director of G-Prop (Holdings) Limited, Oriental Press Group Limited and New Smart Holdings Limited, all of which are public companies listed on the main board of The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. YIP Sai Keung Esmond, aged 40, 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 Institute of Certified Public 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.

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 March 2006, the Group recorded a turnover of HK$15.21 million which represented an increase of 50% when compared with HK$10.11 million in previous year. The increase in turnover was due to the increase in sales of pharmaceutical products during the year under review. On the other hand, the fair value of the Group's investment property at 31 March 2006 was determined as HK$15.6 million on the basis of a valuation carried out by qualified professional valuers. The resulting gain in fair value of the investment property of HK$4.6 million was recognized in the income statement for the year under review according to the Hong Kong Financial Reporting Standard. Moreover, the operating results of the Group's associated companies during the year under review were all improved when compared to previous year. The Group was therefore entitled to a share of profits of associated companies amounting to HK$1.8 million during the year under review (a share of profits of associated companies amounting to HK$440,000 for the previous year). Taking into account the income tax expense and the minority interests, the Group finally recorded a profit attributable to shareholders of the Company of HK$4.36 million for the financial year ended 31 March 2006, compared to a net loss of HK$630,000 for the previous year. Earnings per share for the current year was 0.859 cent with loss per share of 0.124 cent for the previous year.

DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2006.

OPERATIONS ANALYSIS

Pharmaceutical business

The Group's pharmaceutical business is carried out by its non-wholly owned subsidiary, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical"), which is located in Kunming, the Yunnan Province. Sales orders for its new product "Cerebroprotein Hydrolysate for Injection" (launched in November 2004) surged up in an encouraging pace following its well response from the market. During the year under review, Meng Sheng Pharmaceutical recorded a turnover of Rmb13.83 million, represented an increase of 107% over the comparative amount in last year. Accordingly, Meng Sheng Pharmaceutical recorded a net profit of HK$4.73 million during the year under review and continued to maintain its growing trend in its operating results.

Associated companies

Turnover of Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering", one of the Group's associated companies) dropped during the year under review in view of tough competition in the domestic pharmaceutical market. Despite that, the management of the entity continued to exercise stringent control on its operating costs during the year under review. As a result, Xinpeng Biotechnology Engineering was able to record a profit of Rmb950,000 during the year under review, representing an encouraging improvement when compared to a loss of Rmb680,000 for the previous year. On the other hand, the Group's another associated company Yunnan Xingning Color Material Printing Co., Limited ("Yunnan Xingning") continued its increasing trend in operating results. Yunnan Xingning recorded a net profit of Rmb3.45 million during the year under review (a net profit of Rmb2.14 million for the previous year), further indicating the full support of the joint venture partner in its business. Accordingly, the Group was able to benefit from such improvement in the operating results of its associated companies, which entitled the Group to share a profits of associated companies amounting to HK$1.8 million during the year under review.

Management Discussion and Analysis

OUTLOOK

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to sustain a liquidity position. As at 31 March 2006, the Group had cash and bank balances of approximately HK$ 63 million. Approximately 68% and 31% of the total cash and bank balances were denominated in United States dollar and Renminbi respectively with the remaining in Hong Kong dollar. As in the past, the Group has no external borrowings. With this strong financial position, the Group has sufficient financial resources to meet its operations and future development needs.

EXCHANGE RATE EXPOSURE

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

CHARGES ON ASSETS

The Group did not have any charges on assets as at 31 March 2006 and 31 March 2005.

EMPLOYEES

As at 31 March 2006, the Group employed approximately 80 employees in Hong Kong and China. The Group remunerates its employees based on market terms, and the qualifications and experience of the employees concerned.

Corporate Governance Report

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

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices. The Company has met the code provisions as set out in the Code during the year ended 31 March 2006 except code provision C.2 on internal control (which will be implemented for accounting period commencing on or after 1 July 2005) and the followings deviations:

(1) The code provision A.4.2 of the Code (the last sentence) provides that, every director (including directors with specific terms) should be subject to retirement by rotation at least once every three years. According to Article 99 of the Articles of Association of the Company then in effect before 26 August 2005, at each annual general meeting, one-third of the directors for the time being or, of their number is not 3 or a multiple of three, the number nearest to one-third shall retire from office provided that notwithstanding anything therein, the Chairman of the Directors and the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

    To comply with the code provision A.4.2 of the Code, amendments to Article 99 of the Articles of Association of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 26 August 2005.

(2) The code provision E.1.2 of the Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. Li Suiming, the Chairman of the Board who resides in Yunnan, was unable to attend the annual general meeting of the Company held on 26 August 2005 in Hong Kong.

(3) The remuneration committee has not held any meeting during the financial year. The first meeting of the remuneration committee was held on 19 July 2006.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and overseas the businesses, strategic development, financial performance and corporate governance of the Group. The management is delegated with the powers and authorities for overseeing the day-to-day operation of the Group.

The Board currently comprises five executive directors, being Mr. Li Suiming (Chairman of the Board), Mr. Ma Pizhi (Managing Director), Mr. Li Guanglin, Mr. Fang Wen Quan and Mr. Liu Huijiang, and three independent non-executive directors ("INED"), being Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai. More than one of the INEDs have appropriate professional qualification in accounting or related financial management expertise. Save as disclosed in the biographical details of each director, there is no other relationship (including financial, business, family, or other material/relevant relationship) among members of the Board.

The term of office of each INED is for a period of two years until 31 December 2006, subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company. The Company has received annual confirmation of independence from the three INEDs in accordance with rule 3.13 of the Listing Rules.

Corporate Governance Report

BOARD OF DIRECTORS *(Cont'd)*

The Board has established schedule of matters specifically reserves to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Board.

The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances to enable them to discharge their duties at the Company's expenses.

The Articles of the Company contain description of responsibility and operation procedure of the Board. The Board meets regularly to review the financial and operating performance of the Group. During the financial year ended 31 March 2006, the Board held four meetings. The attendance of the directors at the board meetings are as follows:

Directors	Note	**Number of Attendance**
Mr. Li Suiming *(Chairman)*		3/4
Mr. Ma Pizhi *(Managing director)*		4/4
Mr. Li Guanglin		3/4
Mr. Fang Wen Quan		3/4
Mr. Liu Huijiang	(i)	N/A
Mr. Cheng Hau Yan	(ii)	2/4
Ms. Dong Jianhua	(ii)	1/4
Mr. Li Hong	(ii)	1/4
Mr. Ho Wing Fun		1/4
Mr. Wu Wen Jing, Benjamin		1/4
Mr. Lam Yat Fai		2/4

Notes:

(i) Appointed as executive director on 31 March 2006

(ii) Resigned as executive director on 31 March 2006

CHAIRMAN AND MANAGING DIRECTOR

The Chairman of the Board is Mr. Li Suiming, and the Managing Director is Mr. Ma Pizhi. The Chairman's and the Managing Director's roles are separate and are clearly defined to ensure their independence, accountability and responsibility.

The Chairman provides leadership to the Board to ensure that the Board works effectively and discharges its responsibilities; and encourages and facilitates active contribution of directors to the Board's affairs and constructive relation between executive and non-executive directors.

