雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability) (Stock Code: 0455)

Annual Report 2007

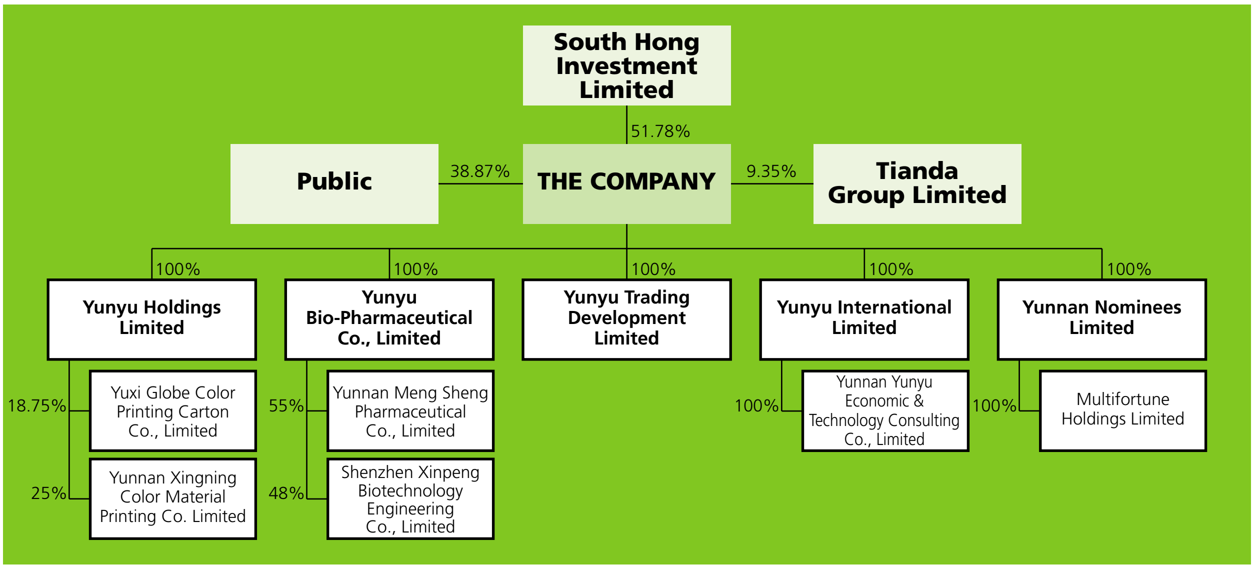
Contents

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 principal 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 Mainland of the People's Republic of China.

The shareholding structure as at 31 March 2007 is shown as follows:



Corporate Profile & Introduction to Hongta Tobacco

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
Fang Wen Quan
Liu Huijiang

Independent Non-Executive Directors

Ho Wing Fun
Wu Wen Jing, Benjamin
Lam Yat Fai

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

HONG KONG LEGAL ADVISERS

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Hong Kong

QUALIFIED ACCOUNTANT

Chai Chung Wai

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)

WEBSITE

www.yunnan.com.hk

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LI Suiming, aged 49, a senior engineer, graduated from Yunnan Polytechnic College. 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 51, graduated from the postgraduate programme of International Economic and Trade of Yunnan University and has experience in management and trading. He held the posts of vice director of Kunming Prices of Commodities Bureau during the period from June 1986 to October 1992, and of vice president of Kunming International Trade Centre during the period from October 1992 to July 1998. He was also the chairman of Kunming Kumlong Exhibition Service Co., Ltd. and Kunming Ming Cheng Motor Service Co., Ltd., the vice chairman of Kunming Ming Cheng Communication Development Co., Ltd. and the assistant to general manager of Yunnan Hongta Industrial Co., Ltd. Mr. Ma is currently the managing director of the Company.

Mr. LI Guanglin, aged 43, 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 (Group) Limited in April 2002. Mr. Li is also a non-executive director of Bank of Communications Co., Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. LIU Huijiang, aged 51, 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 January 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 38, 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 74, has over 46 years' experience in operational management of property investment and development, specialising in accounting, auditing and taxation.

Mr. Wu Wen Jing, Benjamin, aged 39, graduated with a Bachelor degree in Information Systems from the Edith Cowan University, Australia in 1992 and a Master degree in Banking and Finance from the University of Technology, Sydney, Australia in 1995. He had served as Vice President at DBS Asia Capital Limited in Hong Kong responsible for managing and syndicating initial public offerings and other equity capital market transactions for both Hong Kong and Chinese corporations as well as advising them in mergers and acquisitions. He had also served as an executive director at Evolution Watterson Asia Limited. Mr. Wu has over 10 years of investment banking experience in Hong Kong, Mainland China and 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 41, 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 17 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 Energy Group 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 Edmond, aged 41, is the Financial Controller of the Group until May 2007. 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. He resigned in May 2007.

