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)*

雲南實業

# Annual Report 2010

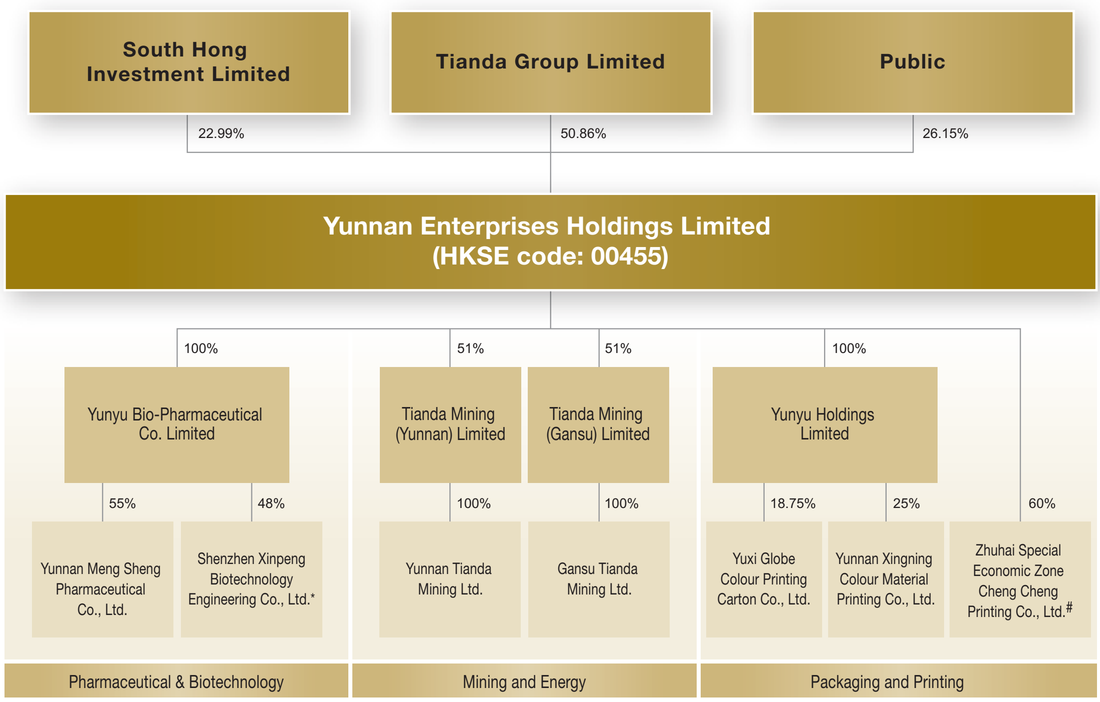
# CONTENTS

Yunnan Enterprises Holdings Limited (the "Company") 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 Company and its subsidiaries (the "Group") is principally engaged in research, development, production and sales of pharmaceutical and biotechnology products; exploration, development and investment of mining and energy; packaging and printing; property investment and development as well as investment holding.

The controlling shareholder of the Company is Tianda Group Limited ("Tianda Group"), which holds 50.86% of the issued share capital of the Company. It also holds an effective interest of 0.79% of the issued share capital of the Company through South Hong Investment Limited ("South Hong"), altogether holding a total of 51.65%. Tianda Group is headquartered in Hong Kong and has established regional head offices in Sydney, Australia and Shenzhen, the PRC. Tianda Group primarily focuses on the development of health industries, in particular the pharmaceutical, biotechnology and health care industries. In addition, Tianda Group is dedicated to investment and development in mining, energy and other natural resources, international trade, property holding and development, and printing and packaging.

South Hong is another substantial shareholder of the Company, holding 22.99% of the issued share capital of the Company. South Hong is an investment company incorporated in Hong Kong. The controlling shareholder of South Hong is Hongta Tobacco (Group) Limited, which is a state-owned enterprise in Yunnan, the PRC, and is the largest tobacco enterprise in the PRC.

## SHAREHOLDING STRUCTURE CHART




* *The entire equity interest in Shenzhen Xinpeng Biotechnology Engineering Co., Ltd. will be disposed to a third party pursuant to a sale and purchase agreement entered into on 30 March 2010.*

\# *Entered into an asset swap agreement on 5 May 2010 which has been approved by the independent shareholders at the extraordinary general meeting convened on 13 July 2010. The asset swap has not yet been completed.*

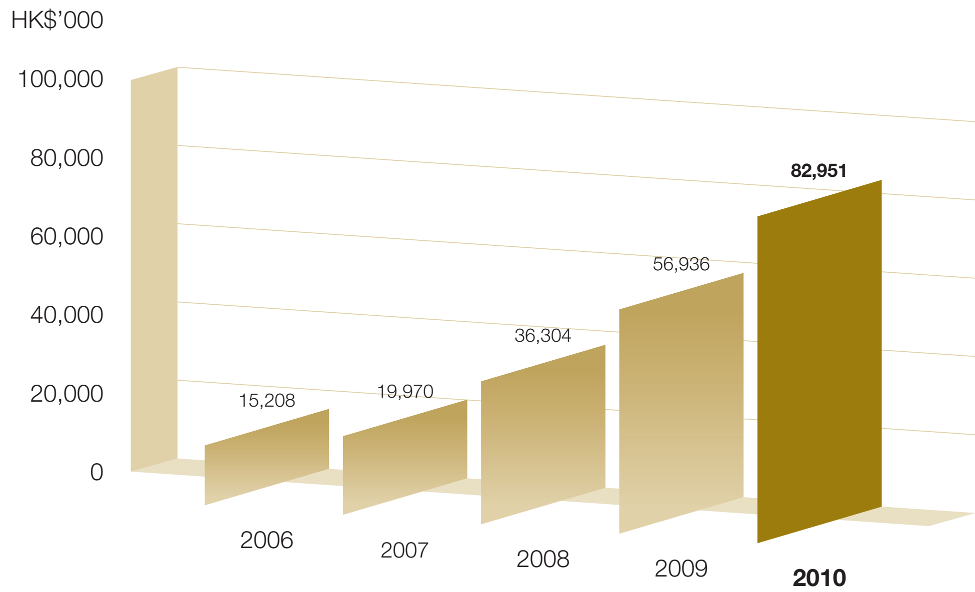
## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | **2010**<br>**HK$'000** |
| Turnover | 15,208 | 19,970 | 36,304 | 56,936 | **82,951** |
| Profit from operations | 4,730 | 1,665 | 19,389 | 18,404 | **50,278** |
| Impairment loss on investment in an investee company | – | (22,480) | (260) | – | **–** |
| Difference between the fair value of the share-based payment and the fair value of the identifiable assets received | – | – | (133,073) | – | **–** |
| Share of results of associates | 1,805 | (16,196) | 3,859 | 924 | **658** |
| Profit (loss) before taxation | 6,535 | (37,011) | (110,085) | 19,328 | **50,936** |
| Income tax expense | (52) | (56) | (2,831) | (5,638) | **(10,244)** |
| Profit (loss) for the year | 6,483 | (37,067) | (112,916) | 13,690 | **40,692** |
| Profit (loss) attributable to: | | | | | |
| Owners of the Company | 4,355 | (39,811) | (121,350) | 2,752 | **21,287** |
| Minority interests | 2,128 | 2,744 | 8,434 | 10,938 | **19,405** |
| | 6,483 | (37,067) | (112,916) | 13,690 | **40,692** |

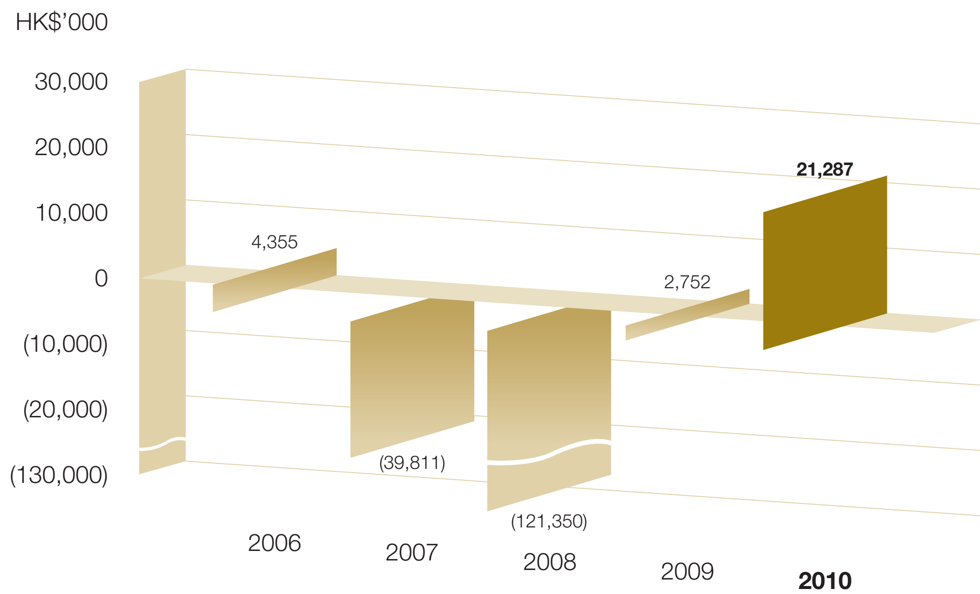
## ASSETS AND LIABILITIES

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | 2006<br>HK$'000 | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | **2010**<br>**HK$'000** |
| Non-current assets | 159,354 | 126,244 | 140,162 | 141,487 | **108,425** |
| Net current assets | 68,628 | 70,403 | 260,115 | 273,300 | **332,909** |
| Non-current liabilities | (1,904) | (2,537) | (2,505) | (2,173) | **(2,433)** |
| | 226,078 | 194,110 | 397,772 | 412,614 | **438,901** |
| Equity attributable to owners of the Company | 212,352 | 176,855 | 379,929 | 387,816 | **409,880** |
| Minority interests | 13,726 | 17,255 | 17,843 | 24,798 | **29,021** |
| | 226,078 | 194,110 | 397,772 | 412,614 | **438,901** |

## Turnover




## Profit (loss) attributable to owners of the Company



## BOARD OF DIRECTORS

### Executive Directors

Mr. Fang Wen Quan
*(Chairman and Managing Director)*
Mr. Li Suiming
Mr. Liu Huijiang

### Independent Non-Executive Directors

Mr. Chiu Sung Hong
Mr. Chiu Fan Wa
Mr. Lam Yat Fai

## AUDITOR

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

## HONG KONG LEGAL ADVISERS

Woo, Kwan, Lee & Lo
25th Floor, Jardine House
1 Connaught Place
Hong Kong

## COMPANY SECRETARY

Mr. Lo Tai On

## AUDIT COMMITTEE

Mr. Chiu Sung Hong *(Chairman)*
Mr. Chiu Fan Wa
Mr. Lam Yat Fai

## REMUNERATION COMMITTEE

Mr. Fang Wen Quan *(Chairman)*
Mr. Chiu Sung Hong
Mr. Chiu Fan Wa
Mr. Lam Yat Fai

## NOMINATION COMMITTEE

Mr. Chiu Sung Hong *(Chairman)*
Mr. Fang Wen Quan
Mr. Lam Yat Fai

## RISK MANAGEMENT COMMITTEE

Mr. Chiu Sung Hong *(Chairman)*
Mr. Fang Wen Quan
Mr. Lam Yat Fai

## PRINCIPAL BANKERS

Bank of Communications
The Hongkong and Shanghai Banking
Corporation Limited

## REGISTERED OFFICE

Winward 1
Regatta Office Park
West Bay Road
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 REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

## LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
(Hong Kong stock code: 00455)

## CORPORATE WEBSITE

www.yunnan.com.hk

## EXECUTIVE DIRECTORS

**Mr. Fang Wen Quan**, aged 41, was appointed as an executive Director in 2003. He is the Chairman of the Board, the Managing Director and the Chairman of the remuneration committee of the Company. He was appointed as a member of nomination committee and risk management committee on 22 July 2009. He is also the Chairman and General Manager of Tianda Group (the controlling Shareholder), Tianda Pharmaceuticals Limited and Tianda Resources Limited. Since 2007, Mr. Fang has been appointed by the government of New South Wales, Australia as a member of NSW-Asia Business Council.

**Mr. Li Suiming**, aged 52, was appointed as an executive Director in 2004. Mr. Li is 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 appointed as the Vice President of Hongta Group in 1997. From 2003 to 2006, Mr. Li was also the Chairman of Yunnan Hongta Group Company Limited (formerly known as Yunnan Hongta Investment Company Limited). In 2006, he was promoted to the position of President of Hongta Group.

**Mr. Liu Huijiang**, aged 54, was appointed as an executive Director in 2006. He is 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 Company Limited (formerly known as Yunnan Hongta Investment Company Limited) from January 1994. Mr. Liu is also the director of SDIC Yunnan Dachaoshan Hydropower Company Limited, Yunnan Huaneng Lancang River Hydropower Company Limited, Hongta Financial Investment Company Limited, Yunnan Baiyao Group Company Limited and Kunming Pharmaceutical Corporation.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chiu Sung Hong**, aged 63, was appointed as an independent non-executive Director, a member of the remuneration committee, the chairman and a member of the audit committee of the Company with effect from 10 April 2008. Mr. Chiu was appointed as the Chairman of nomination committee and risk management committee on 22 July 2009. He received an LL.B. degree from the University of Sydney. He is admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia. He has over 30 years of experience in legal practice. Mr. Chiu is the founding member of the Board of Trustees of the Australian Nursing Home Foundation and served as the General Secretary of Australian Chinese Community Association of New South Wales. Mr. Chiu is an independent non-executive director of the CNOOC Limited.