The Managing Director, supported by other Board members and senior management, is responsible for managing the day-to-day business of the Company. He is also accountable to the Board for the coordination of overall business operations.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in September 2005. It comprises three independent non-executive directors of the Company, Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai and one executive director of the Company, Mr. Ma Pizhi (who is the Chairman of the remuneration committee).

The remuneration committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration to all directors and senior management of the Company and is delegated by the Board the responsibility to determine on behalf of the Board the specific remuneration packages for all executive directors and senior management of the Company. The remuneration committee has not held any meeting during the year. The first meeting of the remuneration committee was held on 19 July 2006 to review and consider, inter alia, the remuneration policy, remuneration of the executive directors and independent non-executive directors and compensation of key management personnel.

NOMINATION OF DIRECTORS

The Company has not established a nomination committee. To maintain high quality of the Board with a balance of skills and experience, the Board will identify individuals suitably qualified to become directors when necessary. In evaluating whether an appointee is suitable to act as a director, the Board will consider the experience, qualification and other relevant factors. During the year, the Board considered and approved the appointment of Mr. Liu Huijiang as an executive director and also noted the resignation of Mr. Cheng Hau Yan, Ms. Dong Jianhua and Mr. Li Hong as executive directors. A meeting was held in March 2006, which were attended by Mr. Ma Pizhi and Mr. Cheng Hau Yan, to consider and approve the said changes of directorship.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors of the company, being Mr. Ho Wing Fun (Chairman), Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai.

The role and function of the audit committee include:

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.
- to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.
- to review the Company's financial controls, internal controls and risk management systems to ensure that management has discharged its duty to have an effective internal control system.

For the year ended 31 March 2006, the audit committee held two meetings. Details of individual attendance of its members are as follows:

Directors	**Number of attendance**
Mr. Ho Wing Fun *(Chairman)*	2/2
Mr. Wu Wen Jing, Benjamin	2/2
Mr. Lam Yat Fai	2/2

Corporate Governance Report

AUDIT COMMITTEE *(Cont'd)*

The work performed by the audit committee during the year is listed below:

– review of the financial statements for the year ended 31 March 2005 and for the six months ended 30 September 2005.

– consider and approval of the remuneration and terms of engagement of the external auditors.

– review of the internal control and financial reporting matters of the Company.

AUDITORS' REMUNERATION

During the year, the Group was charged HK$475,000 for audit services provided by the Company's auditors, Deloitte Touche Tohmatsu. No other fees were charged for non-audit services provided by the Company's auditors during the year.

FINANCIAL REPORTING AND INTERNAL CONTROL

The directors of the Company acknowledge that it is their responsibilities for preparing the financial statements. The directors of the Company consider that the Group's financial statements have been properly prepared in accordance with relevant regulations and applicable accounting principles. The directors of the Company are not aware of any material uncertainties relating to events or conditions which may cost significant doubt upon the Company's ability to continue as a going concern. The statement of the auditors about their reporting responsibilities on the financial statements is set out in the Auditors' Report on page 17.

Pursuant to code provision C.2.1 of the Code, the Board should at least annually conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries. Under the transitional arrangement, the said code provision will be implemented for accounting period commencing on or after 1 July 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all the directors of the Company, they all confirm that they have complied with the Model Code throughout the year ended 31 March 2006.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept will informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars. Procedure for voting by poll has been included in the circulars of the Company accompanying notices convening general meeting and had been read out at the general meetings.

At the 2005 annual general meeting, a separate resolution was proposed by the chairman of the meeting in respect of each separate issue, including re-election of directors. In the absence of the Chairman of the Board, the Managing Director acted as chairman of the annual general meeting and together with other Directors and members of the Audit Committee and Remuneration Committee attended the 2005 annual general meeting to answer question raised by shareholders.

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are sales of pharmaceutical products, property holding, 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 2006 is set out in note 6 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2006, the five largest customers of the Group accounted for approximately 81% of the Group's total turnover while the largest customer of the Group accounted for approximately 50% of the Group's turnover. In addition, for the year ended 31 March 2006, the five largest suppliers of the Group accounted for approximately 58% of the Group's total purchases while the largest supplier of the Group accounted for approximately 35% 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 2006 are set out in the consolidated income statement on page 18.

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 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 29 to the financial statements.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 March 2006, the Company had no retained profit available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands. Further the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. As at 31 March 2006, the Company's share premium account amounted to HK$202,203,225.

DIRECTORS

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

Executive directors:

Li Suiming *(Chairman)*	
Ma Pizhi *(Managing Director)*	
Li Guanglin	
Fang Wen Quan	
Liu Huijiang	(appointed on 31 March 2006)
Cheng Hau Yan	(resigned on 31 March 2006)
Dong Jianhua	(resigned on 31 March 2006)
Li Hong	(resigned on 31 March 2006)

Independent non-executive directors:

Ho Wing Fun
Wu Wen Jing, Benjamin
Lam Yat Fai

In accordance with Articles 91 and 99 of the Company's Articles of Association, Messrs. Ma Pizhi, Fang Wen Quan, Ho Wing Fun and Liu Huijiang will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, except for Mr. Fang Wen Quan who is also the beneficial owner of Tianda Group Limited, one of the substantial shareholders of the Company whose interest is disclosed under the section "Substantial Shareholders", 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.

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.

CONNECTED TRANSACTIONS

During the year, the Group received management fee income of HK$180,000 from a substantial shareholder of the Company.

The independent non-executive directors have confirmed that 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 2006, 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
Hongta Tobacco (Group) Limited	Held by controlled corporation	262,442,930 (Note 1)	51.78
Tianda Group Limited	Beneficial owner	47,380,952 (Note 2)	9.35

Notes:

(1) These 262,442,930 shares are beneficially owned by South Hong Investment Limited ("South Hong") which is owned as to 92.28% by Hongta Tobacco (Group) Limited. Accordingly, Hongta Tobacco (Group) Limited is 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 has 100% equity 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 2006, 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 2006.

Report of the Directors

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

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

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence. The emoluments of the directors are reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. No director, or any of his associates, and executive is involved in dealing his own remuneration.

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 2006.

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, 26 July 2006

Auditors' Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF YUNNAN ENTERPRISES HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yunnan Enterprises Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 18 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated 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 Hong Kong Standards on Auditing 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 March 2006 and of the profit 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
26 July 2006

Consolidated Income Statement

For the year ended 31 March 2006

	NOTES	2006 HK$	2005 HK$ (restated)
Revenue	6	**15,207,865**	10,112,805
Cost of sales		**(5,563,868)**	(3,609,184)
Gross profit		**9,643,997**	6,503,621
Other income	7	**2,291,479**	1,424,879
Distribution costs		**(371,582)**	(423,585)
Administrative expenses		**(11,433,322)**	(8,651,191)
Gain arising from change in fair value/surplus on revaluation of an investment property	13	**4,600,000**	800,000
Finance costs	8	**–**	(43,147)
Share of results of associates		**1,805,102**	441,592
Amortisation of goodwill arising on acquisition of an associate		**–**	(89,905)
Profit (loss) before tax	9	**6,535,674**	(37,736)
Income tax expense	11	**(52,328)**	(45,263)
Profit (loss) for the year		**6,483,346**	(82,999)
Attributable to:			
Equity holders of the Company		**4,355,300**	(627,067)
Minority interests		**2,128,046**	544,068
		6,483,346	(82,999)