Mr. Chai Chung Wai, aged 40, is the Financial Controller of the Group. Mr. Chai obtained a master's degree in Business Administration (MBA) and Master's Degree in PRC Accounting. Mr. Chai has 18 years' working experience related to audit, accounting and finance. He is a fellow member of The Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and a member of Institute of Chartered Accountants of England and Wales. Mr. Chai had worked in a listed company in Hong Kong as the financial controller and company secretary for over four years. Mr. Chai joined the Group in March 2007.

Management Discussion and Analysis

FINANCIAL REVIEW

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

The Group shared the loss of associated companies amounting to HK$16.2 million during the year under review (a share of profits of associated companies amounting to HK$1.8 million for the previous year), in which the Group shared the profit from Yunnan Xingning color Material Printing Co., Ltd amounting to HK$0.95 million and shared the loss from Shenzhen Xinpeng amounting to HK$17.1 million. Taking into account the income tax expense and the minority interests, the Group recorded a loss attributable to shareholders of the Company of HK$39.8 million for the financial year ended 31 March 2007, compared to a net profit of HK$4.4 million for the previous year. Loss per share for the current year was 7.86 cent with profit per share of 0.86 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 2007.

OPERATIONS ANALYSIS

Pharmaceutical business

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

Management Discussion and Analysis

Associated companies

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

Investment

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

OUTLOOK

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

EXCHANGE RATE EXPOSURE

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

CHARGES ON ASSETS

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

EMPLOYEES

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

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 2007 except the code provision E.1.2 of the Code which provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. Li Suiming, the Chairman of the Board who resides in Yunnan, was unable to attend the annual general meeting of the Company held on 25 August 2006 in Hong Kong.

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.

Other than Mr. Ho Wing Fun, the term of office of INED is for a period of two years until 31 December 2008. The term of office for Mr. Ho Wing Fun is one year until 31 December 2007. They are 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.

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 2007, the Board held 6 meetings. The attendance of the directors at the board meetings are as follows:

Directors	Note	**Number of Attendance**
Mr. Li Suiming *(Chairman)*		4/6
Mr. Ma Pizhi *(Managing director)*		6/6
Mr. Li Guanglin		4/6
Mr. Fang Wen Quan		4/6
Mr. Liu Huijiang		5/6
Mr. Ho Wing Fun		2/6
Mr. Wu Wen Jing, Benjamin		2/6
Mr. Lam Yat Fai		3/6

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 held two meetings during the year 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.

Details of individual attendance of its members are as follows:

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

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, these has no change in the composition of the Boards.

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 the following:

– review of and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard.

– review of the annual and interim financial statements prior to their approval by the Board, and recommending application of accounting policies and changes to the financial reporting requirements.

– review of 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.

During the year ended 31 March 2007, the audit committee held 3 meetings. Details of individual attendance of its members are as follows:

Directors	**Number of attendance**
Mr. Ho Wing Fun *(Chairman)*	2/3
Mr. Wu Wen Jing, Benjamin	2/3
Mr. Lam Yat Fai	3/3

The work performed by the audit committee during the year includes the following:

– review of the financial statements for the year ended 31 March 2006 and for the six months ended 30 September 2006.

– considering 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$620,458 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 Independent Auditors' Report on page 20.

The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions. Based on the results of the review, the Group would take steps to further enhance the effectiveness of the internal control system.

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 2007.

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 2006 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 2006 annual general meeting to answer questions raised by shareholders.

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2007.

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 2007 is set out in note 6 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2007, the five largest customers of the Group accounted for approximately 88% of the Group's total turnover while the largest customer of the Group accounted for approximately 36% of the Group's turnover. In addition, for the year ended 31 March 2007, the five largest suppliers of the Group accounted for approximately 60% of the Group's total purchases while the largest supplier of the Group accounted for approximately 26% 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 2007 are set out in the consolidated income statement on page 21.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 63 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 consolidated financial statements.

Report of the Directors

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 consolidated financial statements.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

As at 31 March 2007, 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 2007, 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

Independent non-executive directors:

Ho Wing Fun
Wu Wen Jing, Benjamin
Lam Yat Fai

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

Except for Ho Wing Fun who is appointed for a term of 1 year until 31 December 2007, the other independent non-executive directors are appointed for a term of 2 years until 31 December 2008 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 2007, except for Mr. Fang Wen Quan who is also the beneficial owner of Tianda Group Limited, one of the substantial shareholders of the Group, 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 advanced HK$350,000 to ultimate holding company of the Company.