**Mr. Chiu Fan Wa**, aged 45, was appointed as an independent non-executive Director, a member of the remuneration committee and audit committee of the Company on 31 March, 2009. Mr. Chiu is a founder and the managing director of Chiu, Choy & Chung C.P.A. Limited, and a partner of F. S. Li & Co,. He graduated from City University of Hong Kong and obtained a Bachelor of Arts (Honours) degree with major in accountancy in 1992 and was awarded a Master of Professional Accounting from The Hong Kong Polytechnic University in 2002. He is a Certified Public Accountant (Practising) in Hong Kong, a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a member of The Society of Chinese Accountants & Auditors, the Associate Member of the Institute of the Chartered Accountants in England and Wales, an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Institute of Chartered Secretaries and Administrators, United Kingdom. Mr. Chiu is also an independent non-executive director of Kenford Group Holdings Limited which is listed on the Stock Exchange.

**Mr. Lam Yat Fai**, aged 44, was appointed as an independent non-executive Director, a member of the remuneration committee and a member of audit committee of the Company in 2004. He was appointed as a member of nomination committee and risk management committee on 22 July 2009. He 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 19 years of experience in auditing, taxation, corporate finance and accounting. Mr. Lam is also an independent non-executive director of G-Prop (Holdings) Limited and Oriental Press Group Limited, both of which are listed on the Main Board of the Stock Exchange.

The year ended 31 March 2010 ("FY2010") was an unusual and challenging year. The aftermath of the financial crisis broke out in 2008 slackened most of the global economies, undermined many major financial systems in the world and shrank the worldwide consumer markets in FY2010. Although the financial system of China remained intact and Renminbi remained stable during the year, the substantial drop of exports and foreign investments have impaired its business environments. Accordingly, China has implemented series of fiscal and monetary policies to drive the economic growth, in particular to promote domestic consumption which in turn fuelled the continual development of different industries. With its businesses focused in China, Yunnan Enterprises Holdings Limited ("Yunnan Enterprises" or the "Company") benefited from China's economic growth in a turbulent global economy during FY2010.

## BUSINESS REVIEW

Yunnan Enterprises has three cores businesses, namely pharmaceutical and biological products, mining and energy and packaging and printing. The Company also holds a piece of land in Zhuhai, the PRC (the "Land") with a site area of approximately 25,000 sq. metres; and an office premise in Hong Kong with a saleable area of approximately 537 sq. metres as investment property. Property development and investment has not been the core business of the Company.

For FY2010, the Group recorded a revenue of approximately HK$83.0 million versus HK$56.9 million for the year ended 31 March 2009 ("FY2009"), representing an increase of approximately 45.7%. The increase in revenue was attributable to the significant increase in revenue from the pharmaceutical business during the year. Yunnan Meng Sheng Pharmaceutical Co., Ltd. ("Meng Sheng Pharmaceutical"), the flagship company of our pharmaceutical business, recorded a gross margin and net margin of 74.7% and 58.1% respectively for FY2010 versus 67.6% and 49.6% for FY2009. Net profit of Meng Sheng Pharmaceutical for FY2010 amounted to approximately HK$45 million versus HK$25 million for FY2009, representing an increase of 80%.

Regarding the mining and energy business, the Group implemented the exploration plans for the existing tenements progressively on one hand and continued to identify new investment opportunities on the other hand during FY2010. During the year, packaging and printing business kept providing steady income to the Group.

Due to the growth in revenue and effective cost control measures, profit attributable to shareholders of the Company for FY2010 amounted to HK$21.3 million versus HK$2.8 million for FY2009, representing an increase of 6.7 times.

## BUSINESS OUTLOOK

Pharmaceutical and biotechnology business provided the most substantial amount of income in FY2010. While capitalising on its existing flagship products, Meng Sheng Pharmaceutical will further the research and development of new products and improve the production technology of existing products to enhance the quality and cost effectiveness. In addition, Meng Sheng Pharmaceutical will improve its sales and distribution network, expand its domestic market and explore overseas market. The Group believes that Meng Sheng Pharmaceutical will continue to provide significant income in FY2011.

For mining and energy segment, the Group will proceed with the exploration of the existing tenements on one hand and continue to identify appropriate investment opportunities on the other hand. The Group expects mining and energy segment to start becoming a key income contributor in the medium future.

Packaging and printing business will keep providing stable income to the Group. Benefit from the growth in general economy and consumer market in China, business environment for this industry will become increasingly favourable. Following the completion of the Asset Swap which has been approved by the independent shareholders at the extraordinary general meeting of the Company on 13 July 2010, the Group will be holding 60% interests in Zhuhai Special Economic Zone Cheng Cheng Printing Co., Ltd. ("Cheng Cheng Printing"). Cheng Cheng Printing is a financially healthy company with good business prospects which recorded a turnover and net profit of approximately RMB122 million and RMB21 million respectively for the year ended 31 December 2009; cash and cash equivalents of approximately RMB110 million and net current assets of RMB117 million as at 31 December 2009. The Group will consolidate its investments in packaging and printing business and promote synergistic effects within and across its business segments, particularly with pharmaceutical and biotechnology business. The Group expects increases in revenue and income contribution, in terms of both value and weighing, from printing and packaging business in the forthcoming financial year.

Whilst committing resources to improve the operating efficiency of existing subsidiaries, the Group will also actively look for appropriate investment opportunities for each of its core businesses. With its broad networks in Yunnan Province and various regions in the PRC, Hong Kong, Australia and other Asia Pacific countries, experiences in business acquisitions, expertise in operation management and enthusiastic strive for growth and excellence, the Group is confident in successfully achieving its business development plans.

## FINAL DIVIDEND

The Board of Directors recommend payment of a final dividend of HK0.45 cent per share in respect of FY2010 to shareholders whose names appear on the register of members of the Company on 27 July 2010. This is the first time for the Company to declare dividend over the last 17 years. We shall continue to dedicate our efforts and resources to enhance the returns to our shareholders.

Last year was a remarkable year of the Group which made significant improvements in operating and financial results. We thank the kind support from our customers, suppliers, business partners and shareholders. We also take this opportunity to thank our colleagues on the Board, the staff members of the Group for their hard work, loyal service and contributions during the year.

**Fang Wen Quan**
*Chairman*

Hong Kong, 9th July 2010

## FINANCIAL REVIEW

For FY2010, the Group recorded a revenue of approximately HK$83.0 million versus HK$56.9 million for FY2009, representing an increase of approximately 45.7%. The increase in revenue was attributable to the significant increase in revenue from the pharmaceutical business during the year.

The fair value of the Group's investment property as at 31 March 2010 amounted to HK$24.6 million versus HK$20.8 million as at 31 March 2009, representing a fair value gain of HK$3.8 million in FY2010 (FY2009: loss HK$2.2 million).

Income from associated companies amounted to approximately HK$0.7 million for FY2010 versus approximately HK$0.9 million for FY2009.

Administrative and other expenses decreased in FY2010 due to the effective cost control. Distribution, selling and administrative expenses amounted to approximately HK$20.3 million for FY2010 versus HK$22.9 million for FY2009, representing a reduction of 11.4%.

Other comprehensive income, which comprised mainly of the exchange difference and change in fair value of available-for-sale investment, amounted to HK$0.9 million for FY2010 versus HK$5.6 million for FY2009, representing a reduction of 83.5%.

Profit attributable to shareholders of the Company for FY2010 amounted to HK$21.3 million versus HK$2.8 million for FY2009 and earning per share for FY2010 was approximately HK2.28 cents (FY2009: approximately HK0.29 cent), representing an increase of approximately 7 times.

## FINAL DIVIDEND

The Board of Directors recommend payment of a final dividend of HK0.45 cent (FY2009: Nil) per share in respect of FY2010 to shareholders whose names appear on the register of members of the Company on Tuesday, 27 July 2010. The proposed final dividend will be paid on or before Thursday, 30 September 2010 subject to approval at the forthcoming 2010 Annual General Meeting.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Tuesday, 27 July 2010, whereby no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfers forms with the relevant share certificates must be lodged with the Company's Registrar, Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 26 July 2010.

## BUSINESS REVIEW

### Pharmaceutical and Biotechnology Business

The Group's pharmaceutical and biotechnology business is carried out by Meng Sheng Pharmaceutical, which is owned as to 55% by the Company and is located in Kunming, Yunnan Province; and Shenzhen Xinpeng Biotechnology Engineering Co., Limited ("Xinpeng Biotechnology") in which the Company held 48% equity interests.

***Meng Sheng Pharmaceutical***

During FY2010, Meng Sheng Pharmaceutical recorded a revenue of approximately HK$77.5 million versus HK$50.4 million for FY2009, representing an increase of 53.7%. The increase in revenue was mainly driven by the surge in sales of its flagship product, namely Cerebroprotein Hydrolysate for Injection. Other products such as Vinpocetine for Injection and Aceglutamide for Injection also contributed to the revenue for FY2010. The cost control measures remained effective. Consequently, Meng Sheng Pharmaceutical recorded a gross margin and net margin of 74.7% and 58.1% respectively for FY2010 versus 67.6% and 49.6% for FY2009. Net profit of Meng Sheng Pharmaceutical for FY2010 amounted to approximately HK$45.0 million versus HK$25.0 million for FY2009, representing an increase of 80.0%.

***Xinpeng Biotechnology***

During FY2010, Xinpeng Biotechnology recorded a net profit of approximately HK$0.7 million (FY2009: net profit of approximately HK$1.1 million). The intensifying competition in the market niches of Xinpeng Biotechnology has eroded its operating margins over the last two years and consequently the trading results of Xinpeng Biotechnology has been deteriorating. In order to enhance the Group's overall return on equity and after taking into account the prospects of Xinpeng Biotechnology, the Group decided to dispose of its entire equity interests in Xinpeng Biotechnology on 30 March 2010 at a consideration of approximately RMB38.9 million (approximately HK$44.2 million).

The Group made significant improvements in the operating and financial results of its pharmaceutical business during FY2010 and will continue to devote its resources to further its development.

## Mining and Energy

As at 31 March 2010, the Group holds three exploration rights in each of Dongchuan District, Huize County and Weixi County in Yunnan Province.

### *Dongchuan District*

The tenement is located in Tangdan Town（湯丹鎮）with a site area of approximately 7.7 sq. km. Yunnan Tianda Mining Ltd. ("YT Mining"), in which the Group holds 51% interests, was granted the right to explore lead, zinc and other metal minerals in the tenement. This project was joint-ventured with two other independent parties in the PRC in which YT Mining holds 51% interests. Phosphorus, lead, copper, zinc and iron occurrences were found in the tenement and the Group has been examining the geological investigation results and formulating the further exploration plans.

### *Huize County*

The tenement is located in Shuangshitou（雙石頭）with a site area of approximately 45.5 sq. km. YT Mining was granted the right to explore copper, lead and zinc minerals in the tenement. YT Mining and the Non-Ferrous Metals Geological Exploration Institute of Yunnan Province（雲南省有色地質勘查院）hold 90% and 10% interests in this project respectively. Geological investigation has been underway.

### *Weixi County*

The tenement is located in Diqing Tibetan Autonomous Prefecture in Yunnan Province（雲南省迪慶藏族自治州）with a site area of approximately 10.3 sq. km. YT Mining was granted the right in FY2010 to explore lead and zinc minerals in the tenement. YT Mining and the People's Government of Diqing Tibetan Autonomous Prefecture in Yunnan Province（雲南省迪慶藏族自治州人民政府）hold 90% and 10% interests in this project respectively. Design for geological survey has been underway and exploration is expected to commence during this year.

The Group implemented the exploration plans for the existing tenements progressively on one hand and continued to identify new investment opportunities on the other hand in FY2010. The Group will continue to adopt its active but cautious approach in the furtherance of the mining business.

## Packaging & Printing

During FY2010, the Group held its investments in Yuxi Globe Colour Printing Carton Co., Ltd ("Globe Printing") and Yunnan Xingning Colour Material Printing Co., Ltd. ("Xingning Printing"), both companies are principally engaged in the printing of the packs for cigarettes and other consumer products.

### *Globe Printing*

Globe Printing, in which the Group holds 18.75% equity interests, reported a revenue and net profit of approximately RMB114.9 million and RMB23.3 million respectively for the year ended 31 December 2009, versus RMB118.4 million and RMB15.6 million for the year ended 31 December 2008. The Group recorded a dividend income of approximately HK$4.6 million for FY2010 versus HK$5.6 million for FY2009.

### *Xingning Printing*

Xingning Printing, in which the Group holds 25% equity interests, reported a revenue and net profit of approximately RMB35.1 million and RMB3.9 million respectively for FY2010 versus a revenue of RMB22.1 million and net profit of RMB1.6 million for FY2009. The improved trading results were attributable mainly to the increased sales fuelled by the growing consumer spending in the PRC. Income attributable to the Group amounted to approximately HK$1.1 million for FY2010 versus HK$0.4 million for FY2009.