		HK cent	HK cent
Earnings (loss) per share – basic	12	**0.859**	(0.124)

Consolidated Balance Sheet

At 31 March 2006

	NOTES	2006 HK$	2005 HK$ (restated)
NON-CURRENT ASSETS			
Investment property	13	**15,600,000**	11,000,000
Property, plant and equipment	14	**20,898,469**	21,764,202
Prepaid lease payments	15	**3,532,837**	3,538,545
Goodwill	16	**5,107,576**	5,011,207
Intangible assets	17	**1,413,178**	1,471,692
Interests in associates	18	**56,850,656**	52,639,388
Investment in an investee company	19	**55,205,141**	55,205,141
Loan to an investee company	20	**–**	715,055
Deposit paid for the acquisition of plant and equipments		**746,154**	–
		159,354,011	151,345,230
CURRENT ASSETS			
Inventories	21	**2,267,663**	1,743,038
Loan to an investee company	20	**728,806**	–
Trade and other receivables	22	**7,530,258**	6,059,881
Prepaid lease payments	15	**78,648**	78,648
Tax recoverable		**188,445**	–
Securities linked deposit	23	**–**	3,017,282
Bank deposits	24	**43,151,728**	43,662,111
Bank balances and cash	24	**20,318,641**	14,464,636
		74,264,189	69,025,596
CURRENT LIABILITIES			
Trade and other payables	25	**3,668,969**	2,565,081
Government grants – current portion	26	**211,538**	–
Deposit received	27	**961,538**	1,226,415
Tax payable		**6,789**	–
Amount due to an associate	28	**787,880**	773,014
		5,636,714	4,564,510
NET CURRENT ASSETS		**68,627,475**	64,461,086
Total assets less current liabilities		**227,981,486**	215,806,316
NON-CURRENT LIABILITY			
Government grants – non-current portion	26	**1,903,847**	–
		226,077,639	215,806,316
CAPITAL AND RESERVES			
Share capital	29	**50,685,395**	50,685,395
Reserves		**161,666,397**	152,341,991
Equity attributable to equity holders of the Company		**212,351,792**	203,027,386
Minority interests		**13,725,847**	12,778,930
		226,077,639	215,806,316

The financial statements on pages 18 to 59 were approved and authorised for issue by the Board of Directors on 26 July 2006 and are signed on its behalf by:

LI SUIMING
Chairman

MA PIZHI
Managing Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

	Attributable to equity holders of the Company										
	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$	Accumulated losses HK$	Total HK$	Minority interests HK$	Total HK$
At 1 April 2004											
As originally stated	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	–	203,653,175
Effect of changes in accounting policies (note 2)	–	–	–	–	–	–	–	6,802	6,802	12,234,862	12,241,664
As restated	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,772,124	1,412,683	(49,942,997)	203,659,977	12,234,862	215,894,839
Loss for the year and total recognised income and expenses for the year	–	–	–	–	–	–	–	(627,067)	(627,067)	544,068	(82,999)
Utilisation of statutory reserves	–	–	–	–	–	(5,524)	–	–	(5,524)	–	(5,524)
Transfer to reserves	–	–	–	–	–	192,828	–	(192,828)	–	–	–
At 31 March 2005 as restated	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,959,428	1,412,683	(50,762,892)	203,027,386	12,778,930	215,806,316
Effect of changes in accounting policies (note 2)	–	–	–	–	–	–	–	3,274,661	3,274,661	–	3,274,661
At 1 April 2005 as restated	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,959,428	1,412,683	(47,488,231)	206,302,047	12,778,930	219,080,977
Exchange difference arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	1,713,733	–	1,713,733	245,185	1,958,918
Profit for the year	–	–	–	–	–	–	–	4,355,300	4,355,300	2,128,046	6,483,346
Total recognised income and expenses for the year	–	–	–	–	–	–	1,713,733	4,355,300	6,069,033	2,373,231	8,442,264
Utilisation of statutory reserves	–	–	–	–	–	(19,288)	–	–	(19,288)	–	(19,288)
Transfer to reserves	–	–	–	–	–	759,551	–	(759,551)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	–	(1,426,314)	(1,426,314)
At 31 March 2006	**50,685,395**	**202,203,225**	**8,000**	**(7,938,469)**	**3,460,016**	**4,699,691**	**3,126,416**	**(43,892,482)**	**212,351,792**	**13,725,847**	**226,077,639**

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 the subsidiaries established 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 2006

	2006 HK$	2005 HK$ (restated)
OPERATING ACTIVITIES		
Profit (loss) before tax	**6,535,674**	(37,736)
Adjustments for:		
Write-down of inventories	**–**	403,406
Amortisation of goodwill arising on acquisition of a subsidiary	**–**	294,734
Amortisation of goodwill arising on acquisition of an associate	**–**	89,905
Amortisation of intangible assets	**86,373**	84,912
Amortisation of prepaid lease payments	**75,269**	74,193
Depreciation of property, plant and equipment	**2,122,243**	1,680,803
Gain arising on change in fair value of investment property	**(4,600,000)**	–
Interest expenses	**–**	43,147
Interest income from bank deposits	**(2,009,437)**	(1,150,990)
Loss on disposal of an associate	**266,381**	–
Loss on disposals of property, plant and equipment	**3,393**	–
Loss on write off of property, plant and equipment	**–**	53,783
Share of results of associates	**(1,805,102)**	(441,592)
Surplus arising on revaluation of investment property	**–**	(800,000)
Operating cash flows before movements in working capital	**674,794**	294,565
Increase in inventories	**(491,105)**	(1,120,817)
Increase in trade and other receivables	**(1,496,312)**	(1,056,962)
Increase in trade and other payables	**1,042,277**	12,745
Decrease in amount due to a shareholder	**–**	(589,511)
(Decrease) increase in deposit received	**(288,462)**	1,226,415
Utilisation of statutory reserves	**(19,288)**	(5,524)
Cash used in operations	**(578,096)**	(1,239,089)
Tax paid in the PRC	**(233,984)**	(45,263)
NET CASH USED IN OPERATING ACTIVITIES	**(812,080)**	(1,284,352)
INVESTING ACTIVITIES		
Proceeds from redemption of securities linked deposits	**3,017,282**	–
Interest received	**2,009,437**	1,150,990
Proceeds from disposal of an associate	**1,362,981**	–
Decrease in bank deposits	**519,454**	2,721,685
Dividend received from an associate	**323,642**	–
Proceeds from disposal of property, plant and equipment	**5,952**	–
Purchases of property, plant and equipment	**(1,612,202)**	(1,530,570)
NET CASH GENERATED FROM INVESTING ACTIVITIES	**5,626,546**	2,342,105

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	2006 HK$	2005 HK$ (restated)
FINANCING ACTIVITIES		
Dividend paid to a minority shareholder of a subsidiary	**(1,330,160)**	–
Increase (decrease) in government grants	**2,115,385**	(51,228)
Repayment of short term loan	**–**	(943,396)
Interest expense paid	**–**	(43,147)
Short term loan raised	**–**	943,396
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**785,225**	(94,375)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,599,691**	963,378
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**14,464,636**	13,501,258
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**254,314**	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**20,318,641**	14,464,636

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is South Hong Investment Limited, a private limited company incorporated in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed on page 4 of the annual report.