The independent non-executive directors confirm that the transaction has been entered into in the ordinary course of the Group's business, on terms no less favourable than terms available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

At 31 March 2007, 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
Mr. Fang Wen Quan	Held by controlled corporation	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 2007, 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 2007.

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

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

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 2007.

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, 16 July 2007

Independent Auditor's 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 (collectively referred to as the "Group") set out on pages 21 to 62, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 July 2007

Consolidated Income Statement

For the year ended 31 March 2007

	NOTES	2007 HK$	2006 HK$
Continuing operations			
Revenue	6	**19,970,014**	15,207,865
Cost of sales		**(8,379,793)**	(5,563,868)
Gross profit		**11,590,221**	9,643,997
Other income	7	**2,637,417**	2,291,479
Distribution costs		**(654,754)**	(371,582)
Administrative expenses		**(13,707,521)**	(10,854,275)
Impairment loss on investment in an investee company	19	**(22,480,000)**	–
Gain arising from change in fair value of an investment property	13	**1,800,000**	4,600,000
Share of results of associates		**(16,196,039)**	1,805,102
(Loss) profit before tax	8	**(37,010,676)**	7,114,721
Income tax expense	10	**(56,480)**	(52,328)
(Loss) profit for the year from continuing operations		**(37,067,156)**	7,062,393
Discontinued operations			
Loss for the year from discontinued operations	11	**–**	(579,047)
(Loss) profit for the year		**(37,067,156)**	6,483,346
(Loss) profit attributable to:			
Equity holders of the Company		**(39,811,376)**	4,355,300
Minority interests		**2,744,220**	2,128,046
		(37,067,156)	6,483,346
		HK cent	HK cent
Basic (loss) earnings per share	12		
From continuing and discontinued operations		**(7.86)**	0.86
From continuing operations		**(7.86)**	0.97

Consolidated Balance Sheet

At 31 March 2007

	NOTES	2007 HK$	2006 HK$
NON-CURRENT ASSETS			
Investment property	13	**17,400,000**	15,600,000
Property, plant and equipment	14	**24,755,418**	20,898,469
Prepaid lease payments	15	**3,640,439**	3,532,837
Goodwill	16	**5,250,359**	5,107,576
Intangible assets	17	**–**	1,413,178
Interests in associates	18	**42,472,664**	56,850,656
Investment in an investee company	19	**32,725,141**	55,205,141
Deposit paid for the acquisition of plant and equipment		**–**	746,154
		126,244,021	159,354,011
CURRENT ASSETS			
Inventories	20	**1,742,685**	2,267,663
Loan to ultimate holding company	21	**350,000**	–
Loan to an investee company	22	**49,583**	728,806
Trade and other receivables	23	**7,657,579**	7,530,258
Prepaid lease payments	15	**79,570**	78,648
Tax recoverable		**84,747**	188,445
Bank deposits	24	**57,596,225**	43,151,728
Bank balances and cash	24	**8,545,892**	20,318,641
		76,106,281	74,264,189
CURRENT LIABILITIES			
Trade and other payables	25	**4,183,300**	3,668,969
Government grants – current portion	26	**400,135**	211,538
Deposit received	27	**303,515**	961,538
Amount due to an associate	28	**809,904**	787,880
Tax payable		**6,633**	6,789
		5,703,487	5,636,714
NET CURRENT ASSETS		**70,402,794**	68,627,475
Total assets less current liabilities		**196,646,815**	227,981,486
NON-CURRENT LIABILITY			
Government grants – non-current portion	26	**2,536,882**	1,903,847
		194,109,933	226,077,639
CAPITAL AND RESERVES			
Share capital	29	**50,685,395**	50,685,395
Reserves		**126,169,803**	161,666,397
Equity attributable to equity holders of the Company		**176,855,198**	212,351,792
Minority interests		**17,254,735**	13,725,847
		194,109,933	226,077,639

The consolidated financial statements on pages 21 to 62 were approved and authorised for issue by the Board of Directors on 16 July 2007 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 2007

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital redemption reserve	Goodwill reserve	Special reserve	Statutory reserves	Exchange reserve	Accumulated losses	Total	Minority interests	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
					Note (i)	Note (ii)					
At 1 April 2005	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 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 and 1 April 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
Exchange difference arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	4,324,435	–	4,324,435	784,668	5,109,103
Loss for the year	–	–	–	–	–	–	–	(39,811,376)	(39,811,376)	2,744,220	(37,067,156)
Total recognised income and expenses for the year	–	–	–	–	–	–	4,324,435	(39,811,376)	(35,486,941)	3,528,888	(31,958,053)
Utilisation of statutory reserves	–	–	–	–	–	(9,653)	–	–	(9,653)	–	(9,653)
Transfer to reserves	–	–	–	–	–	942,752	–	(942,752)	–	–	–
At 31 March 2007	**50,685,395**	**202,203,225**	**8,000**	**(7,938,469)**	**3,460,016**	**5,632,790**	**7,450,851**	**(84,646,610)**	**176,855,198**	**17,254,735**	**194,109,933**