Packaging and printing business has been providing steady income to the Group and thus the Group intends to hold its interests in Globe Printing and Xingning Printing and will enlarge its business in this sector should there be any appropriate investment opportunities.

## Property Development and Investment

### *The Land*

The Group held a piece of land at the south-western section of Harbour Main Road, Yinkeng, Xiangzhou, Zhuhai, the PRC (the "Land") which has a site area of approximately 25,000 sq. metres and was intended to be developed into a residential complex when it was acquired by the Group from Tianda Group in December 2007. However, due to the outbreak of the global economic crisis and the strengthening governmental policies to control the property prices in China, the Group did not proceed with the development of the Land. The carrying value of the Land was approximately HK$121.2 million as at 31 March 2010 versus HK$120.6 million as at 31 March 2009.

***The Investment Property***

The Group holds an office premise in Sheung Wan District, Hong Kong with a saleable area of approximately 537 sq. metres which was valued at HK$24.6 million as at 31 March 2010 versus HK$20.8 million as at 31 March 2009. The Group received approximately HK$800,000 rental income from this property for FY2010.

## Major Events After FY2010

***Asset Swap***

On 5 May 2010, the Group entered into an agreement with Tianda Group pursuant to which the Group will dispose the Land which has remained undeveloped since December 2007 to Tianda Group; and to acquire from Tianda Group a 60% equity interests in Cheng Cheng Printing (the "Asset Swap") which recorded a net profit of approximately RMB21.1 million (approximately HK$23.9 million) for the year ended 31 December 2009. The Asset Swap will enhance the effective use of the Group's resources and improve the Group's trading results for the year ending 31 March 2011 ("FY2011"). The Asset Swap was approved at the Extraordinary General Meeting of the Company held on 13 July 2010 (the "EGM"), details of which are set out in the circular dated 22 June 2010.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remained healthy. As at 31 March 2010, the Group had cash and bank balances of approximately HK$181.4 million (31 March 2009: HK$135.4 million), of which approximately 22% and 56% were denominated in United States dollar and Renminbi respectively with the remaining in Hong Kong dollar. The Group has no external borrowings during FY2010.

## EXCHANGE RATE EXPOSURE

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

## CHARGES ON ASSETS

The Group did not have any charge on assets as at 31 March 2010 and 31 March 2009.

## EMPLOYEES

The Group employed approximately 120 employees in Hong Kong and China as at 31 March 2010. The Group remunerates its employees based on market terms, the qualifications and experiences of the employees concerned.

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

The Company has met the provisions of the Code on Corporate Governance Practices ("the Code") as set out in the Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") during the year ended 31 March 2010 except the following deviations.

During the year under review, Mr. Li Suiming has tendered resignation as the chairman of the Board due to change of his business engagements. Therefore, the Board has appointed Mr. Fang Wen Quan, the managing director of the Company as the chairman of the Board with effect from 1 August 2009. Pursuant to paragraph A.2.1, the roles of Chairman and chief executive officer of an issuer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Fang Wen Quan acting as both the chairman of the Board and as the managing director of the Company is acceptable and in the best interest of the Group. The Board will review this situation periodically.

Provision E.1.2 of the Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. Fang Wen Quan, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 28 August 2009 in Hong Kong. This constitutes a deviation from the provision E.1.2 of the Code.

## BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees 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 Directors of the Company during the year and up to the date of this report were:

### Executive directors:

Mr. Fang Wen Quan *(Chairman and Managing Director)*
Mr. Li Suiming
Mr. Liu Huijiang

### Independent non-executive directors:

Mr. Chiu Sung Hong
Mr. Chiu Fan Wa
Mr. Lam Yat Fai

Independent non-executive directors are appointed for a term of 2 years and are subject to retirement in accordance with the Company's Articles of Association.

More than one of the independent non-executive directors have appropriate professional qualification in accounting or related financial management expertise. Save as disclosed in the biographical details of each Director, there is no other relationship (including financial, business, family, or other material/relevant relationship) among members of the Board.

The Articles of Association of the Company provide that one-third of all the directors shall retire from office by rotation at each annual general meeting, and the independent non-executive directors are subject to this provision. The Company has received annual confirmation of independence from the three independent non-executive directors in accordance with Rule 3.13 of the Listing Rules.

The Board has established a formal schedule of matters specifically reserves to the Board for its decision. 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 2010, the Board held 5 meetings. The attendance of the Directors at the meetings are as follows:

| **Directors** | **Number of Attendance** |
|---|---|
| **Executive directors** | |
| Mr. Fang Wen Quan *(Chairman and Managing Director)* | 5 |
| Mr. Li Suiming | 1 |
| Mr. Liu Huijiang | 2 |
| **Independent non-executive directors** | |
| Mr. Chiu Sung Hong | 3 |
| Mr. Chiu Fan Wa | 4 |
| Mr. Lam Yat Fai | 3 |

## REMUNERATION COMMITTEE

The remuneration committee of the Company was established in September 2005. It comprises three independent non-executive directors of the Company, Mr. Chiu Sung Hong, Mr. Lam Yat Fai and Mr. Chiu Fan Wa and one executive director of the Company, Mr. Fang Wen Quan (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.

For the terms of reference of the remuneration committee, please visit the website of our Company www.yunnan.com.hk.

The remuneration committee held one meeting 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:

| | **Number of attendance** |
|---|---|
| Mr. Fang Wen Quan *(Chairman)* | 1 |
| Mr. Chiu Sung Hong | 1 |
| Mr. Chiu Fan Wa | 1 |
| Mr. Lam Yat Fai | 1 |

## NOMINATION COMMITTEE

The Company has established nomination committee in July 2009. It comprises two independent non-executive Directors of the Company, Mr. Chiu Sung Hong (who is the Chairman of nomination committee) and Mr. Lam Yat Fai and one executive Director of the Company, Mr. Fang Wen Quan.

The nomination committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board regarding any proposed changes, identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for Directorships with regards to their qualifications, skills, experience and knowledge, assess the independence of independent non-executive Directors, and make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors in particular the chairman and the chief executive officer. Since there has not been any proposed change to the composition of the Board during the year, the nomination committee has not held any meetings.

For the terms of reference of the nomination committee, please visit the website of our Company www.yunnan.com.hk.

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors of the Company, being Mr. Chiu Sung Hong *(Chairman)*, Mr. Chiu Fan Wa and Mr. Lam Yat Fai.

The role and function of the audit committee include the followings:

- review of and monitor 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 recommend application of accounting policies and changes to the financial reporting requirements; and
- 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.

For the terms of reference of the audit committee, please visit the website of our Company www.yunnan.com.hk.

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

| | **Number of attendance** |
|---|---|
| Mr. Chiu Sung Hong *(Chairman)* | 3 |
| Mr. Chiu Fan Wa | 3 |
| Mr. Lam Yat Fai | 3 |

The work performed by the audit committee during the year under review, includes the followings:

- review the financial statements for the year ended 31 March 2009 and for the six months ended 30 September 2009.
- consider and approve of the remuneration and terms of engagement of the external auditor.
- review the internal control and financial reporting matters of the Company.

## RISK MANAGEMENT COMMITTEE

The Company has established risk management committee in July 2009. It comprises two independent non-executive Directors of the Company, Mr. Chiu Sung Hong (Chairman of risk management committee) and Mr. Lam Yat Fai and one executive Director of the Company, Mr. Fang Wen Quan.

The role and function of the risk management committee include the followings:

- enhance and strengthen the system of risk management of the Group and provide comments and recommendations thereon to the Board;
- identify the risks of the Group and provide recommendations to the Board; and
- other matters authorized by the Board.

For the terms of reference of the risk management committee, please visit the website of our Company www.yunnan.com.hk.

## AUDITOR'S REMUNERATION

The fees in relation to the audit and other services for the year provided by Deloitte Touche Tohmatsu, the external auditor of the Company, amounted to HK$698,193 and HK$9,900 respectively.

## 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 cast significant doubt upon the Company's ability to continue as a going concern. The statement of the auditor about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 26 to 27.

The Board is responsible for maintaining a sound and effective system of internal control so as to ensure the shareholders' investment and the Company's assets are properly safeguarded. The system of internal control is designed to manage the risk of failure to achieve corporate objectives and can only provide reasonable but not absolute assurance against material misstatement, loss or fraud. In addition, the Board has reviewed the effectiveness of the internal control system through the audit committee and the internal audit team of the Company. The Board has also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

## 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 2010.

## 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 employs a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars. Procedure for voting by poll had been read out at the general meetings. All votes of the shareholders were taken by poll. The Company announced results of the poll in the manner prescribed under the Listing Rules.

At the 2009 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, Mr. Liu Hujiang, acting as chairman of the annual general meeting, and together with other Directors and members of the audit committee and remuneration committee attended the meeting and answered questions raised by shareholders.

## INVESTOR RELATIONS

The Group fully recognizes the importance of employing a professional, truthful and proactive attitude in promoting investor relations. This underscores the Group's persistence in maintaining optimum all-round communications with investors, allowing it to collect information and valuable feedbacks from investors and announce its business strategy and direction in due course. These efforts are critical for the Group to improve its corporate governance and strengthen investor confidence.

Ensuring high corporate transparency is a key emphasis in the Group's investor relations activities. During the year under review, the Group promoted investor relations through different channels. Regular meetings are held between the management and investors and Public Affairs and Investor Relations Director is appointed. Latest information regarding the Group and its business is proactively disclosed to investors so that the best investment decisions can be made. Whenever announcements on annual results, interim results and material transactions are made, the Group will capitalize such opportunities to enhance communications with investors, explaining to them the Group's latest operational situations and direction of development.

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2010.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associated companies are research and development, production and sale of pharmaceutical products, investment and development in mineral and energy, packaging and printing.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results by segment for the year ended 31 March 2010 is set out in note 7 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2010, the five largest customers of the Group accounted for approximately 93% of the Group's total turnover while the largest customer of the Group accounted for approximately 79% of the Group's turnover. In addition, for the year ended 31 March 2010, the five largest suppliers of the Group accounted for approximately 37% of the Group's total purchases while the largest supplier of the Group accounted for approximately 18% 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 2010 are set out in the consolidated statement of comprehensive income on page 28.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 3 to 4 of this annual report.

## INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the year are set out in note 14 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 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 2010, the Company had retained profit available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands of approximately HK$35,475,106. Furthermore, 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 2010, the Company's share premium account amounted to HK$173,077,599.

## DIRECTORS

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

### Executive directors:

Fang Wen Quan *(Chairman and Managing Director)*
Li Suiming
Liu Huijiang

### Independent non-executive directors:

Chiu Sung Hong
Chiu Fan Wa
Lam Yat Fai

In accordance with Article 99 of the Company's Articles of Association, Messrs. Li Suiming and Liu Huijiang will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Independent non-executive directors are appointed for a term of 2 years and are subject to retirement in accordance with the Company's Articles of Association.

## DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting have 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 2010, except for Mr. Fang Wen Quan who is also the beneficial owner of Tianda Group, one of the substantial shareholders of the Group (whose interest is set out in the section "Substantial Shareholders" below), 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

Save as disclosed in note 33 to the consolidated financial statements, 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.

## SUBSTANTIAL SHAREHOLDERS

At 31 March 2010, 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 | % |
|---|---|---|---|
| Tianda Group Limited | Beneficial owner | 475,586,080 (Note 1) | 50.86 |
| Mr. Fang Wen Quan | Held by controlled corporation | 475,586,080 (Note 1) | 50.86 |
| South Hong Investment Limited | Beneficial owner | 214,992,928 (Note 2) | 22.99 |
| Hongta Tobacco (Group) Limited | Held by controlled corporation | 214,992,928 (Note 2) | 22.99 |

Notes:

(1) These 475,586,080 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 475,586,080 shares owned by Tianda Group Limited.

(2) These 214,992,928 shares are beneficially owned by South Hong Investment Limited ("South Hong"). South Hong is beneficially owned as to approximately 92.28% by Hongta Tobacco (Group) Limited. Accordingly, Hongta Tobacco (Group) Limited is deemed to be interested in the 214,992,928 shares owned by South Hong.

All the interests stated above represent long positions. As at 31 March 2010, no short position was 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 2010.

## 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 Listing Rules. 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 2010.