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

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

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of share of tax of associates and minority interests have been changed under HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements" respectively. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting periods are prepared and presented:

(a) Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured at cost less accumulated depreciation and impairment losses. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact).

(b) Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for the current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

(b) Financial Instruments *(Cont'd)*

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its investment in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair value recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. On the adoption of HKAS 39, no material financial impact on the results for the current year has been identified.

On 1 April 2005, the Group classified the investments in an investee company as available-for-sale financial asset and is measured at cost less impairment loss (if any).

From 1 April 2005 onwards, derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit of loss.

Prior to 1 April 2005, the securities linked deposit (a fixed deposit with an equity linked derivative) was carried at fair value through profit or loss. The Group has applied the relevant transitional provisions in HKAS 39. On 1 April 2005, the Group classified its securities linked deposit as financial asset at fair value through profit or loss, with changes in fair value through profit or loss. Therefore, no prior period adjustment has been made.

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

(Cont'd)

(c) Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property".

The Group has elected to use the fair value model to account for its investment property which requires gain or loss arising from change in the fair value of an investment property to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment property under SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The adoption of HKAS 40 has no material financial impact on the results for the current year. The gain arising from a change in fair value of the investment property held by the Group was recognised in the income statement in the current year.

(d) Business Combinations

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the transitional provisions in HKFRS 3. With respect to goodwill previously carried in capitalised on the balance sheet and the goodwill included in interest in associates, the Group has eliminated the carrying amounts of the respective accumulated amortisation of HK$883,465 and HK$112,381 with a corresponding decrease in the respective costs of goodwill and investment in associates on 1 April 2005 (see Notes 16 and 18). The Group has discontinued amortising such goodwill from 1 April 2005 onwards and such goodwill will be tested for impairment at least annually or as part of the investment in associates. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2005 have not been restated (see Note 2A for the financial impact).

In the current year, the Group has also applied HKAS 21 *The Effects of Changes in Foreign Exchange Rates* which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 April 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

(d) Business Combinations *(Cont'd)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisition of a subsidiary by an associate of the Group after 1 January 2001 were presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted in the consolidated financial statement of the associate. In accordance with the relevant transitional provision in HKFRS 3, the associate of the Group derecognised the negative goodwill of HK$6,822,210 on 1 April 2005. A corresponding adjustment to the Group's retained earnings of HK$3,274,661 has been made.

(e) Deferred Taxes related to Investment Properties

In previous years, deferred tax consequences in respect of revalued investment property was assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the property through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK (IFRIC) Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment property is to be recovered through sale. Therefore, the deferred tax consequences of the investment property is now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK (IFRIC) Interpretation 21, this change in accounting policy has been applied retrospectively. On the adoption of HK (IFRIC) Interpretation 21, no material financial impact on the results for the current year has been identified.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	HKAS 17 **HK$** **(Note 2a)**	**HKFRS 3** **HK$** **(Note 2d)**	**Total effect** **HK$**
For the year ended 31 March 2006			
Decrease in amortisation of goodwill	**–**	**294,734**	**294,734**
Decrease in amortisation of goodwill of associate	**–**	**89,905**	**89,905**
Decrease in amortisation of prepaid lease payments	**49,943**	**–**	**49,943**
Decrease in administrative expenses	**49,943**	**384,639**	**434,582**
Decrease in share of profits of associates	**–**	**(166,882)**	**(166,882)**
Increase in profit for the year	**49,943**	**217,757**	**267,700**

	HKAS 1 HK$ (Note 2)	HKAS 17 HK$ (Note 2a)	Total effect HK$
For the year ended 31 March 2005			
Decrease in share of profits of associates	(246,252)	–	(246,252)
Decrease in income tax expenses	246,252	–	246,252
Decrease in amortisation of prepaid lease payments	–	49,472	49,472
Increase administrative expenses and decrease in loss for the year	–	49,472	49,472

	HK cent
Decrease in basic loss per share	0.005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The cumulative effects of the application of new HKFRSs on 31 March 2005 and 1 April 2005 are summarised below:

	As at 31 March 2005 (originally stated) HK$	Retrospective adjustments HKAS 27 HK$ (Note 2)	HKAS 17 HK$ (Note 2a)	As at 31 March 2005 (restated) HK$	Prospective adjustment HKFRS 3 HK$ (Note 2d)	As at 1 April 2005 (restated) HK$
Balance sheet items						
Property, plant and equipment	25,319,555	–	(3,555,353)	21,764,202	–	21,764,202
Prepaid lease payment	–	–	3,617,193	3,617,193	–	3,617,193
Interests in associates	52,639,388	–	–	52,639,388	3,274,661	55,914,049
Other assets and liabilities	137,785,533	–	–	137,785,533	–	137,785,533
Total effects on assets and liabilities	215,744,476	–	61,840	215,806,316	3,274,661	219,080,977
Minority interests	(12,751,102)	12,751,102	–	–	–	–
	202,993,374	12,751,102	61,840	215,806,316	3,274,661	219,080,977
Share capital	50,685,395	–	–	50,685,395	–	50,685,395
Accumulated losses	(50,796,904)	–	34,012	(50,762,892)	3,274,661	(47,488,231)
Other reserves	203,104,883	–	–	203,104,883	–	203,104,883
Equity holders of the parent	202,993,374	–	34,012	203,027,386	3,274,661	206,302,047
Minority interests	–	12,751,102	27,828	12,778,930	–	12,778,930
Total effects on equity	202,993,374	12,751,102	61,840	215,806,316	3,274,661	219,080,977

The financial effects of the application of the new HKFRSs to the Group's equity on 1 April 2004 are summarised below:

	As at 1 April 2004 (originally stated) HK$	Retrospective adjustments HKAS 27 HK$ (Note 2)	HKAS 17 HK$ (Note 2a)	As at 1 April 2004 (restated) HK$
Share capital	50,685,395	–	–	50,685,395
Accumulated losses	(49,949,799)	–	6,802	(49,942,997)
Other reserves	202,917,579	–	–	202,917,579
Equity holders of the parent	203,653,175	–	6,802	203,659,977
Minority interests	–	12,229,296	5,566	12,234,862
Total effects on equity	203,653,175	12,229,296	12,368	215,894,839

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Cont'd)*

The Group has not early applied the following new Standards, Amendments, or Interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these Standards, Amendments, or Interpretations will have no material impact on the financial statements of the Group:

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operations [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK (IFRIC) - INT 4	Determining whether an arrangement contains a lease [2]
HK (IFRIC) - INT 5	Rights to interests arising from decommissing, restoration and environmental rehabilitation funds [2]
HK (IFRIC) - INT 6	Liabilities arising from participating in a specific market – Waste Electrical and Electronic Equipment [3]
HK (IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK (IFRIC) - INT 8	Scope of HKFRS 2 [5]
HK (IFRIC) - INT 9	Reassessment of embedded derivatives [6]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

5 Effective for annual periods beginning on or after 1 May 2006.

6 Effective for annual periods beginning on or after 1 June 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for the investment property and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Goodwill

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1 April 2005 onwards. Goodwill resulting from acquisition of subsidiaries is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below). Goodwill resulting from acquisition of an associate is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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

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 shareholders' rights to receive payment have been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Property, plant and equipment

Property, plant and equipment, other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Buildings situated on leasehold land	3% – 9%
Plant and machinery	5% – 10%
Leasehold improvements	10% – $33^1/_3$%
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	10% – 20%

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

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

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and development expenditures

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Financial instruments *(Cont'd)*

Financial assets

The Group's financial assets are classified into one of the three categories, including loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. The accounting policies adopted in respect of the Group's financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, loan to an investee company, bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets at fair value through profit or loss

Securities linked deposit is designated as financial asset at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, they are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Available-for-sale financial assets

The investment in an investee company is classified as available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amount due to an associate and deposit received are subsequently measured at amortised cost, using the effective interest method.