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 Mainland of 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 2007

	2007 HK$	2006 HK$
OPERATING ACTIVITIES		
(Loss) profit for the year	**(37,067,156)**	6,483,346
Adjustments for:		
Amortisation of intangible assets	**59,099**	86,373
Amortisation of prepaid lease payments	**77,467**	75,269
Depreciation of property, plant and equipment	**2,883,119**	2,122,243
Gain arising from change in fair value of an investment property	**(1,800,000)**	(4,600,000)
Government grants deducted against research and development costs	**(491,997)**	–
Government grants released to income	**(145,284)**	–
Impairment loss on intangible assets	**1,426,224**	–
Impairment loss on investment in an investee company	**22,480,000**	–
Impairment loss on loan to an investee company	**717,255**	–
Income tax expense	**56,480**	52,328
Interest income from bank deposits	**(2,428,094)**	(2,009,437)
Loss on disposal of an associate	**–**	266,381
Loss on write off/disposals of property, plant and equipment	**35,140**	3,393
Share of results of associates	**16,196,039**	(1,805,102)
Write-down of inventories	**104,497**	–
Operating cash flows before movements in working capital	**2,102,789**	674,794
Decrease (increase) in inventories	**538,822**	(491,105)
Decrease (increase) in trade and other receivables	**265,656**	(1,496,312)
Increase in trade and other payables	**313,208**	1,022,989
Decrease in deposit received	**(708,202)**	(288,462)
Cash generated from (used in) operations	**2,512,273**	(578,096)
PRC income tax refund (paid)	**51,846**	(233,984)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**2,564,119**	(812,080)
INVESTING ACTIVITIES		
(Increase) decrease in bank deposits	**(14,444,497)**	519,454
Purchases of property, plant and equipment	**(5,119,094)**	(1,612,202)
Advance to ultimate holding company	**(350,000)**	–
Interest received	**2,428,094**	2,009,437
Dividend received from an associate	**706,699**	323,642
Proceeds from redemption of securities linked deposits	**–**	3,017,282
Proceeds from disposal of an associate	**–**	1,362,981
Proceeds from disposal of property, plant and equipment	**–**	5,952
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(16,778,798)**	5,626,546

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007 **HK$**	2006 HK$
FINANCING ACTIVITIES		
Increase in government grants	**1,329,722**	2,115,385
Dividend paid to a minority shareholder of a subsidiary	**–**	(1,330,160)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**1,329,722**	785,225
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(12,884,957)**	5,599,691
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**20,318,641**	14,464,636
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,112,208**	254,314
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**8,545,892**	20,318,641

Notes to the Consolidated Financial Statements

For the year ended 31 March 2007

1. GENERAL

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

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

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

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

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC) – INT 12	Service Concession Arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

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

Goodwill

Goodwill arising on an acquisition of a subsidiary 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 at the date of acquisition.

Previously capitalised goodwill arising on acquisition of a subsidiary after 1 April 2001 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).

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 consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets 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.

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

Interests in associates *(Cont'd)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1 April 2005 such goodwill 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 accumulated losses 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.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

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.

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.

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

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

Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gain or loss arising from change in the fair value of investment property is 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 other than construction in progress 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	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 represents plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment losses. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as owned assets, commences when the assets are ready for their intended 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 consolidated income statement in the year in which the item is derecognised.

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

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost 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 consolidated income statement when the asset is derecognised.

Research and development expenditure

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

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

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

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial asset. The accounting policies adopted in respect of each category of 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 loan to ultimate holding company/an investee company, trade and other receivables, 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.

Available-for-sale financial asset

The investment in an investee company is accounted for as available-for-sale financial asset and is 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.

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

Financial instruments *(Cont'd)*

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 Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

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

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 and receivable is recognised in profit or loss.

Financial liabilities are derecognised 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 and payable is recognised in profit or loss.

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

Inventories

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

Impairment losses (other than goodwill)

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 the respective 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 that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

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

Foreign currencies *(Cont'd)*

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 exchange reserve.

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 consolidated 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.

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

Taxation *(Cont'd)*

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.

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 consolidated 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.

The Group as lessor

Rental income from operating leases is recognised in the consolidated 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.

The Group as lessee

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.

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

Leasing *(Cont'd)*

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Retirement benefit costs

Payments to defined contribution retirement benefit plan and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

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.

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 2007, the carrying amount of goodwill was HK$5,250,359. Details of the recoverable amount calculation are disclosed in note 16.