## AUDITOR

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

On behalf of the Board

**Fang Wen Quan**
*Chairman*

Hong Kong, 9 July 2010

Deloitte.
德勤

**TO THE MEMBERS 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 28 to 91, which comprise the consolidated statement of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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, in accordance with our agreed terms of engagements, 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 2010 and of the Group's profit 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
9 July 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 March 2010*

| | NOTES | 2010<br>HK$ | 2009<br>HK$ |
|---|---|---|---|
| Revenue | 7 | **82,951,039** | 56,936,406 |
| Cost of sales | | **(19,569,250)** | (16,339,968) |
| Gross profit | | **63,381,789** | 40,596,438 |
| Other income and gains | 8 | **3,690,549** | 3,144,948 |
| Distribution and selling expenses | | **(713,277)** | (1,229,891) |
| Administrative expenses | | **(19,613,780)** | (21,715,222) |
| Other expenses | | **(267,555)** | (192,524) |
| Gain (loss) arising from change in fair value of an investment property | 14 | **3,800,000** | (2,200,000) |
| Share of results of associates | 19 | **658,254** | 924,494 |
| Profit before tax | | **50,935,980** | 19,328,243 |
| Income tax expense | 9 | **(10,244,333)** | (5,638,138) |
| Profit for the year | 10 | **40,691,647** | 13,690,105 |
| **Other comprehensive income** | | | |
| Gain on fair value change of available-for-sale investment | | **595,066** | 300,436 |
| Reclassification to profit or loss upon disposal of available-for-sale investment | | **(752,680)** | (251,242) |
| Exchange difference arising on translation | | **1,080,629** | 5,558,457 |
| Other comprehensive income for the year | | **923,015** | 5,607,651 |
| Total comprehensive income for the year | | **41,614,662** | 19,297,756 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **21,287,092** | 2,751,757 |
| Minority interests | | **19,404,555** | 10,938,348 |
| | | **40,691,647** | 13,690,105 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **22,063,799** | 7,886,453 |
| Minority interests | | **19,550,863** | 11,411,303 |
| | | **41,614,662** | 19,297,756 |
| | | **HK cents** | HK cent |
| Basic earnings per share | 12 | **2.28** | 0.29 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 March 2010*

| | NOTES | **2010** **HK$** | 2009 HK$ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment property | 14 | **24,600,000** | 20,800,000 |
| Property, plant and equipment | 15 | **23,806,194** | 23,235,598 |
| Prepaid lease payments | 16 | **3,815,054** | 3,886,581 |
| Goodwill | 17 | **6,051,273** | 6,021,017 |
| Exploration and evaluation assets | 18 | **3,036,545** | 1,820,930 |
| Advance payment for property, plant and equipment | | **–** | 1,804,926 |
| Interests in an associate/associates | 19 | **14,651,110** | 51,453,148 |
| Investment in an investee company | 20 | **32,465,141** | 32,465,141 |
| | | **108,425,317** | 141,487,341 |
| **CURRENT ASSETS** | | | |
| Inventories | 21 | **4,169,569** | 4,664,259 |
| Properties held for development | 22 | **121,178,821** | 120,572,522 |
| Trade and other receivables | 23 | **8,805,554** | 7,696,283 |
| Prepaid lease payments | 16 | **89,596** | 89,148 |
| Available-for-sale investment | 24 | **–** | 28,337,500 |
| Bank deposits | 25 | **78,574,264** | 107,420,409 |
| Bank balances and cash | 25 | **102,792,689** | 27,957,910 |
| | | **315,610,493** | 296,738,031 |
| Assets classified as held-for-sale | 26 | **37,720,135** | – |
| | | **353,330,628** | 296,738,031 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 27 | **11,155,654** | 14,969,702 |
| Government grants – current portion | 28 | **336,064** | 334,383 |
| Amount due to an associate | 33(a) | **896,563** | 891,893 |
| Amount due to ultimate holding company | 33(a) | **122,238** | – |
| Loans from ultimate holding company | 33(a), (c) | **3,826,000** | 3,826,000 |
| Tax payable | | **4,085,483** | 3,415,452 |
| | | **20,422,002** | 23,437,430 |
| **NET CURRENT ASSETS** | | **332,908,626** | 273,300,601 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **441,333,943** | 414,787,942 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 March 2010*

| | NOTES | 2010 HK$ | 2009 HK$ |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Government grants – non-current portion | 28 | **1,848,352** | 2,173,485 |
| Deferred tax liabilities | 30 | **584,840** | – |
| | | **2,433,192** | 2,173,485 |
| | | **438,900,751** | 412,614,457 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 29 | **93,505,908** | 93,505,908 |
| Reserves | | **316,374,018** | 294,310,219 |
| Equity attributable to owners of the Company | | **409,879,926** | 387,816,127 |
| Minority interests | | **29,020,825** | 24,798,330 |
| Total equity | | **438,900,751** | 412,614,457 |

The consolidated financial statements on pages 28 to 91 were approved and authorised for issue by the Board of Directors on 9 July 2010 and are signed on its behalf by:

| **FANG WEN QUAN** | **CHIU SUNG HONG** |
|---|---|
| *Chairman* | *Director* |

*For the year ended 31 March 2010*

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | | | | | |
| | Share capital HK$ | Share premium HK$ | Capital redemption reserve HK$ | Goodwill reserve HK$ Note (i) | Special reserve HK$ Note (ii) | Statutory reserves HK$ Note (iii) | Exchange reserve HK$ | Change in fair value of available-for-sale investment HK$ | Accumulated (losses) profits HK$ | Sub-total HK$ | Minority interests HK$ | Total equity HK$ |
| At 1 April 2008 | 93,505,908 | 473,077,599 | 8,000 | (7,938,469) | 3,460,016 | 8,500,925 | 18,072,312 | 108,420 | (208,865,037) | 286,423,766 | 17,842,540 | 397,772,214 |
| Profit for the year | – | – | – | – | – | – | – | – | 2,751,757 | 2,751,757 | 10,938,348 | 13,690,105 |
| Gain on fair value changes of available-for-sale investment | – | – | – | – | – | – | – | 300,436 | – | 300,436 | – | 300,436 |
| Reclassification to profit or loss upon disposal of available-for-sale investment | – | – | – | – | – | – | – | (251,242) | – | (251,242) | – | (251,242) |
| Exchange difference arising on translation | – | – | – | – | – | – | 5,085,502 | – | – | 5,085,502 | 472,955 | 5,558,457 |
| Total comprehensive income for the year | – | – | – | – | – | – | 5,085,502 | 49,194 | 2,751,757 | 7,886,453 | 11,411,303 | 19,297,756 |
| Partial disposal of subsidiaries | – | – | – | – | – | – | – | – | – | – | 3,825,018 | 3,825,018 |
| Transfer to reserves | – | – | – | – | – | 2,044,575 | – | – | (2,044,575) | – | – | – |
| Dividends declared | – | – | – | – | – | – | – | – | – | – | (8,280,531) | (8,280,531) |
| At 31 March 2009 and 1 April 2009 | 93,505,908 | 473,077,599 | 8,000 | (7,938,469) | 3,460,016 | 10,545,500 | 23,157,814 | 157,614 | (208,157,855) | 294,310,219 | 24,798,330 | 412,614,457 |
| Profit for the year | – | – | – | – | – | – | – | – | 21,287,092 | 21,287,092 | 19,404,555 | 40,691,647 |
| Gain on fair value changes of available-for-sale investment | – | – | – | – | – | – | – | 595,066 | – | 595,066 | – | 595,066 |
| Transfer to profit or loss on disposal of available-for-sale investment | – | – | – | – | – | – | – | (752,680) | – | (752,680) | – | (752,680) |
| Exchange difference arising on translation | – | – | – | – | – | – | 934,321 | – | – | 934,321 | 146,308 | 1,080,629 |
| Total comprehensive income for the year | – | – | – | – | – | – | 934,321 | (157,614) | 21,287,092 | 22,063,799 | 19,550,863 | 41,614,662 |
| Elimination of accumulated losses (Note (iv)) | – | (300,000,000) | – | – | – | – | – | – | 300,000,000 | – | – | – |
| Transfer to reserves | – | – | – | – | – | 4,230,938 | – | – | (4,230,938) | – | – | – |
| Transfer to accumulated profits (Note 19, 26) | – | – | – | 1,510,604 | – | – | – | – | (1,510,604) | – | – | – |
| Dividends paid | – | – | – | – | – | – | – | – | – | – | (15,328,368) | (15,328,368) |
| **At 31 March 2010** | **93,505,908** | **173,077,599** | **8,000** | **(6,427,865)** | **3,460,016** | **14,776,438** | **24,092,135** | **–** | **107,387,695** | **316,374,018** | **29,020,825** | **438,900,751** |

Notes:

(i) The goodwill reserve of the Group arose on the acquisition of an associate in prior years which is engaged in the sale of pharmaceutical and biotech products.

(ii) 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.

(iii) 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 based on the PRC statutory financial statements.

(iv) The share premium account was reduced by HK$300 million to eliminate the accumulated losses of the Company by a special resolution approved by the shareholders of the Company at the Annual General Meeting held on 28 August 2009.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 March 2010*

| | 2010 HK$ | 2009 HK$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **50,935,980** | 19,328,243 |
| Adjustments for: | | |
| Amortisation of prepaid lease payments | **89,707** | 89,148 |
| Depreciation of property, plant and equipment | **3,253,985** | 3,587,192 |
| Loss on disposal of property, plant and equipment | **1,654** | 111,591 |
| (Gain) loss arising from change in fair value of an investment property | **(3,800,000)** | 2,200,000 |
| Gain on partial disposal of subsidiaries | **–** | (1,031) |
| Government grants deducted against research and development costs | **–** | (56,335) |
| Government grants released to income | **(335,436)** | (334,382) |
| Dividend from investee company | **(4,673,836)** | (5,660,166) |
| Interest income | **(910,648)** | (2,200,503) |
| Gain on redemption of available-for-sale investment | **(752,680)** | (251,242) |
| Share of results of associates | **(658,254)** | (924,494) |
| Operating cash flows before movements in working capital | **43,150,472** | 15,888,021 |
| Decrease (increase) in inventories | **518,145** | (1,889,169) |
| (Increase) decrease in trade and other receivables | **(221,693)** | 372,278 |
| Increase in trade and other payables | **4,296,848** | 1,463,094 |
| Cash generated from operations | **47,743,772** | 15,834,224 |
| PRC income tax paid | **(8,999,388)** | (3,200,011) |
| **NET CASH FROM OPERATING ACTIVITIES** | **38,744,384** | 12,634,213 |
| **INVESTING ACTIVITIES** | | |
| Purchase of available-for-sale investment | **–** | (28,337,500) |
| Purchase of property, plant and equipment | **(1,932,399)** | (1,629,603) |
| Expenditure paid for exploration and evaluation asset | **(1,204,202)** | (1,820,930) |
| Proceeds of redemption of available-for-sale investment | **29,021,817** | 3,580,635 |
| Decrease (increase) in bank deposits | **28,846,145** | (8,222,605) |
| Dividend received from an investee company | **3,795,641** | 1,864,525 |
| Interest received | **910,648** | 2,200,503 |
| Dividend received from an associate | **–** | 553,148 |
| Proceeds of disposal of property, plant and equipment | **22,742** | – |
| Advance payment for property, plant and equipment (Note 34) | **–** | (1,804,926) |
| Income derived from available-for-sale investment | **–** | 157,614 |
| Sales proceeds on partial disposal of subsidiaries | **–** | 3,826,049 |
| **NET CASH FROM (USED IN) INVESTING ACTIVITIES** | **59,460,392** | (29,633,090) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 March 2010*

| | 2010<br>HK$ | 2009<br>HK$ |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Increase in amount due to ultimate holding company | **122,238** | – |
| Loans from ultimate holding company | **–** | 3,826,000 |
| Dividend paid to a minority shareholder | **(23,608,899)** | – |
| **NET CASH (USED IN) FROM FINANCING ACTIVITIES** | **(23,486,661)** | 3,826,000 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **74,718,115** | (13,172,877) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **27,957,910** | 39,916,148 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **116,664** | 1,214,639 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR,** represented by bank balances and cash | **102,792,689** | 27,957,910 |

## 1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company is Tianda Group Limited, a private limited company incorporated in Hong Kong. The address of the registered office and the principal place of business of the Company are disclosed on page 5 of the annual report.

During the year ended 31 March 2009, the Company obtained exploration rights in two concession areas in the Yunnan Province, the PRC for the operating segment of exploration of mineral resources. In view of expanding operating activities in the PRC undertaken by its subsidiaries and its sources of income are primarily from its subsidiaries in the PRC, the Company changed its functional currency from Hong Kong dollars ("HK$") to Renminbi ("RMB"). As a result of the change in functional currency, the Company translated all items into RMB using the prevailing exchange rate at the date of change and the resulting translated amounts for non-monetary items were treated as their historical cost.

As the Company is listed in Hong Kong, for the convenience of the financial statements users, the results and financial position of the Group are expressed in Hong Kong dollars, the presentation currency for the consolidated financial statements.

The Company acts as an investment holding company. The principal activities of the Group are sales of pharmaceutical and biotech products and exploration of mineral resources.

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

### 2.1 Standards and interpretations effective in current year

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("New and Revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |

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

### 2.1 Standards and interpretations effective in current year *(Cont'd)*

| | |
|---|---|
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| Hong Kong (International Financial Reporting Interpretations Committee ("HK(IFRIC)") – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

Except as described below, the adoption of the New and Revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

***New and revised HKFRSs affecting presentation and disclosure only***

*HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

*HKFRS 8 Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see note 7) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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

### 2.2 Standards and interpretations in issue not yet adopted

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[8] |
| HKAS 24 (Revised) | Related Party Disclosures[5] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments[7] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[5] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[6] |

1 Effective for annual periods beginning on or after 1 July 2009.

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

3 Effective for annual periods beginning on or after 1 January 2010.

4 Effective for annual periods beginning on or after 1 February 2010.

5 Effective for annual periods beginning on or after 1 January 2011.

6 Effective for annual periods beginning on or after 1 July 2010.

7 Effective for annual periods beginning on or after 1 January 2013.

8 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

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

### 2.2 Standards and interpretations in issue not yet adopted *(Cont'd)*

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with HKFRSs 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.