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

Financial instruments *(Cont'd)*

Financial liabilities and equity (Cont'd)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling prices less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Impairment losses (other than goodwill – see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Foreign currencies *(Cont'd)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

As mentioned in Note 2, goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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 to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 depreciable assets are presented as deferred income 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 expense.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 March 2006 was HK$20,898,469. The Group depreciates the property, plant and machinery on a straight line basis over their estimated useful lives, and after taking into account of their estimated residual value, using the straight-line method, at the rates ranging from 3% to $33^1/_3$% per annum, commencing from the date the equipment is placed into productive use. The estimated useful lives and the dates that the Group places an item of property, plant and equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the assets.

Allowances for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of the receivables. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Allowances for inventories

The management of the Group reviews the age of inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 March 2006, the carrying amount of goodwill was HK$5,011,207. Details of the recoverable amount calculation are disclosed in note 16.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, bank deposits and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank deposits, bank balances, and trade and other receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit standing.

A significant portion of the Group's trade receivables was due from several major customers. The Group has established credit control policies limiting the amount of credits granted to customers. Management also closely monitored the recoverability of trade receivables and would take effective measures to ensure timely collection of outstanding balances when needed.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Interest rate risk of financial assets

The Group's interest rate risk related primarily to bank deposits. The exposure of interest rate risk of the Group is minimal.

Price risk

The Group is exposed to equity price risk through its equity investment in an unlisted PRC Company (set out in note 19). The management monitors the risk exposure and will consider hedging such risk should the need arises.

6. SEGMENT INFORMATION

(a) Business segments

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

For management purposes, the Group is currently organised into five (2005: five) operating divisions – sales of pharmaceutical products, property rental, investment holding for dividend income, provision of agency services and consultancy services. Subsequent to 31 March 2006, the Group discontinued the business segments for the provision of agency services and consultancy services, as there were no operations in these business segments over the past few years. The discontinuance has resulted in no material effect of the Group's financial position. 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 2006

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

6. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments *(Cont'd)*

BALANCE SHEET

At 31 March 2006

	Sales of pharmaceutical products HK$	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$
ASSETS							
Segment assets	43,582,837	16,013,400	44,618,774	2,861	13,239,247	–	117,457,119
Interests in associates	45,722,047	–	–	–	–	11,096,804	56,818,851
Unallocated corporate assets							46,054,185
Consolidated total assets							220,330,155
LIABILITIES							
Segment liabilities	5,793,830	136,254	33,000	9,000	32,844	–	6,004,928
Unallocated corporate liabilities							1,535,633
Consolidated total liabilities							7,540,561

OTHER INFORMATION

Year ended 31 March 2006

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

6. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments *(Cont'd)*

Year ended 31 March 2005

	Sales of pharmaceutical products HK$ (restated)	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$ (restated)
TURNOVER – EXTERNAL	6,309,221	417,410	3,386,174	–	–	–	10,112,805
Segment results	(349,007)	404,237	2,375,402	(462,603)	(90,242)	–	1,877,787
Other income							1,424,879
Unallocated corporate expenses							(3,648,942)
Finance costs							(43,147)
Share of results of associates	(62,026)	–	–	–	–	503,618	441,592
Amortisation of goodwill arising on acquisition of an associate	–	–	–	–	–	(89,905)	(89,905)
Loss before taxation							(37,736)
Income tax expense							(45,263)
Loss for the year							(82,999)

BALANCE SHEET

At 31 March 2005

	Sales of pharmaceutical products HK$ (restated)	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$ (restated)
ASSETS							
Segment assets	36,107,829	11,474,003	59,321,797	2,861	12,189,790	–	119,096,280
Interests in associates	42,215,568	–	–	–	–	10,423,820	52,639,388
Unallocated corporate assets							48,635,158
Consolidated total assets							220,370,826
LIABILITIES							
Segment liabilities	3,462,039	194,051	29,000	9,000	29,113	–	3,723,203
Unallocated corporate liabilities							841,307
Consolidated total liabilities							4,564,510

6. SEGMENT INFORMATION *(Cont'd)*

(a) Business segments *(Cont'd)*

OTHER INFORMATION

Year ended 31 March 2005

	Sales of pharmaceutical products HK$ (restated)	Property rental HK$	Investment holding HK$	Agency services HK$	Consultancy services HK$	Others HK$	Consolidated HK$ (restated)
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 an investment property	–	(800,000)	–	–	–	–	(800,000)
Depreciation of property, plant and equipment	1,232,583	54,386	–	–	5,276	388,558	1,680,803
Loss on write off of property, plant and equipment	53,783	–	–	–	–	–	53,783
Amortisation of intangible assets	84,912	–	–	–	–	–	84,912
Write-down of inventories	403,406	–	–	–	–	–	403,406

(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.

7. OTHER INCOME

	2006 HK$	2005 HK$
Interest income from bank deposits	**2,009,437**	1,150,990
Others	**282,042**	273,889
	2,291,479	1,424,879

8. FINANCE COSTS

	2006	2005
	HK$	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

9. PROFIT (LOSS) BEFORE TAX

	2006	2005
	HK$	HK$
		(restated)
Profit (loss) before tax has been arrived at after charging:		
Staff costs, including directors' emoluments		
Salaries and other benefits	**4,735,497**	3,975,855
Retirement benefits scheme contributions	**162,348**	133,693
Total staff costs	**4,897,845**	4,109,548
Amortisation of goodwill (included in administrative expenses)	**–**	294,734
Amortisation of intangible assets (included in cost of sales)	**86,373**	84,912
Amortisation of prepaid lease payments	**75,269**	74,193
Auditors' remuneration	**577,620**	477,421
Cost of inventories recognised as expense	**3,094,875**	1,643,319
Depreciation of property, plant and equipment	**2,122,243**	1,680,803
Loss on disposal of an associate	**266,381**	–
Loss on disposals of property, plant and equipment	**3,393**	–
Loss on write off of property, plant and equipment	**–**	53,783
Net foreign exchange losses	**24,779**	6,501
Research and development costs	**235,976**	171,012
Less: Government grants received	**–**	(51,228)
Net research and development costs	**235,976**	119,784
Share of tax of an associate (included in share of results of associates)	**–**	246,252
Write-down of inventories	**–**	403,406
and after crediting:		
Dividend income from investment in an investee company	**1,507,434**	3,386,174
Gross rental income from an investment property less negligible outgoings (2005: HK$13,150)	**459,151**	404,260