Impairment on investment in an investee company

Determining whether investment in an investee company is impaired requires an estimation of its recoverable amount. The recoverable amount calculation requires the Group to estimate the future dividend income expected to receive from the investment and a suitable discount rate in order to calculate the present value. Impairment loss of HK$22,480,000 was charged to the consolidated income statement in the year ended 31 March 2007 and the carrying amount of the investment in an investee company was HK$32,725,141 as at 31 March 2007. Details of impairment assessment are disclosed in note 19.

5. FINANCIAL INSTRUMENTS

5a. Financial risk management objectives and policies

The Group's major financial instruments include investment in an investee company, 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.

Market risk

Currency risk

Certain bank deposits and bank balances 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 2007 in relation to each class of recognised financial assets is the carrying amounts 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 ratings assigned by international credit-rating agencies.

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 to be 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 INSTRUMENTS *(Cont'd)*

5b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2007

6. SEGMENT INFORMATION *(Cont'd)*

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

Segment information about these businesses is presented below.

Year ended 31 March 2007

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

BALANCE SHEET

At 31 March 2007

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products HK$	Property rental HK$	Investment holding HK$	Others HK$	Total HK$	Agency services HK$	Consultancy services HK$	Total HK$	Consolidated HK$
ASSETS									
Segment assets	49,214,516	17,809,682	35,737,024	–	102,761,222	–	–	–	102,761,222
Interests in associates	30,491,927	–	–	11,980,737	42,472,664	–	–	–	42,472,664
Unallocated corporate assets					57,116,416				57,116,416
Consolidated total assets					202,350,302				202,350,302
LIABILITIES									
Segment liabilities	6,481,163	182,828	33,000	–	6,696,991	–	–	–	6,696,991
Unallocated corporate liabilities					1,543,378				1,543,378
Consolidated total liabilities					8,240,369				8,240,369

6. SEGMENT INFORMATION *(Cont'd)*

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

OTHER INFORMATION

Year ended 31 March 2007

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

6. SEGMENT INFORMATION *(Cont'd)*

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

Year ended 31 March 2006

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

BALANCE SHEET

At 31 March 2006

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

6. SEGMENT INFORMATION *(Cont'd)*

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

OTHER INFORMATION

Year ended 31 March 2006

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

(b) Geographical segments

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

	2007	2006
	HK$	HK$
Interest income from bank deposits	**2,428,094**	2,009,437
Government grants released to income	**145,284**	–
Others	**64,039**	282,042
	2,637,417	2,291,479

8. (LOSS) PROFIT BEFORE TAX

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

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2006: eleven) directors are as follows:

For the year ended 31 March 2007

		Other emoluments		
	Fees	**Salaries and other benefits**	**Contributions to retirement benefit scheme**	**Total emoluments**
	HK$	**HK$**	**HK$**	**HK$**
Li Suiming	**60,000**	**–**	**–**	**60,000**
Ma Pizhi	**60,000**	**426,630**	**–**	**486,630**
Li Guanglin	**60,000**	**–**	**–**	**60,000**
Fang Wen Quan	**60,000**	**–**	**–**	**60,000**
Liu Huijiang	**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**
	480,000	**426,630**	**–**	**906,630**

For the year ended 31 March 2006

		Other emoluments		
	Fees	**Salaries and other benefits**	**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
Dong Jianhua	60,000	–	–	60,000
Li Guanglin	60,000	–	–	60,000
Li Hong	60,000	–	–	60,000
Fang Wen Quan	60,000	–	–	60,000
Liu Huijiang	–	–	–	–
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

No directors waived any emoluments in the years ended 31 March 2007 and 2006.

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2006: two) was a director of the Company whose emolument is included in the disclosures in note (a) above. The emoluments of the remaining four (2006: three) individuals were as follows:

	2007	2006
	HK$	HK$
Salaries and other benefits	**1,327,982**	1,051,200
Contributions to retirement benefits scheme	**57,940**	51,480
	1,385,922	1,102,680

The aggregate emoluments of each of the highest paid four (2006: three) individuals during both years presented are not more than HK$1,000,000.

10. INCOME TAX EXPENSE

	2007	2006
	HK$	HK$
The income tax expense comprises:		
Current tax		
PRC enterprise income tax	**56,480**	52,328

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

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

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

Details of deferred taxation are set out in note 30.