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

### 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 statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

### Goodwill

***Goodwill arising on acquisitions prior to 1 January 2005***

Goodwill arising on an acquisition of net assets and operations of another entity 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 acquiree at the date of acquisition.

Goodwill arising on acquisitions of net assets and operations of another entity prior to 1 April 2001 continues to be held in reserves, and will be charged to the retained profits 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 becomes impaired.

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

### Goodwill *(Cont'd)*

***Goodwill arising on acquisitions prior to 1 January 2005*** *(Cont'd)*

For previously capitalised goodwill arising on acquisition of net assets and operations of another entity after 1 April 2001, the Group has discontinued amortisation from 1 April 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

***Goodwill arising on acquisitions on or after 1 January 2005***

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

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

### Investments 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations). Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, 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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Prior to 1 April 2001, 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, was recognised in the reserves, and will be charged to the retained earnings at the time when the associate to which the goodwill relates is disposed of or when an impairment loss is recognised.

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

### Investments in associates *(Cont'd)*

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 on or after 1 April 2001, 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.

### Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

### Revenue recognition

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

Revenue from the sales of goods is 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 on initial recognition.

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

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

### Investment property

Investment property is property held to earn rentals and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at its fair value 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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in the profit or loss in the period in which the item is derecognised.

### Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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 profit or loss in the period in which the item is derecognised.

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

### 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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

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

### Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. Costs of exploration are capitalized pending a determination of whether sufficient quantities of potentially nonferrous metal reserves have been discovered.

Exploration and evaluation assets include the cost of exploration rights and the expenditures incurred in the search for nonferrous metal resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. When the technical feasibility and commercial viability of extracting nonferrous metal resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as tangible assets. These assets are assessed for impairment before reclassification.

### Exploration and evaluation assets

***Impairment of exploration and evaluation assets***

The carrying amount of the exploration and evaluation assets is reviewed annually. Impairment test is performed in accordance with HKAS 36 "Impairment of Assets" whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

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

### Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

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

### Financial instruments *(Cont'd)*

***Financial assets*** *(Cont'd)*

*Effective interest method (Cont'd)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in change in fair value of available-for-sale investment reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments (investment in an investee company) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

### Financial instruments *(Cont'd)*

***Financial assets*** *(Cont'd)*

*Impairment of financial assets (Cont'd)*

For financial assets including trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investment will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in the other comprehensive income and accumulated in change in fair value of available-for-sale investment reserve.

## 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.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities

Financial liabilities including trade and other payables, amount due to an associate, amount due to ultimate holding company and loans from ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

***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 and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. 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, other than properties held for development, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Properties held for development

Properties under development which are developed in the ordinary course of business are included in the current assets and stated at the lower of cost and net realisable value. Cost comprises the costs of land use rights and other directly attributable costs.

### Impairment losses on assets other than goodwill, exploration and evaluation assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 entities are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (the exchange reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1 January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical cost prevailing at the date of acquisition.

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 end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

### Change in functional currency

Functional currency of a group entity is changed only if there is a change to the underlying transactions, events and conditions relevant to the entity. The entity applied the translation procedures applicable to the new functional currency prospectively. At the date of the change, the entity translates all items into the new functional currency using the prevailing exchange rate at that date and the resulting translated amounts for non-monetary items are treated as their historical cost.

### Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statements of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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

### 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 contributions.

### 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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

### Taxation *(Cont'd)*

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### 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 profit or loss 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***

Operating lease payments are recognised as an expense 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, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis, except for those that are classified and accounted for as investment properties under the fair value model.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

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

### Key sources of estimation uncertainty *(Cont'd)*

***Impairment loss on investment in an investee company***

The impairment for investment in an investee company has been determined by the Directors based on the difference between the carrying amount of investment and the recoverable amount. The recoverable amount represents the Group's expectation of dividends income to be received from the investment and expected net assets value sharing upon dissolution by reference to the estimation of the future cash flow discounted at an expected rate of return. Where the actual future cash flows are less than expected, further impairment loss may arise. Details of the recoverable amount calculation are disclosed in Note 20.

As at 31 March 2010, the carrying amount of investment in an investee company was HK$32,465,141 (2009: HK$32,465,141) and no impairment loss was recognised during the years ended 31 March 2010 and 2009.

***Net realisable value for properties held for development***

Net realisable value for properties held for development was determined by reference to management estimates of the selling price based on prevailing market conditions, less applicable variable selling expenses and the anticipated costs to completion. During the course of their assessment, management made reference to property valuations conducted by independent qualified professional valuer based on comparable market prices. Where there was material volatility in the property market, future impairment loss might arise. There was no impairment loss recognised during the year ended 31 March 2010 and 2009.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern in order to support its business and maximise shareholders value. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising share capital, accumulated profits and other reserves.

The Directors of the Company review the capital structure on a regular basis to maintain a strong capital base to support the development of the Group's business. The Directors of the Company also balance its overall capital structure through payment of dividends, new share issues as well as the issue of new debts.

## 6. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | Financial instrument classification | 2010 HK$ | 2009 HK$ |
|---|---|---|---|
| **Financial assets** | | | |
| Trade and other receivables | Loans and receivables | **5,790,591** | 5,707,960 |
| Bank deposits | Loans and receivables | **78,574,264** | 107,420,409 |
| Bank balances and cash | Loans and receivables | **102,792,689** | 27,957,910 |
| Available-for-sale investment | Available-for-sale investment | **–** | 28,337,500 |
| Investment in an investee company | Available-for-sale investment | **32,465,141** | 32,465,141 |
| | | **219,622,685** | 201,888,920 |
| **Financial liabilities** | | | |
| Trade and other payables* | At amortised cost | **5,525,078** | 14,111,111 |
| Amount due to an associate | At amortised cost | **896,563** | 891,893 |
| Amount due to ultimate holding company | At amortised cost | **122,238** | – |
| Loans from ultimate holding company | At amortised cost | **3,826,000** | 3,826,000 |
| | | **10,369,879** | 18,829,004 |

* Excluding accruals and deposits from customers

### b. Financial risk management objectives and policies

The Group's major financial instruments include investment in an investee company, available-for-sale investment, trade and other receivables, trade and other payables, amount due to an associate, amount due to ultimate holding company, loans from ultimate holding company, bank deposits and bank balances. Details of these financial instruments are disclosed in respective notes. It is, and has been throughout the year, the Group's policy not to enter into trading of derivative financial instruments.

The risks associated with these financial instruments include credit risk, market risk (currency risk, interest rate risk and price risk) and liquidity risk. 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.

## 6. FINANCIAL INSTRUMENTS *(Cont'd)*

### b. Financial risk management objectives and policies *(Cont'd)*

***Credit risk***

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the Group's consolidated statement of financial position.

In order to minimise the credit risk, the Group requires its customers to make prepayment on their purchase and management has delegated a team responsible for the 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 the recoverable amount of each individual trade debt at the end of each reporting period 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 Group's concentration of credit risk by geographical locations is in the PRC, which accounted for 100% (2009: 100%) of the total trade receivables as at 31 March 2010.

The Group has concentration of credit risk as 84.1% (2009: 48.1%) of the total trade receivables was due from one customer in the PRC, also the largest customer of the Group, engaged in sales of pharmaceutical and biotech products. Though there was no default on receivables from this customer in the past and its considered a creditworthy customer, the failure of this customer to make required payments could have a negative impact on the Group's results. The Group manages this risk by applying a limit on the credit to this customer.

The Group was exposed to credit risk through the investment in certain investment products (無固定期限超短期法人理財產品) for the year ended 31 March 2009, which was classified as available-for-sale investment (as disclosed in note 24). The investment products were redeemed in current year.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks located in the PRC.

## 6. FINANCIAL INSTRUMENTS *(Cont'd)*

### b. Financial risk management objectives and policies *(Cont'd)*

***Market risks***

*(i) Currency risk*

Certain bank deposits 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 arise.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

| | **Assets** | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$** | HK$ |
| United States Dollars ("US$") | **41,169,910** | 25,958,746 |
| HK$ | **43,452,230** | 86,896,236 |

Sensitivity analysis

The following table details the Group's sensitivity to a 2% increase and decrease in RMB, the functional currency of the respective group entities, against the relevant foreign currencies for the years ended 31 March 2010 and 2009. The sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates with reference to historical fluctuation of foreign exchange rates during the year. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 March 2010 and 2009 for a corresponding change in foreign currencies rates. A negative number below indicates a decrease in post-tax profit for the year where the RMB strengthens against the relevant currencies. For a weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit for the year.

## 6. FINANCIAL INSTRUMENTS *(Cont'd)*

### b. Financial risk management objectives and policies *(Cont'd)*

***Market risks*** *(Cont'd)*

*(i) Currency risk (Cont'd)*

Sensitivity analysis *(Cont'd)*

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| US$ | **(823,000)** | (519,000) |
| HK$ | **(869,000)** | (1,738,000) |

The balances of bank deposits denominated in foreign currencies fluctuated throughout the year and in management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

*(ii) Interest rate risk*

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank balances which carry at prevailing market interest rates. The Group currently does not have any interest rate hedging policy. However, the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposure to interest rate has increased during the current year mainly due to the increase in variable rate bank deposits and bank balances at the year end.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to the bank deposits and bank balances which bear floating interest rates at the end of the reporting period. A 50 basis point (2009: 50 basis point) increase or decrease is used to present the reasonably possible change in interest rates for those balances denominated in RMB and US$, at the year end.

## 6. FINANCIAL INSTRUMENTS *(Cont'd)*

### b. Financial risk management objectives and policies *(Cont'd)*

***Market risks*** *(Cont'd)*

*(ii) Interest rate risk (Cont'd)*

Interest rate sensitivity analysis *(Cont'd)*

No sensitivity analysis was prepared for bank deposits and bank balances denominated in HK$ as the financial impact arising on changes in interest rates was minimal.

If interest rates had been 50 basis points (2009: 50 basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 March 2010 would increase/decrease approximately by HK$713,000 (2009: HK$262,000).

*(iii) Price risk*

The Group is exposed to price risk through its investment in an investee company (as disclosed in note 20). No sensitivity analysis is prepared as price risk arising from investment in an investee company which is measured at cost less impairment because the range of reasonable fair value estimates is so significance and its fair value cannot be reliably measured.

The Group was exposed to equity price risk through its investment in available-for-sale investment (as disclosed in note 24) as at 31 March 2009. No sensitivity analysis was prepared as the financial impact arising on changes in equity price was minimal.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

## 6. FINANCIAL INSTRUMENTS *(Cont'd)*

### b. Financial risk management objectives and policies *(Cont'd)*

***Liquidity risk*** *(Cont'd)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

| | Less than 3 months | 3 months to 4 months | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ |
| **As at 31 March 2010** | | | | |
| Trade and other payables | **4,984,233** | **540,845** | **5,525,078** | **5,525,078** |
| Amount due to an associate | **896,563** | **–** | **896,563** | **896,563** |
| Amount due to ultimate holding company | **122,238** | **–** | **122,238** | **122,238** |
| Loans from ultimate holding company | **3,826,000** | **–** | **3,826,000** | **3,826,000** |
| | **9,829,034** | **540,845** | **10,369,879** | **10,369,879** |
| **As at 31 March 2009** | | | | |
| Trade and other payables | 14,111,111 | – | 14,111,111 | 14,111,111 |
| Amount due to an associate | 891,893 | – | 891,893 | 891,893 |
| Loans from ultimate holding company | 3,826,000 | – | 3,826,000 | 3,826,000 |
| | 18,829,004 | – | 18,829,004 | 18,829,004 |

### c. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their corresponding fair values.

## 7. REVENUE AND SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. For the purpose of resources allocation and performance assessment, the chief operating decision maker reviews operating results and financial information of subsidiaries engage in pharmaceutical and biotech products business and exploration of mineral resources. The application of HKFRS 8 has resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14. The adoption of HKFRS 8 also changed the basis of measurement of segment profit or loss, segment assets and segment liabilities by including income tax expense and certain income and expenses in segment result and including bank deposits, bank balances and cash, available-for-sale investment and tax payable, loans from ultimate holding company and other payables of respective segment as segment assets and liabilities.

In prior years, segment information reported externally was analysed on the basis of the types of business operated by the Group (i.e. production and sale of pharmaceutical and biotech products, property rental, properties development, investment holding for dividend income and exploration of mineral resources). However, the chief operating decision maker, the managing Director of the Company, only regularly reviews the following operations, the operating segments of the Group under HKFRS 8:

1. Pharmaceutical and biotech products business – manufacture and sale of pharmaceutical products including flagship products "Cerebroprotein Hydrolysate for injection" and other medicine.

2. Exploration of mineral resources – exploration of copper, multi-metal and non-ferrous mineral resources.

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

## 7. REVENUE AND SEGMENT INFORMATION *(Cont'd)*

### (a) Segment revenues and results

The following is an analysis of the Group's revenue and results by segment.