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eleven (2005: twelve) directors were as follows:

For the year ended 31 March 2006

	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Contributions to retirement benefit scheme	Total emoluments
	HK$	HK$	HK$	HK$
Li Suiming	60,000	–	–	60,000
Ma Pizhi	60,000	423,970	–	483,970
Cheng Hau Yan	60,000	1,635,575	53,984	1,749,559
Liu Huijiang	–	–	–	–
Dong Jianhua	60,000	–	–	60,000
Li Hong	60,000	–	–	60,000
Li Guanglin	60,000	–	–	60,000
Fang Wen Quan	60,000	–	–	60,000
Ho Wing Fun	60,000	–	–	60,000
Wu Wen Jing, Benjamin	60,000	–	–	60,000
Lam Yat Fai	60,000	–	–	60,000
	600,000	2,059,545	53,984	2,713,529

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

(a) Directors' emoluments *(Cont'd)*

For the year ended 31 March 2005

	Fees	Other emoluments: Salaries and other benefits	Other emoluments: Contributions to retirement benefit scheme	Total emoluments
	HK$	HK$	HK$	HK$
Li Suiming	17,742	–	–	17,742
Liu Wandong	42,258	–	–	42,258
Ma Pizhi	60,000	419,647	–	479,647
Cheng Hau Yan	60,000	1,030,200	53,963	1,144,163
Dong Jianhua	60,000	–	–	60,000
Li Hong	60,000	–	–	60,000
Li Guanglin	60,000	–	–	60,000
Fang Wen Quan	60,000	–	–	60,000
Ho Wing Fun	60,000	–	–	60,000
Wu Wen Jing, Benjamin	31,500	–	–	31,500
Lam Yat Fai	31,500	–	–	31,500
Lee Ka Sze, Carmelo	28,667	–	–	28,667
	571,667	1,449,847	53,963	2,075,477

No directors waived any emoluments in the years ended 31 March 2006 and 2005.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2005: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006	2005
	HK$	HK$
Salaries and other benefits	**1,051,200**	1,051,200
Contributions to retirement benefits scheme	**51,480**	51,480
	1,102,680	1,102,680

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

11. INCOME TAX EXPENSE

	2006 HK$	2005 HK$
The income tax expense comprises:		
Current tax		
PRC enterprise income tax	**52,328**	45,263

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

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 charge for the year can be reconciled to the profit (loss) per the income statement as follows:

	2006 HK$	2005 HK$ (restated)
Profit (loss) before tax	**6,535,674**	(37,736)
Tax charges at the average income tax rate	**1,116,936**	(23,941)
Tax effect of share of results of associates	**(315,893)**	(77,279)
Tax effect of expenses that are not deductible for tax purpose	**21,947**	173,656
Tax effect of income that is not taxable for tax purpose	**(563,069)**	(870,378)
Tax effect of tax losses not recognised	**1,288,527**	1,074,289
Tax effect of deferred tax assets not recognised	**51,112**	59,081
Utilisation of tax losses previously not recognised	**(45,604)**	(25,098)
Utilisation of deferred tax assets previously not recognised	**(824,484)**	(39,266)
Effect of tax exemptions granted to a PRC subsidiary	**(677,144)**	(225,801)
Tax expense for the year	**52,328**	45,263

The average income tax rate represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of profit before tax and the relevant statutory rates.

12. EARNINGS (LOSS) PER SHARE

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

	2006 **HK$**	2005 HK$ (restated)
Earnings		
Earnings for the purpose of basic earnings (loss) per share	**4,355,300**	(627,067)
Number of shares		
Number of ordinary shares for the purpose of basic earnings (loss) per share	**506,853,952**	506,853,952

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

The comparative amount of earnings (loss) per share has been restated, as the loss attributable to the equity holders of the Company in prior year has been adjusted to reflect the changes in accounting policies during the year as explained in Note 2.

The following table summarises the impact on basic earnings (loss) per share as a result of:

	Impact on basic earnings per share	
	2006 **HK cent**	2005 HK cent
Figures before adjustments	**0.811**	(0.129)
Adjustments arising from changes in the accounting policies described in Notes 2 and 2A	**0.048**	0.005
	0.859	(0.124)

13. INVESTMENT PROPERTY

	HK$
Fair value	
At 1 April 2004	10,200,000
Revaluation surplus recognised in the income statement	800,000
At 31 March 2005	11,000,000
Increase in fair value recognised in the income statement	4,600,000
At 31 March 2006	**15,600,000**

Investment property of the Group are property interests held under long term lease in Hong Kong for the purposes of earning rentals or capital appreciation and are measured using the fair value model.

The fair value of the Group's investment property at 31 March 2006 have been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected with the Group. LCH (Asia-Pacific) Surveyors Limited has among its staff members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Valuation Standards on Properties of Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$	Plant and machinery HK$	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Construction in progress HK$	Total HK$
COST							
At 1 April 2004							
– as originally stated	17,813,593	5,581,698	1,412,080	1,695,091	2,313,406	–	28,815,868
– effect of change in accounting policy (note 2)	(3,709,934)	–	–	–	–	–	(3,709,934)
– as restated	14,103,659	5,581,698	1,412,080	1,695,091	2,313,406	–	25,105,934
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	14,251,345	6,772,335	1,463,680	1,677,341	2,364,091	–	26,528,792
Exchange realignment	274,121	136,047	–	10,905	23,212	–	444,285
Additions	8,602	622,724	–	36,671	–	198,051	866,048
Disposals	–	–	–	(19,048)	(26,538)	–	(45,586)
At 31 March 2006	**14,534,068**	**7,531,106**	**1,463,680**	**1,705,869**	**2,360,765**	**198,051**	**27,793,539**
DEPRECIATION AND AMORTISATION							
At 1 April 2004							
– as originally stated	136,639	211,367	555,863	919,915	1,344,848	–	3,168,632
– effect of change in accounting policy (note 2)	(30,916)	–	–	–	–	–	(30,916)
– as restated	105,723	211,367	555,863	919,915	1,344,848	–	3,137,716
Provided for the year	557,392	519,813	364,364	130,509	108,725	–	1,680,803
Eliminated on write off	–	(15,566)	–	(38,187)	(176)	–	(53,929)
At 31 March 2005	663,115	715,614	920,227	1,012,237	1,453,397	–	4,764,590
Exchange realignment	12,519	19,632	–	6,629	5,698	–	44,478
Provided for the year	893,919	660,027	315,804	140,977	111,516	–	2,122,243
Eliminated on disposals	–	–	–	(15,143)	(21,098)	–	(36,241)
At 31 March 2006	**1,569,553**	**1,395,273**	**1,236,031**	**1,144,700**	**1,549,513**	**–**	**6,895,070**
CARRYING VALUES							
At 31 March 2006	**12,964,515**	**6,135,833**	**227,649**	**561,169**	**811,252**	**198,051**	**20,898,469**
At 31 March 2005	13,588,230	6,056,721	543,453	665,104	910,694	–	21,764,202

The buildings situated on leasehold interest in land held under medium-term lease are located in the PRC.