10. INCOME TAX EXPENSE *(Cont'd)*

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

	2007	2006
	HK$	HK$
(Loss) profit before tax		
Continuing operations	**(37,010,676)**	7,114,721
Discontinued operations	**–**	(579,047)
	(37,010,676)	6,535,674
Tax at domestic rates applicable to profits in the country concerned	**(6,534,649)**	1,116,936
Tax effect of share of results of associates	**2,834,307**	(315,893)
Tax effect of expenses that are not deductible for tax purpose	**4,094,500**	21,947
Tax effect of income that is not taxable for tax purpose	**(664,136)**	(563,069)
Tax effect of tax losses not recognised	**1,724,305**	1,288,527
Tax effect of deferred tax assets not recognised	**–**	51,112
Utilisation of tax losses previously not recognised	**(55,396)**	(45,604)
Utilisation of deferred tax assets previously not recognised	**(427,711)**	(824,484)
Effect of tax exemptions granted to a PRC subsidiary	**(914,740)**	(677,144)
Income tax expense for the year	**56,480**	52,328

11. DISCONTINUED OPERATIONS

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

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

	2007	2006
	HK$	HK$
Administrative expenses	**–**	(579,047)
Loss for the year	**–**	(579,047)

During the year ended 31 March 2007, the business segments for the provision of agency services and consultancy services have no material contributions to the Group's cash flows. During the year ended 31 March 2006, the business segments for the provision of agency services and consultancy services incurred HK$579,047 in respect of the Group's net operating cash flows.

12. BASIC (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

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

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

For continuing operations

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

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

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

13. INVESTMENT PROPERTY

	HK$
Fair value	
At 1 April 2005	11,000,000
Increase in fair value recognised in the income statement	4,600,000
At 31 March 2006	15,600,000
Increase in fair value recognised in the income statement	1,800,000
At 31 March 2007	**17,400,000**

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
COST							
At 1 April 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
Exchange realignment	761,740	245,776	–	99,389	62,814	–	1,169,719
Additions	–	1,164,802	2,480,456	1,875,500	–	344,490	5,865,248
Written off	–	–	(1,119,580)	(70,929)	(1,265,029)	–	(2,455,538)
Transfer	–	542,541	–	–	–	(542,541)	–
At 31 March 2007	**15,295,808**	**9,484,225**	**2,824,556**	**3,609,829**	**1,158,550**	**–**	**32,372,968**
DEPRECIATION AND AMORTISATION							
At 1 April 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
Exchange realignment	17,647	186,341	–	32,277	23,494	–	259,759
Provided for the year	915,015	784,565	829,026	243,540	110,973	–	2,883,119
Eliminated on write off	–	–	(1,119,363)	(36,006)	(1,265,029)	–	(2,420,398)
At 31 March 2007	**2,502,215**	**2,366,179**	**945,694**	**1,384,511**	**418,951**	**–**	**7,617,550**
CARRYING VALUES							
At 31 March 2007	**12,793,593**	**7,118,046**	**1,878,862**	**2,225,318**	**739,599**	**–**	**24,755,418**
At 31 March 2006	12,964,515	6,135,833	227,649	561,169	811,252	198,051	20,898,469

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

15. PREPAID LEASE PAYMENTS

	2007	2006
	HK$	HK$
Prepaid lease payments for medium-term leasehold land in the PRC:		
Included in current asset	**79,570**	78,648
Included in non-current asset	**3,640,439**	3,532,837
	3,720,009	3,611,485

16. GOODWILL

	HK$
COST	
At 1 April 2005	5,011,207
Exchange realignment	96,369
At 31 March 2006	5,107,576
Exchange realignment	142,783
At 31 March 2007	**5,250,359**

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 2007, 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 five-year period, and a discount rate of approximately 9.5%. 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 2005	1,646,226
Exchange realignment	31,658
At 31 March 2006	1,677,884
Exchange realignment	87,563
At 31 March 2007	**1,765,447**
AMORTISATION AND IMPAIRMENT	
At 1 April 2005	174,534
Exchange realignment	3,799
Provided for the year	86,373
At 31 March 2006	264,706
Exchange realignment	15,418
Provided for the year	59,099
Impairment loss recognised in the consolidated income statement	1,426,224
At 31 March 2007	**1,765,447**
CARRYING VALUES	
At 31 March 2007	**–**
At 31 March 2006	1,413,178

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

During the year ended 31 March 2007, management of the Group performed a review of the recoverable amounts of the production rights and determined that the carrying values were fully impaired as manufacture of relevant pharmaceutical products ceased during the year in view of market situation. No future cash flows are expected to be derived from the production rights.