**For the year ended 31 March 2010**

| | Pharmaceutical and biotech products business HK$ | Exploration of mineral resources HK$ | Unallocated HK$ | Consolidated HK$ |
|---|---|---|---|---|
| REVENUE – EXTERNAL | **77,473,929** | **–** | **5,477,110** | **82,951,039** |
| SEGMENT PROFIT (LOSS) | **43,493,459** | **(1,747,400)** | | **41,746,059** |
| Other income and gains | | | | **667,623** |
| Gain arising from change in fair value of an investment property | | | | **3,800,000** |
| Unallocated expenses | | | | **(6,180,289)** |
| Share of results of associates | | | | **658,254** |
| Profit for the year | | | | **40,691,647** |

For the year ended 31 March 2009

| | Pharmaceutical and biotech products business HK$ | Exploration of mineral resources HK$ | Unallocated HK$ | Consolidated HK$ |
|---|---|---|---|---|
| REVENUE – EXTERNAL | 50,417,568 | – | 6,518,838 | 56,936,406 |
| SEGMENT PROFIT (LOSS) | 23,664,570 | (451,048) | | 23,213,522 |
| Other income and gains | | | | 1,792,438 |
| Loss arising from change in fair value of an investment property | | | | (2,200,000) |
| Unallocated expenses | | | | (10,040,349) |
| Share of results of associates | | | | 924,494 |
| Profit for the year | | | | 13,690,105 |

## 7. REVENUE AND SEGMENT INFORMATION *(Cont'd)*

### (a) Segment revenues and results *(Cont'd)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment revenue excludes dividend income and office building rental, details of which were disclosed in Note 7 (f). Segment profit (loss) represents the profit after taxation earned by/loss after taxation from each segment without allocation of central administration costs, Directors' salaries, and certain other income and gains, gain (loss) arising from change in fair value of an investment property and share of profit of associates. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

### (b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by segment:

| | **2010**<br>**HK$** | 2009<br>HK$ |
|---|---|---|
| **Segment assets** | | |
| Pharmaceutical and biotech products business | **96,592,490** | 80,565,718 |
| Exploration of mineral resources | **34,463,624** | 20,460,045 |
| Total segment assets | **131,056,114** | 101,025,763 |
| Assets classified as held-for-sale | **37,720,135** | – |
| Unallocated assets | | |
| Interests in an associate/associates | **14,651,110** | 51,453,148 |
| Investment property | **24,600,000** | 20,800,000 |
| Investment in an investee company | **32,465,141** | 32,465,141 |
| Properties held for development | **121,178,821** | 120,572,522 |
| Advance payment for property, plant and equipment | **–** | 1,804,926 |
| Property, plant and equipment | **1,060,645** | 1,299,689 |
| Other receivables | **6,630,257** | 4,160,572 |
| Bank deposits | **68,282,503** | 96,085,409 |
| Bank balances and cash | **24,111,219** | 8,558,202 |
| Consolidated assets | **461,755,945** | 438,225,372 |

## 7. REVENUE AND SEGMENT INFORMATION *(Cont'd)*

### (b) Segment assets and liabilities *(Cont'd)*

| | **2010** **HK$** | 2009 HK$ |
|---|---|---|
| **Segment liabilities** | | |
| Pharmaceutical and biotech products business | **16,261,119** | 19,376,616 |
| Exploration of mineral resources | **4,018,013** | 5,221,689 |
| Total segment liabilities | **20,279,132** | 24,598,305 |
| Unallocated liabilities | | |
| Other payables | **2,576,062** | 1,012,610 |
| Consolidated liabilities | **22,855,194** | 25,610,915 |

Segment assets and liabilities represent assets and liabilities of respective segments.

### (c) Other segment information

***Amount included in the measure of segment profit or loss or segment assets***

| | **2010** | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Pharmaceutical and biotech product business HK$** | **Exploration of mineral resources HK$** | **Segment total HK$** | **Unallocated HK$** | **Total HK$** | Pharmaceutical and biotech product business HK$ | Exploration of mineral resources HK$ | Segment total HK$ | Unallocated HK$ | Total HK$ |
| Additions of non-current assets (Note) | **2,049,050** | **2,892,477** | **4,941,527** | **–** | **4,941,527** | 652,172 | 2,784,244 | 3,436,416 | 14,117 | 3,450,533 |
| Depreciation of property, plant and equipment | **2,483,109** | **531,833** | **3,014,942** | **239,043** | **3,253,985** | 2,452,309 | 90,205 | 2,542,514 | 1,044,678 | 3,587,192 |
| Amortisation of prepaid lease payments | **89,707** | **–** | **89,707** | **–** | **89,707** | 89,148 | – | 89,148 | – | 89,148 |
| Loss on disposal of property, plant and equipment | **–** | **1,654** | **1,654** | **–** | **1,654** | – | – | – | 111,591 | 111,591 |
| Interest income | **207,093** | **442,460** | **649,553** | **261,095** | **910,648** | 69,969 | 426,345 | 496,314 | 1,704,189 | 2,200,503 |
| Income tax | **7,544,517** | **–** | **7,544,517** | **2,699,816** | **10,244,333** | 4,204,336 | – | 4,204,336 | 1,433,802 | 5,638,138 |

Note: The amounts represent additions of property, plant and equipment and exploration and evaluation assets during the years.

## 7. REVENUE AND SEGMENT INFORMATION *(Cont'd)*

### (d) Geographical information

The Group principally operates in Hong Kong and the PRC (country of domicile).

The following table provides an analysis of the Group's sales by geographical market irrespective of the origin of goods/services.

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | **2009** |
| | **HK$** | HK$ | **HK$** | HK$ |
| The PRC (country of domicile) | **77,473,929** | 50,417,568 | **50,299,532** | 85,117,585 |
| Hong Kong | **5,477,110** | 6,518,838 | **25,660,644** | 23,904,615 |
| | **82,951,039** | 56,936,406 | **75,960,176** | 109,022,200 |

Note: Non-current assets excluded financial instruments.

### (e) Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's revenue are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Revenue from customers attributable to pharmaceutical and biotech products | | |
| – Company A | **65,389,823** | –* |
| – Company B | **–*** | 23,586,677 |
| – Company C | **–*** | 18,788,269 |

* The corresponding revenue did not contribute over 10% of the total sales of the Group.

## 7. REVENUE AND SEGMENT INFORMATION *(Cont'd)*

### (f) Revenue from major products and services

| | 2010 | 2009 |
|---|---|---|
| | HK$ | HK$ |
| Pharmaceutical and biotech products | | |
| – Cerebroprotein Hydrolysate for injection | **70,020,882** | 43,256,068 |
| – Vinpocetine for injection and Aceglutamide for injection and others | **7,453,047** | 7,161,500 |
| | **77,473,929** | 50,417,568 |
| Dividend income | **4,673,836** | 5,660,166 |
| Office building rental | **803,274** | 858,672 |
| | **82,951,039** | 56,936,406 |

## 8. OTHER INCOME AND GAINS

| | 2010 | 2009 |
|---|---|---|
| | HK$ | HK$ |
| Government grants (Note) | **1,036,640** | – |
| Release of government grants in relation to certain assets (Note 28) | **335,436** | 334,382 |
| Interest income | **910,648** | 2,200,503 |
| Gain on redemption of available-for-sale investment | **752,680** | 251,242 |
| Fair value change of held-for-trading investments | **248,605** | 270,572 |
| Gain on partial disposal of subsidiaries | **–** | 1,031 |
| Others | **406,540** | 87,218 |
| | **3,690,549** | 3,144,948 |

Note: During the year ended 31 March 2010, a PRC subsidiary received an amount of approximately HK$838,000 representing incentives granted by local authority for encouragement of its business development and HK$199,000 to recognise the eminent brand of pharmaceutical and biotech products. These grants are accounting for as immediate financial support with no future related costs expected to be incurred nor related to any assets.

## 9. INCOME TAX EXPENSE

| | 2010 HK$ | 2009 HK$ |
|---|---|---|
| Current tax | | |
| PRC enterprise income tax | **7,544,517** | 4,086,695 |
| Withholding tax | **2,114,976** | 1,433,802 |
| Underprovision in prior years | | |
| PRC enterprise income tax | **–** | 117,641 |
| Deferred tax (note 30): | | |
| Current year | **584,840** | – |
| | **10,244,333** | 5,638,138 |

The Company was incorporated in the Cayman Islands and is not subject to any income tax.

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

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is unified to 25% from 1 January 2008 onwards.

Meng Sheng Pharmaceutical, a subsidiary of the Group, is established in the Kunming economic open zone. Meng Sheng Pharmaceutical was exempted from the PRC enterprise income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. The 50% reduction expired in calendar year ended 31 December 2007. Pursuant to the relevant laws and regulations in the PRC, Meng Sheng Pharmaceutical was entitled to a preferential Enterprise Income Tax rate of 15% from 1 January 2008 to 31 December 2010. The applicable tax rate to Meng Sheng Pharmaceutical is 15% (2009:15%).

## 9. INCOME TAX EXPENSE *(Cont'd)*

Details of deferred taxation are set out in note 30. The income tax expense for both years can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

| | **2010** **HK$** | 2009 HK$ |
|---|---|---|
| Profit before tax | **50,935,980** | 19,328,243 |
| Tax at 25% for the year ended 31 March 2010 and 2009 | **12,733,995** | 4,832,060 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **208,556** | 845,804 |
| Tax effect of share of results of associates | **(164,564)** | (231,109) |
| Tax effect of expenses not deductible for tax purpose | **776,727** | 1,493,579 |
| Tax effect of income not taxable for tax purpose | **(809,113)** | (1,280,895) |
| Tax effect of tax losses not recognised | **1,658,102** | 1,198,304 |
| Tax effect on deductible temporary differences not recognised | **6,585** | 545,381 |
| Utilisation of tax losses previously not recognised | **(83,560)** | (72,651) |
| Utilisation of deferred tax assets previously not recognised | **(638,220)** | (368) |
| Effect of tax concession grant to a PRC subsidiary | **(6,144,684)** | (3,255,518) |
| Underprovision in respect of prior years | **–** | 117,641 |
| Withholding tax of income generated from PRC | **2,699,816** | 1,433,802 |
| Others | **693** | 12,108 |
| Income tax expense for the year | **10,244,333** | 5,638,138 |

*For the year ended 31 March 2010*

## 10. PROFIT FOR THE YEAR

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Profit for the year has been arrived at after charging: | | |
| Research and development costs | **265,901** | 137,268 |
| *Less:* Government grants released (note 28) | **–** | (56,335) |
| Net research and development costs (included in other expenses) | **265,901** | 80,933 |
| Directors' emoluments | **360,000** | 554,751 |
| Other staff costs | | |
| Salaries and other benefits | **9,658,345** | 7,342,465 |
| Retirement benefits scheme contributions | **486,207** | 209,108 |
| Total staff costs | **10,504,552** | 8,106,324 |
| Amortisation of prepaid lease payments | **89,707** | 89,148 |
| Auditors' remuneration | **698,193** | 709,502 |
| Cost of inventories recognised as expense | **19,569,250** | 16,339,968 |
| Depreciation of property, plant and equipment | **3,253,985** | 3,587,192 |
| Loss on disposal of property, plant and equipment (included in other expenses) | **1,654** | 111,591 |
| and after crediting: | | |
| Dividend income from investment in an investee company | **4,673,836** | 5,660,166 |
| Net foreign exchange gain | **43,492** | 177,405 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments of the Directors on a name basis are as follows:

| | | Other emoluments | | |
|---|---|---|---|---|
| | Fees HK$ | Salaries and other benefits HK$ | Retirement benefits scheme contributions HK$ | Total emoluments HK$ |
| **For the year ended 31 March 2010** | | | | |
| Fang Wen Quan* | **60,000** | **–** | **–** | **60,000** |
| Li Suiming* | **60,000** | **–** | **–** | **60,000** |
| Liu Huijiang* | **60,000** | **–** | **–** | **60,000** |
| Chiu Sung Hong | **60,000** | **–** | **–** | **60,000** |
| Chiu Fan Wa | **60,000** | **–** | **–** | **60,000** |
| Lam Yat Fai | **60,000** | **–** | **–** | **60,000** |
| | **360,000** | **–** | **–** | **360,000** |
| **For the year ended 31 March 2009** | | | | |
| Li Suiming* | 60,000 | – | – | 60,000 |
| Ma Pizhi* (resigned on 1 September 2008) | 16,500 | 133,251 | – | 149,751 |
| Fang Wen Quan* | 60,000 | – | – | 60,000 |
| Li Guanglin* (resigned on 31 March 2009) | 60,000 | – | – | 60,000 |
| Liu Huijiang* | 60,000 | – | – | 60,000 |
| Ho Wing Fun (resigned on 10 April 2008) | | | | |
| Lam Yat Fai | 60,000 | – | – | 60,000 |
| Wu Wen Jing, Benjamin (resigned on 1 January 2009) | 45,000 | – | – | 45,000 |
| Chiu Sung Hong (appointed on 10 April 2008) | 60,000 | – | – | 60,000 |
| Chiu Fan Wa (appointed on 31 March 2009) | – | – | – | – |
| | 421,500 | 133,251 | – | 554,751 |

* Executive Directors

None of the Directors waived any emoluments during the years ended 31 March 2010 and 2009.