15. PREPAID LEASE PAYMENTS

	2006 **HK$**	2005 HK$
Prepaid lease payments for medium-term leasehold land in the PRC:		
Included in current asset	**78,648**	78,648
Included in non-current asset	**3,532,837**	3,538,545
	3,611,485	3,617,193

16. GOODWILL

	HK$
COST	
At 1 April 2004 and 31 March 2005	5,894,672
Elimination of accumulated amortisation upon the application of HKFRS 3	(883,465)
Exchange realignment	96,369
At 31 March 2006	**5,107,576**
AMORTISATION	
At 1 April 2004	588,731
Charge for the year	294,734
At 31 March 2005 and 1 April 2005	883,465
Elimination of accumulated amortisation upon the application of HKFRS 3	(883,465)
At 31 March 2006	**–**
CARRYING VALUES	
At 31 March 2006	**5,107,576**
At 31 March 2005	5,011,207

Until 31 March 2005, goodwill had been amortised over its estimated useful life of 20 years.

For the purposes of impairment testing, the goodwill has been allocated to an individual cash generating unit (the "CGU") in the sales of pharmaceutical products segment. During the year ended 31 March 2006, management of the Group determines that there are no impairment of the CGU containing goodwill.

The recoverable amount of the CGU have been determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets approved by management covering a two-year period, and a discount rate of approximately 7%. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

17. INTANGIBLE ASSETS

	Production rights HK$
COST	
At 1 April 2004 and 31 March 2005	1,646,226
Exchange realignment	31,658
At 31 March 2006	**1,677,884**
AMORTISATION	
At 1 April 2004	89,622
Provided for the year	84,912
At 31 March 2005	174,534
Exchange realignment	3,799
Provided for the year	86,373
At 31 March 2006	**264,706**
CARRYING VALUES	
At 31 March 2006	**1,413,178**
At 31 March 2005	1,471,692

Production rights are amortised on a straight-line basis over its estimated useful life of 20 years.

18. INTERESTS IN ASSOCIATES

	2006 HK$	2005 HK$
Cost of investment in associates	**49,021,490**	50,384,471
Add: Derecognition of negative goodwill upon adoption of HKFRS 3 (note 2)	**3,337,635**	–
Less: Accumulated amortisation of goodwill arising on acquisition of an associate (note 2)	**(112,381)**	(112,381)
	52,246,744	50,272,090
Share of post-acquisition profits, net of dividends received	**3,582,377**	2,367,298
Exchange realignment	**1,021,535**	–
	56,850,656	52,639,388

18. INTERESTS IN ASSOCIATES *(Cont'd)*

As at 31 March 2006, the Group had interests in the following associates:

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
雲南華寧興寧彩印有限公司	Incorporated	PRC	25	Printing and sale of cigarette packaging packs and boxes

Included in the cost of investment in associate is goodwill of HK$1,717,501 (2005: HK$1,685,696) arising on acquisitions of associates in prior years. The amount of goodwill is set out below:

	HK$
COST	
At 1 April 2004 and 31 March 2005	1,798,077
Elimination of accumulated amortisation upon the application of HKFRS 3 (Note 2A)	(112,381)
Exchange realignment	31,805
At 31 March 2006	**1,717,501**
AMORTISATION	
At 1 April 2004	22,476
Charge for the year	89,905
At 31 March 2005	112,381
Elimination of accumulated amortisation upon the application of HKFRS 3 (Note 2A)	(112,381)
At 31 March 2006	**–**
CARRYING VALUES	
At 31 March 2006	**1,717,501**
At 31 March 2005	1,685,696

Until 31 March 2005, goodwill had been amortised over its estimated useful life of 20 years.

18. INTERESTS IN ASSOCIATES *(Cont'd)*

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		Total	
	2006 HK$	2005 HK$ (restated)	**1.4.2005 to 31.10.2005 (date of disposal) HK$**	2005 HK$	**2006 HK$**	2005 HK$	**2006 HK$**	2005 HK$ (restated)
Turnover	**21,248,054**	26,883,895	**6,134,651**	4,974,575	**23,094,393**	26,491,880	**50,477,098**	58,350,350
Depreciation	**2,877,790**	2,828,886	**213,366**	361,795	**740,767**	1,640,951	**3,831,923**	4,831,632
Profit (loss) for the year	**912,894**	(643,993)	**2,175,576**	988,365	**3,292,076**	2,014,472	**6,380,546**	3,311,954
Profit (loss) for the year attributable to the Group	**438,189**	(309,117)	**543,894**	247,091	**823,019**	503,618	**1,805,102**	441,592

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		Total	
	2006 HK$	2005 HK$ (restated)	**2006 HK$**	2005 HK$	**2006 HK$**	2005 HK$	**2006 HK$**	2005 HK$ (restated)
Non-current assets	**70,345,428**	64,835,146	**–**	3,196,463	**14,579,190**	14,953,147	**84,924,618**	82,984,756
Current assets	**40,573,289**	46,006,421	**–**	1,970,508	**25,744,822**	23,016,484	**66,318,111**	70,993,413
Current liabilities	**(12,438,369)**	(7,028,539)	**–**	(923,836)	**(2,679,579)**	(3,017,136)	**(15,117,948)**	(10,969,511)
Non-current liabilities	**(205,031)**	(15,034,709)	**–**	–	**–**	–	**(205,031)**	(15,034,709)
Minority interests	**(3,021,053)**	(3,039,185)	**–**	–	**–**	–	**(3,021,053)**	(3,039,185)
Net assets	**95,254,264**	85,739,134	**–**	4,243,135	**37,644,433**	34,952,495	**132,898,697**	124,934,764
Net assets attributable to the Group	**45,722,047**	41,154,784	**–**	1,060,784	**9,411,108**	8,738,124	**55,133,155**	50,953,692

During the year, the Group disposed its interest in 上海松力生物技術有限公司 at a total consideration of HK$1,362,981 and a loss on disposal of HK$266,381 was recognised in the consolidation income statement.

19. INVESTMENT IN AN INVESTEE COMPANY

The investment in an investee company at 31 March 2006 is accounted for as an available-for-sale investment which represents the Group's 18.75% equity interest in the registered capital of 玉溪環球彩印紙盒有限公司 (Yuxi Globe Colour Printing Carton Co., Ltd.) ("Yuxi Globe"), an unlisted company registered in the PRC engaging in the business of printing and sale of cigarette packaging packs and boxes. This investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

20. LOAN TO AN INVESTEE COMPANY

The loan to the investee company is unsecured, non-interest bearing and repayable on demand. The directors are of the opinion that the loan will be received within one year from the balance sheet date and is therefore shown as current.

As at 31 March 2005, in the opinion of the directors, the loan will not be received within one year from the balance sheet date and was therefore shown as non-current.

The carrying amount of this asset at 31 March 2006 approximates its fair value.