18. INTERESTS IN ASSOCIATES

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

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

As at 31 March 2007, 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$1,807,131 (2006: HK$1,717,501) 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	(112,381)
Exchange realignment	31,805
At 31 March 2006	1,717,501
Exchange realignment	89,630
At 31 March 2007	**1,807,131**
AMORTISATION	
At 1 April 2005	112,381
Elimination of accumulated amortisation upon the application of HKFRS 3	(112,381)
At 31 March 2006 and 31 March 2007	–
CARRYING VALUES	
At 31 March 2007	**1,807,131**
At 31 March 2006	1,717,501

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	
	2007	2006	1.4.2005 to 31.10.2005 (date of disposal)	**2007**	2006	**2007**	2006
	HK$	HK$	HK$	**HK$**	HK$	**HK$**	HK$
Turnover	**19,469,823**	21,248,054	6,134,651	**20,830,376**	23,094,393	**40,300,199**	50,477,098
Depreciation	**2,695,771**	2,877,790	213,366	**718,836**	740,767	**3,414,607**	3,831,923
(Loss) profit for the year	**(35,726,776)**	912,894	2,175,576	**3,811,250**	3,292,076	**(31,915,526)**	6,380,546
(Loss) profit for the year attributable to the Group	**(17,148,852)**	438,189	543,894	**952,813**	823,019	**(16,196,039)**	1,805,102

Financial position as at 31 March

	深圳新鵬生物工程有限公司		雲南華寧興寧彩印有限公司		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$	HK$	**HK$**	HK$	**HK$**	HK$
Non-current assets	**49,424,299**	70,345,428	**21,684,946**	14,579,190	**71,109,245**	84,924,618
Current assets	**25,789,001**	40,573,289	**24,499,879**	25,744,822	**50,288,880**	66,318,111
Current liabilities	**(7,794,484)**	(12,438,369)	**(5,490,403)**	(2,679,579)	**(13,284,887)**	(15,117,948)
Non-current liabilities	**(818,440)**	(205,031)	**–**	–	**(818,440)**	(205,031)
Minority interests	**(3,075,529)**	(3,021,053)	**–**	–	**(3,075,529)**	(3,021,053)
Net assets	**63,524,847**	95,254,264	**40,694,422**	37,644,433	**104,219,269**	132,898,697
Net assets attributable to the Group	**30,491,927**	45,722,047	**10,173,606**	9,411,108	**40,665,533**	55,133,155

During the year ended 31 March 2006, 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 in that year.

深圳新鵬生物工程有限公司, a major associate of the Group, incurred substantial operating losses in the current year. As a result, impairment losses of HK$28.7 million on certain of its operating assets have been made in the current year, of which HK$13.8 million was attributable to the Group.

19. INVESTMENT IN AN INVESTEE COMPANY

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

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

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

20. INVENTORIES

	2007 **HK$**	2006 HK$
Raw materials	**1,009,207**	990,016
Work in progress	**294,275**	473,421
Finished goods	**439,203**	804,226
	1,742,685	2,267,663

21. LOAN TO ULTIMATE HOLDING COMPANY

The loan to ultimate holding company is unsecured, non-interest bearing and repayable within one year from the balance sheet date.

22. LOAN TO AN INVESTEE COMPANY

The loan to the investee company is unsecured, non-interest bearing and repayable on demand. Included in the carrying amount of loan to an investee company as at 31 March 2007 is accumulated impairment losses of HK$717,255 (2006: nil).

23. TRADE AND OTHER RECEIVABLES

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

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

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

24. BANK DEPOSITS, BANK BALANCES AND CASH

Bank deposits, comprise short-term fixed deposits, and bank balances and carry interests at prevailing market interest rates ranging from 1% to 5.2%.

Included in the bank deposits, bank balances and cash as at 31 March 2007 were amounts in Renminbi of HK$27,874,931 (2006: HK$19,740,271) which are not freely convertible into other currencies.

Bank deposits and bank balances of approximately HK$36,350,000 (2006 : HK$43,152,000) are denominated in US dollars, which is different from the functional currency of the relevant group entity.

25. TRADE AND OTHER PAYABLES

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

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

26. GOVERNMENT GRANTS

(a) Government grants for expanding production facilities for a pharmaceutical product

In 2006 and 2007, the Group received government grants of approximately HK$1,538,000 (RMB1,600,000) and HK$1,330,000 (RMB1,350,000), which were designated for the cost of acquisition of certain plant and equipment for the production of a pharmaceutical product. The grants were deferred and are released to income on a straight-line basis over the expected useful lives of the related assets. During the year ended 31 March 2007, the Group released government grants of HK$145,284 to income for the relevant assets. No government grants was released to income for the year ended 31 March 2006 as the relevant assets were not yet in use. The carrying amount of the government grants as at 31 March 2007 was approximately HK$2,835,000 (RMB2,803,000), of which HK$298,000 will be released to income within one year from the balance sheet date and is therefore shown as current.