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

### (b) Employees' emoluments

During the year ended 31 March 2010, of the five individuals with the highest emoluments in the Group, none (2009: one) was a Director of the Company whose emolument is included in the disclosures in note (a) above. The emoluments of the remaining five (2009: four) individuals were as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Salaries and other benefits | **1,502,316** | 1,650,023 |
| Contributions to retirement benefits scheme | **34,505** | 38,000 |
| | **1,536,821** | 1,688,023 |

The aggregate emoluments of each of the five (2009: four) highest paid individuals during both years presented are not more than HK$1,000,000.

During both years, no emoluments were paid by the Group to the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

## 12. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share | **21,287,092** | 2,751,757 |
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings per share | **935,059,080** | 935,059,080 |

No diluted earnings per share is presented as the Company did not have any dilutive shares in issue during both years.

## 13. DIVIDENDS

No dividend was paid or declared during the years ended 31 March 2010 and 2009. On 9 July 2010, the final dividend of HK$0.45 cent in respect of the year ended 31 March 2010 per share has been proposed by the Directors and is subject to approval by the shareholders at Annual General Meeting.

## 14. INVESTMENT PROPERTY

| | HK$ |
|---|---|
| FAIR VALUE | |
| At 1 April 2008 | 23,000,000 |
| Decrease in fair value recognised in profit or loss | (2,200,000) |
| At 31 March 2009 and 1 April 2009 | 20,800,000 |
| Increase in fair value recognised in profit or loss | 3,800,000 |
| **At 31 March 2010** | **24,600,000** |

The investment property of the Group is property interests held under long-term operating lease in Hong Kong for the purposes of earning rentals and is measured using the fair value model and is classified and accounted for as investment property.

The fair value of the Group's investment property at 31 March 2010 and 2009 has been arrived at on the basis of a valuation carried out on respective dates by Vigers Appraisal and Consulting Limited, independent qualified professional valuers not connected to the Group. The valuation was arrived at using the direct comparison method by reference to recent market prices for similar properties in the same locations and conditions.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Leasehold improvements | Furniture, fixtures and equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| **COST** | | | | | | |
| At 1 April 2008 | 16,994,281 | 10,837,681 | 2,824,556 | 3,862,359 | 1,870,291 | 36,389,168 |
| Exchange realignment | 394,671 | 204,168 | – | 27,370 | 42,250 | 668,459 |
| Additions | – | 532,709 | – | 161,805 | 935,089 | 1,629,603 |
| Disposals | – | (70,152) | – | (387,208) | – | (457,360) |
| At 31 March 2009 and 1 April 2009 | 17,388,952 | 11,504,406 | 2,824,556 | 3,664,326 | 2,847,630 | 38,229,870 |
| Exchange realignment | 87,465 | 62,594 | – | 6,254 | 18,780 | 175,093 |
| Reclassification | – | – | (51,600) | (191,588) | 243,188 | – |
| Additions | – | 1,974,323 | – | 80,722 | 1,682,280 | 3,737,325 |
| Disposals | – | – | – | – | (243,954) | (243,954) |
| **At 31 March 2010** | **17,476,417** | **13,541,323** | **2,772,956** | **3,559,714** | **4,547,924** | **41,898,334** |
| **ACCUMULATED DEPRECIATION** | | | | | | |
| At 1 April 2008 | 3,796,277 | 3,577,331 | 1,801,763 | 1,727,754 | 595,068 | 11,498,193 |
| Exchange realignment | 81,077 | 146,613 | – | 11,952 | 15,014 | 254,656 |
| Provided for the year | 1,079,799 | 998,930 | 856,269 | 301,476 | 350,718 | 3,587,192 |
| Eliminated on disposals | – | (55,087) | – | (290,682) | – | (345,769) |
| At 31 March 2009 and 1 April 2009 | 4,957,153 | 4,667,787 | 2,658,032 | 1,750,500 | 960,800 | 14,994,272 |
| Exchange realignment | 26,110 | 27,234 | – | 2,552 | 7,545 | 63,441 |
| Reclassification | – | – | (5,160) | (213,707) | 218,867 | – |
| Provided for the year | 879,330 | 1,210,536 | 56,092 | 317,662 | 790,365 | 3,253,985 |
| Eliminated on disposals | – | – | – | – | (219,558) | (219,558) |
| **At 31 March 2010** | **5,862,593** | **5,905,557** | **2,708,964** | **1,857,007** | **1,758,019** | **18,092,140** |
| **CARRYING VALUES** | | | | | | |
| **At 31 March 2010** | **11,613,824** | **7,635,766** | **63,992** | **1,702,707** | **2,789,905** | **23,806,194** |
| At 31 March 2009 | 12,431,799 | 6,836,619 | 166,524 | 1,913,826 | 1,886,830 | 23,235,598 |

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

## 15. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 3% – 9% |
| Plant and machinery | 5% – 10% |
| Leasehold improvements | Over the term of the lease |
| Furniture, fixtures and equipment | 10% – 20% |
| Motor vehicles | 10% – 20% |

## 16. PREPAID LEASE PAYMENTS

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Prepaid lease payments for medium-term leasehold land in the PRC: | | |
| Included in current assets | **89,596** | 89,148 |
| Included in non-current assets | **3,815,054** | 3,886,581 |
| | **3,904,650** | 3,975,729 |

Prepaid lease payments are released to profit or loss over the lease terms of 50 years.

## 17. GOODWILL

| | HK$ |
|---|---|
| **COST** | |
| At 1 April 2008 | 5,895,113 |
| Exchange realignment | 125,904 |
| At 31 March 2009 and 1 April 2009 | 6,021,017 |
| Exchange realignment | 30,256 |
| **At 31 March 2010** | **6,051,273** |

For the purposes of impairment testing, the goodwill has been allocated to an individual cash generating unit (the "CGU"), representing one PRC subsidiary, in the sale of pharmaceutical and biotech products segment. During the years ended 31 March 2010 and 2009, management of the Group determines that there are no impairment of the CGU containing goodwill.

The recoverable amount of the CGU was 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 6.89% determined based on the weighted average cost of capital ("WACC"). Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins were determined based on past performance and the 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.

## 18. EXPLORATION AND EVALUATION ASSETS

| | HK$ |
|---|---|
| Acquisition during the year ended 31 March 2009 and balance at 31 March 2009 and 1 April 2009 | 1,820,930 |
| Additions during the year | 1,204,202 |
| Exchange realignment | 11,413 |
| **At 31 March 2010** | **3,036,545** |

Included in the above balance are expenditures incurred for carrying out activities in relation to geological research over two concession areas to evaluate the technical feasibility of exploration and extraction of mineral resources and acquisition of rights to explore nonferrous metal resources in the Yunnan Province of the PRC over two years expired in May 2010. The rights have been renewed for another year subsequent to 31 March 2010.

During the years ended 31 March 2010 and 2009, the Directors of the Company determine that there is no fact and circumstance suggesting the carrying amount of exploration and evaluation assets exceeding its recoverable amount and no impairment is recognised in profit or loss.

## 19. INTERESTS IN AN ASSOCIATE/ASSOCIATES

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Cost of unlisted investment in associates | **52,246,744** | 52,246,744 |
| Share of post-acquisition losses, net of dividends received | **(9,093,251)** | (9,751,505) |
| Exchange realignment | **9,217,752** | 8,957,909 |
| Reclassified to assets classified as held-for-sale (Note 26) | **(37,720,135)** | – |
| | **14,651,110** | 51,453,148 |

## 19. INTERESTS IN AN ASSOCIATE/ASSOCIATES *(Cont'd)*

As at 31 March 2010 and 2009, the Group had interests in the following associates:

| Name of associate | Form of entity | Place of establishment and operation | Attributable interest in registered capital held by the Group 2010 | 2009 | Principal activities |
|---|---|---|---|---|---|
| Shenzhen Xinpeng Biotechnology Engineering Co., Limited 深圳新鵬生物工程有限公司 ("Shenzhen Xinpeng")# | Incorporated | PRC | – | 48% | Research, development, manufacture and sale of biotechnology products |
| Yunnan Xingning Colour Material Printing Co., Limited 雲南華寧興寧彩印有限公司 ("Xingning Printing") | Incorporated | PRC | **25%** | 25% | Printing and sale of cigarette packaging packs and boxes |

\# The carrying amount included in the goodwill reserve at 31 March 2009 was resulted from acquisition of Shenzhen Xinpeng prior to 1 April 2001. A impairment loss of HK$1,510,604 was recognised during the year ended 31 March 2010 and charged to the retained profits (2009: Nil).

Pursuant to a sale and purchase agreement entered into on 30 March 2010, the Company agreed to dispose of its entire equity interest in Shenzhen Xinpeng to a third party. Accordingly the carrying amount attributable to this investment were reclassified to assets classified as held-for-sale on the same day. The Company ceased to use equity method accounting for its share of results of Shenzhen Xinpeng starting from 30 March 2010. Details are set out in note 26.

Included in the cost of investment in an associate/associates is goodwill amounting to HK$2,034,840 (2009: HK$2,024,666) arising on acquisition of Xingning Printing in prior years.

The movement of goodwill is set out below:

| | HK$ |
|---|---|
| **COST** | |
| At 1 April 2008 | 1,982,322 |
| Exchange realignment | 42,344 |
| At 31 March 2009 and 1 April 2009 | 2,024,666 |
| Exchange realignment | 10,147 |
| **At 31 March 2010** | **2,034,840** |

## 19. INTERESTS IN AN ASSOCIATE/ASSOCIATES *(Cont'd)*

No impairment loss was recognised in respect of goodwill included in the investment in an associate/associates during the years ended 31 March 2010 and 2009.

The summarised financial information in respect of the Group's associates, including Shenzhen Xinpeng, is set out below:

### Results for the year ended 31 March

| | Total | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$** | HK$ |
| Turnover | **66,524,376** | 50,567,255 |
| Depreciation | **3,335,522** | 3,333,294 |
| Profit for the year | **3,728,067** | 3,002,113 |
| Group's share of profits of associates for the year | **658,254** | 924,494 |

### Financial position as at 31 March

| | Total | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$** | HK$ |
| Total assets | **55,327,346** | 146,274,193 |
| Total liabilities | **(4,862,265)** | (21,587,327) |
| Net assets | **50,465,081** | 124,686,866 |
| Group's share of net assets of an associate/associates | **12,616,270** | 49,428,482 |

The financial position as at 31 March 2010 excludes Shenzhen Xinpeng.

## 20. INVESTMENT IN AN INVESTEE COMPANY

The investment in an investee company at 31 March 2010 is accounted for as an available-for-sale investment which represents the Group's 18.75% (2009: 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.) ("Globe Printing"), an unlisted company registered in the PRC being engaged in the business of printing and sale of cigarette packaging packs and boxes. This investment is measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that its fair value cannot be measured reliably.

During the years ended 31 March 2010 and 2009, management of the Group performed a review of the recoverable amount of the investment in Globe Printing and no impairment loss was recognised in profit or loss.

The recoverable amount of the investment in Globe Printing was determined based on expected dividend income covering a four-year period (2009: five-year period), which is the estimated project life of the investment, and expected net assets value sharing upon dissolution at the end of the fourth year (2009: the fifth year), using a discount rate of 5.8% (2009: 5.8%) based on the average rate of return on this investment.

## 21. INVENTORIES

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Raw materials | **2,656,623** | 2,541,691 |
| Work in progress | **148,601** | 530,512 |
| Finished goods | **1,364,345** | 1,592,056 |
| | **4,169,569** | 4,664,259 |

## 22. PROPERTIES HELD FOR DEVELOPMENT

| | HK$ |
|---|---|
| **COST** | |
| At 1 April 2008 | 118,051,261 |
| Exchange realignment | 2,521,261 |
| At 31 March 2009 and 1 April 2009 | 120,572,522 |
| Exchange realignment | 606,299 |
| **At 31 March 2010** | **121,178,821** |

The balances at 31 March 2009 represented leasehold land located in the PRC for development of residential properties for future sale. The Group was in the process of site structure design and no construction was commenced as at 31 March 2009.

At 31 March 2009, the management reviewed the carrying amount of the properties with reference to the estimated selling price based on prevailing market conditions, less applicable variable selling expenses and anticipated costs to completion of the residential properties provided by Vigers Appraisal and Consulting Limited. No write-down on the carrying amount of the properties was required for the year ended 31 March 2009.

Subsequent to 31 March 2010, the Group entered into an agreement to dispose of the entire interest in a wholly-owned subsidiary holding the properties to the ultimate holding company and particulars of this transaction was set out in note 35(i).

## 23. TRADE AND OTHER RECEIVABLES

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Trade receivables | **267,399** | 1,022,670 |
| Dividends receivable from an investee company | **4,440,144** | 3,795,641 |
| Other receivables, deposits and prepayments | **4,098,011** | 2,877,972 |
| Total trade and other receivables | **8,805,554** | 7,696,283 |

## 23. TRADE AND OTHER RECEIVABLES *(Cont'd)*

The Group allows an average credit period of 60 days to certain number of its trade customers. The aging analysis of trade receivables is presented based on the invoice date at the end of the reporting date:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| 0 – 60 days | **256,092** | 1,011,052 |
| Over 60 days | **11,307** | 11,618 |
| | **267,399** | 1,022,670 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits of each customer. Limits attributed to customers are reviewed once a year. All of the trade receivables that are neither past due nor impaired have the best credit quality assessed by the Group.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$11,307 (2009: HK$11,618) which are past due as at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience.