21. INVENTORIES

	2006 **HK$**	2005 HK$
Raw materials	**990,016**	803,433
Work in progress	**473,421**	348,798
Finished goods	**804,226**	590,807
	2,267,663	1,743,038

22. TRADE AND OTHER RECEIVABLES

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

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

	2006 **HK$**	2005 HK$
Trade receivables aged		
Within 60 days	**1,770,745**	598,811
61 – 90 days	**–**	36,327
Over 90 days	**19,712**	64,845
	1,790,457	699,983
Dividends receivable	**1,831,076**	3,386,174
Other receivables	**3,908,725**	1,973,724
	7,530,258	6,059,881

The fair values of the Group's trade and other receivables at 31 March 2006 approximate their corresponding carrying amounts.

23. SECURITIES LINKED DEPOSIT

The amount, representing a deposit placed with a bank accounted for as financial asset at fair value through profit or loss, would be converted into designated Hong Kong listed shares at the maturity date should the closing price of the designated share at that date fall below the pre-determined price. If the closing price of this designated share was higher than the pre-determined price at maturity, the Company would receive cash and the pre-agreed interest amount. The deposit had matured during the year with the principal and pre-agreed interest amount received.

24. BANK DEPOSITS, BANK BALANCES AND CASH

Bank deposits, comprising short-term fixed deposits, and bank balances which carry interests at prevailing market interest rates ranging from 2% to 4.7%. The carrying amounts of the bank deposits, bank balances and cash approximate their fair values at the balance sheet date.

Included in the bank deposits, bank balances and cash as at 31 March 2006 were amounts in Renminbi of HK$19,740,271 (2005: HK$13,691,290) which are not freely convertible in other currencies.

25. TRADE AND OTHER PAYABLES

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

	2006 **HK$**	2005 HK$
Trade payables aged		
Within 60 days	**632,951**	458,858
61 – 90 days	**56,938**	105,535
Over 90 days	**327,374**	424,314
	1,017,263	988,707
Other payables	**2,651,706**	1,576,374
	3,668,969	2,565,081

The fair values of the Group's trade and other payables at 31 March 2006 approximate their corresponding carrying amounts.

26. GOVERNMENT GRANTS

The Group received government subsidies towards the cost of expanding its production facilities for a pharmaceutical product. The amount has been treated as deferred income which will be released to income over the useful lives of the relevant assets. As the relevant assets are not yet in use, the entire balance of government subsidies were deferred as at 31 March 2006.

27. DEPOSIT RECEIVED

The amount represents deposit received from a customer. The amount is unsecured, non-interest bearing and repayable upon the expiry of the relevant sales contract.

28. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand. The fair value of the amount due to an associate approximates its corresponding carrying amount.

29. SHARE CAPITAL

	Number of shares		Amount	
	2006	2005	**2006**	2005
			HK$	HK$
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**1,000,000,000**	1,000,000,000	**100,000,000**	100,000,000
Issued and fully paid:				
At beginning and end of the year	**506,853,952**	506,853,952	**50,685,395**	50,685,395

30. DEFERRED TAXATION

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

	Accelerated tax depreciation	Tax losses	Total
	HK$	HK$	HK$
At 1 April 2004	26,750	(26,750)	–
(Credit) charge to income statement	(3,388)	3,388	–
At 31 March 2005 and 1 April 2005	23,362	(23,362)	–
(Credit) charge to income statement	(2,848)	2,848	–
At 31 March 2006	**20,514**	**(20,514)**	**–**

At the balance sheet date, the Group had unused tax losses of approximately HK$99,463,000 (2005: HK$92,360,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$117,000 (2005: HK$133,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$99,346,000 (2005: HK$92,227,000) 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$3,851,000 (2005: HK$8,269,000). 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.

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$108,764 (2005: HK$108,743) 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 (雲南雲玉經濟技術咨詢有限公司) 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 making contributions to the retirement benefit schemes in both years presented.

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 2006, the total cost charged to income statement of HK$53,584 (2005: HK$24,950) represents contributions paid to the state-managed retirement benefit schemes by the Group in respect of the current year.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payment paid under operating leases in respect of office premises during the year amounted to HK$948,642 (2005: HK$933,632).

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

	2006 **HK$**	2005 HK$
Within one year	**3,230,000**	817,000
In the second to fifth year inclusive	**5,697,000**	–
	8,927,000	817,000

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 term of 3 years.

32. OPERATING LEASE COMMITMENTS *(Cont'd)*

The Group as lessor

Property rental income earned during the year was HK$459,151 (2005: HK$417,410). The property is expected to generate rental yields of 2.9% (2005: 4.2%) on an ongoing basis. The premise held has committed tenant for the next 12 months.

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

	2006 HK$	2005 HK$
Within one year	**459,000**	459,000
In the second to fifth year inclusive	**–**	459,000
	459,000	918,000

33. CAPITAL COMMITMENTS

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

	The Group	
	2006 **HK$**	2005 HK$
Commitments for acquisition of property, plant and equipment – contracted for but not provided in the financial statements	**1,400,000**	50,000

34. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	2006 **HK$**	2005 HK$
Management fee income received from Tianda Group Limited *	**180,000**	240,000
Interest expenses paid to a minority shareholder of a subsidiary	**–**	30,251

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

34. RELATED PARTY TRANSACTIONS *(Cont'd)*

(b) Compensation of key management personnel

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

	2006 HK$	2005 HK$
Short-term benefits	**2,864,729**	2,201,047
Post-employment benefits	**82,784**	82,800
	2,947,513	2,283,847

The remuneration of directors and key executives is determined by reference to the performance of individuals and market trends.

35. PARTICULARS OF SUBSIDIARIES

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 the company %	Proportion of nominal value of issued ordinary share capital/registered capital held by 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* ("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

35. PARTICULARS OF SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by the company %	the subsidiary %	Principal activity
Yunyu 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.*

Financial Summary

RESULTS

	Year ended 31 March				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000 (restated)	**2006** **HK$'000**
Turnover	10,963	3,424	5,766	10,113	**15,208**
Profit (loss) from operations	2,234	(4,946)	(4,910)	(346)	**4,730**
Finance costs	–	–	–	(43)	**–**
Share of results of associates	3,801	651	(485)	441	**1,805**
Amortisation of goodwill arising on acquisition of an associate	(107)	(214)	(76)	(90)	**–**
Profit (loss) before taxation	5,928	(4,509)	(5,471)	(38)	**6,535**
Income tax expense	(1,072)	(17)	(191)	(45)	**(52)**
Profit (loss) for the year	4,856	(4,526)	(5,662)	(83)	**6,483**
Minority interests	–	–	(77)	(544)	**(2,128)**
Profit (loss) attributable to equity held of the Company	4,856	(4,526)	(5,739)	(627)	**4,355**

ASSETS AND LIABILITIES

	At 31 March				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000 (restated)	**2006** **HK$'000**
Non-current assets	104,156	110,370	153,935	151,345	**160,416**
Net current assets	90,292	79,551	61,947	64,461	**68,627**
Non-current liability	–	–	–	–	**(1,904)**
	194,448	189,921	215,882	215,806	**227,139**
Shareholders' funds	194,447	189,920	203,653	203,027	**213,413**
Minority interests	1	1	12,229	12,779	**13,726**
	194,448	189,921	215,882	215,806	**227,139**

Note: Figures for 2002, 2003 and 2004 have not been adjusted to reflect the changes in accounting policies as described in note 2 to the financial statements.

Particulars of Investment Property

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