(b) Government grants for the research and development of pharmaceutical products

In 2006, the Group received a government grant of approximately HK$577,000 (RMB600,000). The grant was given to the Group as subsidy for expenditure on research and development of pharmaceutical products. No specific conditions to comply and other contingencies were attached to such grant, and management of the Group intends to apply the government grant to the research and development of a new pharmaceutical product ("new product"). During the year ended 31 March 2007, amounts of HK$491,997 have been deducted in reporting research and development costs incurred for the period on the new product. The carrying amount of the government grants as at 31 March 2007 was approximately HK$102,000 (RMB100,000) which will be released to income within one year from the balance sheet date and is therefore shown as current.

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.

29. SHARE CAPITAL

	Number of shares		Amount	
	2007	2006	**2007**	2006
			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 2005	23,362	(23,362)	–
(Credit) charge to income statement	(2,848)	2,848	–
At 31 March 2006 and 1 April 2006	20,514	(20,514)	–
Charge (credit) to income statement	5,377	(5,377)	–
At 31 March 2007	**25,891**	**(25,891)**	**–**

At the balance sheet date, the Group had unused tax losses of approximately HK$106,425,000 (2006: HK$96,858,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$148,000 (2006: HK$117,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$106,277,000 (2006: HK$96,741,000) 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$1,420,000 (2006: HK$3,864,000). 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 two defined contribution schemes which are registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after year 2000 are required to join the MPF Scheme.

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

For members of the MPF Scheme, the Group contributes certain percentage of relevant payroll costs to the Scheme, which contribution is matched by the employee.

Where there are employees who leave the scheme prior to the contributions vesting, 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$68,871 (2006: HK$108,764) 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 2007, the total cost charged to income statement of HK$77,129 (2006: HK$53,584) 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$3,048,764 (2006: HK$1,442,226).

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

	2007	2006
	HK$	HK$
Within one year	**3,230,000**	3,230,000
In the second to fifth year inclusive	**2,467,000**	5,697,000
	5,697,000	8,927,000

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.

The Group as lessor

Property rental income earned during the year was HK$530,707 (2006: HK$459,151). The property is expected to generate rental yields of 3.1% (2006: 2.9%) on an ongoing basis. The premise held has committed tenant for the next 35 months.

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

	2007	2006
	HK$	HK$
Within one year	**859,000**	459,000
In the second to third year inclusive	**1,646,000**	–
	2,505,000	459,000

33. CAPITAL COMMITMENTS

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

	2007	2006
	HK$	HK$
Commitments for acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	**–**	1,400,000

34. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	2007	2006
	HK$	HK$
Loan advanced to ultimate holding company	**350,000**	–
Management fee income received from		
Tianda Group Limited*	**–**	180,000

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

(b) Compensation of key management personnel

The remunerations of directors and other members of key management during the year are as follows:

	2007	2006
	HK$	HK$
Short-term benefits	**1,206,565**	2,864,729
Post-employment benefits	**31,200**	82,784
	1,237,765	2,947,513

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

Notes to the Consolidated Financial Statements

For the year ended 31 March 2007

35. PARTICULARS OF SUBSIDIARIES

Details of the principal subsidiaries of the Company at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by the company %	the subsidiary %	Principal activity
Heroway Limited	British Virgin Islands/PRC	US$1	100	–	Investment holding
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
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 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.*

FINANCIAL SUMMARY

RESULTS

	Year ended 31 March				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000 (restated)	HK$'000	**HK$'000**
Turnover	3,424	5,766	10,113	15,208	**19,970**
(Loss) profit from operations	(4,946)	(4,910)	(346)	4,730	**1,665**
Impairment loss on investment in an investee company	–	–	–	–	**(22,480)**
Finance costs	–	–	(43)	–	**–**
Share of results of associates	651	(485)	441	1,805	**(16,196)**
Amortisation of goodwill arising on acquisition of an associate	(214)	(76)	(90)	–	**–**
(Loss) profit before taxation	(4,509)	(5,471)	(38)	6,535	**(37,011)**
Income tax expense	(17)	(191)	(45)	(52)	**(56)**
(Loss) profit for the year	(4,526)	(5,662)	(83)	6,483	**(37,067)**
Minority interests	–	(77)	(544)	(2,128)	**(2,744)**
(Loss) profit attributable to equity holders of the Company	(4,526)	(5,739)	(627)	4,355	**(39,811)**

ASSETS AND LIABILITIES

	At 31 March				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000 (restated)	HK$'000	**HK$'000**
Non-current assets	110,370	153,935	151,345	159,354	**126,244**
Net current assets	79,551	61,947	64,461	68,628	**70,403**
Non-current liability	–	–	–	(1,904)	**(2,537)**
	189,921	215,882	215,806	226,078	**194,110**
Shareholders' funds	189,920	203,653	203,027	212,352	**176,855**
Minority interests	1	12,229	12,779	13,726	**17,255**
	189,921	215,882	215,806	226,078	**194,110**

Particulars of Investment Property

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