The Group does not hold any collateral over these balances. The average age of these receivables is as follow:

### Aging of trade receivables which are past due but not impaired

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| 61 – 90 days | **–** | 11,618 |
| Over 90 days | **11,307** | – |

The Group's trade receivables denominated in currencies other than the functional currency of the respective group entities are set out below:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| HK$ | **4,650,010** | 3,842,058 |

## 24. AVAILABLE-FOR-SALE INVESTMENT

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Investment products（無固定期限超短期法人理財產品） | **–** | 28,337,500 |

During the year ended 31 March 2009, the Group acquired certain investment products from a bank. The investment products had no contractual maturity and their principal and accrued interests could be redeemed at the discretion of the Group. The return was determined with reference to the prevailing market interest rates and performance of the underlying debt instruments invested by the bank and the principal was not protected by the bank. Accordingly, the Group was exposed to the credit risk of the underlying investments invested by the bank. The investment products were debt instruments and were designated as an available-for-sale investment on initial recognition. The investment products carried interest rate ranging from 1.30% to 2.0% per annum during the year ended 31 March 2009 and the return rate stated in the contract was capped at 2% per annum.

The investment products were fully redeemed at its principal amounts together with accrued interests during the year ended 31 March 2010.

## 25. BANK DEPOSITS, BANK BALANCES AND CASH

The bank deposits, which comprise short-term fixed deposits with original maturity of 1 month, carry market interest rates ranging from 0.16% to 1.71% (2009: 0.3% to 2.25%) per annum.

Bank balances carry variable interest at market rates which range from 0.01% to 0.85% (2009: 0.01% to 0.72%) per annum.

The Group's bank deposits, bank balances and cash that are denominated in currencies other than the functional currency of the respective group entities are set out below:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| HK$ | **38,802,220** | 83,054,178 |
| US$ | **41,169,910** | 25,958,746 |

## 26. ASSETS CLASSIFIED AS HELD-FOR-SALE

On 30 March 2010, the Group entered into a sale and purchase agreement with a third party to dispose of its entire 48% equity interest in Shenzhen Xinpeng, an associate of the Group, for a consideration of approximately HK$44,148,000. The carrying amount attributable to this investment was classified as assets held-for-sale with a view that the disposal is expected to be completed within twelve months. The net proceeds of disposal are expected to be less than the aggregate carrying amount of the interest in this associate and an impairment loss of HK$1,510,604 was recognised as a write-down in the goodwill reserve and charged to retained earnings for the year ended 31 March 2010. Though there is provisional clause included in the sale and purchase agreement requesting the acquirer to pay the Group 30% of total consideration within 5 working days from the date of the agreement and 70% to be payable within 10 working days upon completion, none of payment was received up to the date of this report due to the facts that transfer and registration procedures of the disposal of Shenzhen Xinpeng were yet to complete and the remittance of consideration was deferred accordingly.

The assets classified as held-for-sale are as follows:

| | **2010**<br>**HK$** |
|---|---|
| Interests in an associate (Note 19) | **37,720,135** |

The major classes of assets and liabilities of Shenzhen Xinpeng at 31 March 2010, which are attributable to the Group at 48% of net assets, are as follows:

| | **2010**<br>**HK$** |
|---|---|
| Property, plant and equipment | **38,764,464** |
| Prepayment for intangible assets | **6,698,496** |
| Inventories | **5,717,183** |
| Trade and other receivables | **34,392,884** |
| Bank balances and cash | **5,929,325** |
| Trade and other payables | **(12,582,553)** |
| Tax payable | **(336,185)** |
| | **78,583,614** |

The associate was accounted for using equity method prior to the reclassification to assets classified as held-for-sale and no cash flow was generated from the investment in Shenzhen Xinpeng. Accordingly no cash flow is presented.

*For the year ended 31 March 2010*

## 27. TRADE AND OTHER PAYABLES

The following is an analysis of the Group's trade and other payables at the end of the reporting period:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Trade payables (note) | | |
| Within 60 days | **1,198,664** | 2,202,368 |
| 61 – 90 days | **190,352** | 26,008 |
| Over 90 days | **199,085** | 215,806 |
| | **1,588,101** | 2,444,182 |
| Deposits received from customers | **4,768,359** | – |
| Dividend payable to a minority shareholder | **–** | 8,280,531 |
| Other payables and accruals | **4,799,194** | 4,244,989 |
| | **11,155,654** | 14,969,702 |

Note: The aging analysis of trade payables presented based on the invoice date at the end of the reporting period.

The credit period on purchases of goods ranges from 30 days to 120 days. The Group monitors and maintains a level of cash and cash equivalents sufficient to ensure that all payables are within the credit timeframe.

## 28. GOVERNMENT GRANTS

| | Note a | Note b | **Total** |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| At 1 April 2008 | 2,782,818 | 55,156 | 2,837,974 |
| Charged to profit or loss/released to deduct from research and development costs | (334,382) | (56,335) | (390,717) |
| Exchange realignment | 59,432 | 1,179 | 60,611 |
| At 31 March 2009 | 2,507,868 | – | 2,507,868 |
| Charged to profit or loss | (335,436) | – | (335,436) |
| Exchange realignment | 11,984 | – | 11,984 |
| **At 31 March 2010** | **2,184,416** | **–** | **2,184,416** |

## 28. GOVERNMENT GRANTS *(Cont'd)*

Analysed for reporting purposes as:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Current liabilities* | **336,064** | 334,383 |
| Non-current liabilities | **1,848,352** | 2,173,485 |
| | **2,184,416** | 2,507,868 |

* The carrying amount of the government grants which is expected to be released to profit or loss in the next twelve months is classified as current.

Notes:

a. Grants were designated for the cost of acquisition of certain plant and equipment for the production of a pharmaceutical and biotech product and were deferred and are released to income on a straight-line basis over the expected useful lives of the related assets.

b. The grant was given to the Group as a subsidy for expenditure on research and development of pharmaceutical products. No specific conditions were to comply with and other contingencies were attached to such grant, and management of the Group applied the government grants to the research and development of a pharmaceutical product and deducted them against the costs incurred for that product in the same period.

## 29. SHARE CAPITAL

| | **Number of shares** | **Amount** |
|---|---|---|
| | | HK$ |
| Ordinary shares of HK$0.10 each | | |
| Authorised: | | |
| At 1 April 2008, 31 March 2009 and 31 March 2010 | **2,000,000,000** | 200,000,000 |
| Issued and fully paid: | | |
| At 1 April 2008, 31 March 2009 and 31 March 2010 | **935,059,080** | 93,505,908 |

## 30. DEFERRED TAX LIABILITIES

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

| | Accelerated tax depreciation | Tax losses | Withholding tax on distributable profit of a subsidiary | Total |
|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ |
| At 1 April 2008 | 11,221 | (11,221) | – | – |
| (Credit) charge to profit or loss | (10,734) | 10,734 | – | – |
| At 31 March 2009 and 1 April 2009 | 487 | (487) | – | – |
| (Credit) charge to profit or loss | (98) | 98 | 584,840 | 584,840 |
| **At 31 March 2010** | **389** | **(389)** | **584,840** | **584,840** |

At 31 March 2010, the Group had unused tax losses of approximately HK$131,853,000 (2009: HK$121,805,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$2,400 (2009: HK$3,500). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$131,850,600 (2009: HK$121,801,500) due to the unpredictability of future profit streams. All these losses may be carried forward indefinitely.

At 31 March 2010, the Group has other deductible temporary differences of HK$7,145,000 (2009: HK$3,277,000) in respect of excess of accounting depreciation over depreciation allowances and changes in fair value of an investment property. 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 these deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Relevant withholding tax has been recognised in the consolidated financial statements at the end of reporting period.

## 30. DEFERRED TAX LIABILITIES *(Cont'd)*

At 31 March 2010, the aggregate amount of temporary differences associated with undistributed earnings of a PRC subsidiary amounted to approximately HK$10,633,500 for which deferred taxation has been recognised in the consolidated financial statements.

At 31 March 2009, the aggregate amount of temporary differences associated with undistributed earnings of a PRC subsidiary for which deferred tax liabilities have not been recognised was approximately HK$1,659,000 (2010: Nil). No provision for deferred tax liability has been made in the consolidated financial statements as the amount involved is insignificant. Such temporary differences have been reversed upon dividends declaration for the year ended 31 March 2010.

## 31. RETIREMENT BENEFITS SCHEME

The Group's Hong Kong subsidiaries operate a Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") for those employees who are eligible to participate in the MPF Scheme. Contribution are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group contributes 5% of relevant payroll costs to the MPF Scheme up to a maximum contribution of HK$1,000 per employee monthly, which contribution is matched by the employee.

The total cost charged to profit or loss of HK$70,423 (2009: HK$60,261) represents contributions paid to the MPF Scheme by the Group in respect of the current year.

The employees of the Group's PRC subsidiaries are members of state-managed retirement benefit scheme operated by the PRC government. These subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. For the year ended 31 March 2010, the total cost charged to profit or loss of HK$415,784 (2009: HK$148,847) represents contributions paid to the state-managed retirement benefit scheme by the Group in respect of the current year.

## 32. OPERATING LEASE

### The Group as lessee

Minimum lease payments paid under operating leases in respect of office premises during the year amounted to HK$4,737,921 (2009: HK$3,458,535).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Within one year | **5,168,000** | 5,168,000 |
| In the second to fifth year inclusive | **4,308,000** | 9,476,000 |
| | **9,476,000** | 14,644,000 |

Operating leases are negotiated for an average term of 3 years and rentals are fixed over the relevant lease term.

### The Group as lessor

Property rental income, less direct operating expenses from the investment property of HK$145,980 (2009: HK$132,000), earned during the year was HK$657,294 (2009: HK$726,672). The property held has no committed tenant as at 31 March 2010.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Within one year | **–** | 787,000 |

## 33. RELATED PARTY TRANSACTIONS

**(a)** Details of balances of the Group with related parties are set out in the consolidated statement of financial position on pages 29 to 30.

The amount due to an associate, amount due to ultimate holding company and loans from ultimate holding company are unsecured, interest free and repayable on demand.

### (b) Compensation of key management personnel

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

| | **2010** | 2009 |
|---|---|---|
| | **HK$** | HK$ |
| Short-term benefits | **961,469** | 1,158,751 |
| Post-employment benefits | **12,000** | 12,000 |
| | **973,469** | 1,170,751 |

The remunerations of key management, including Directors, were determined by reference to the performance of individuals and market trends.

**(c)** On 13 May 2008, the Company entered into agreements with Tianda Group, the ultimate holding company: (1) to dispose of each of its 49% interest in two wholly-owned subsidiaries (Tianda Mining (Gansu) Limited and Tianda Mining (Yunnan) Limited, being investment holding companies) by the Company to Tianda Group for a consideration of HK$49 and HK$3,826,000 respectively; (2) Tianda Group to provide shareholders' loan of HK$3,826,000 to these two subsidiaries for establishing of two wholly foreign-owned enterprises, being Yunnan Tianda Mining Limited and Gansu Tianda Mining Limited, in the PRC and investments in exploring and development mineral resources in the PRC in proportion to their respective equity interest in the subsidiaries. As at 31 March 2010, loan contributed by the ultimate holding company amounted to HK$3,826,000 (2009: HK$3,826,000).

## 34. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2010, the prepayment for machinery made in prior year were settled through property, plant and equipment upon receipt of relevant machineries.

## 35. EVENTS AFTER THE REPORTING PERIOD

(i) On 5 May 2010, the Company entered into an asset swap agreement with Tianda Group to transfer its entire equity interest in Tinwise Investment Limited ("Tinwise"), a wholly-owned subsidiary of the Company holding the properties held for development, its major assets, to Tianda Group for a consideration of HK$160 million in exchange for Tianda Group's 60% equity interest in Cheng Cheng Printing plus cash of HK$40 million. The asset swap agreement has been approved by the shareholders at the EGM.

Upon completion of the transaction, Cheng Cheng Printing will become a 60% owned subsidiary of the Company. Up to the date of this report, the fair value of Cheng Cheng Printing has yet to be concluded and it is impracticable to ascertain the financial impact to the consolidated financial statements of the Company.

(ii) On 12 May 2010, the Company proposed an open offer on the basis of one offer share for every existing share held expecting to raise approximately HK$196.4 million before expenses and net proceeds of approximately HK$195.0 million. The Company intends to use the net proceeds for possible acquisition of further equity interest in Cheng Cheng Printing, general working capital and for investments in pharmaceutical, biotechnology, mining and energy businesses should any opportunities arise.

Details of (i) and (ii) are included and discussed more fully in the announcement of the Company dated 12 May 2010 and the circular of the Company dated 22 June 2010.

(iii) On 22 June 2010, the Directors of the Company proposed to adopt a share option scheme which has been approved by the shareholders at the EGM.

(iv) On 22 June 2010, the Directors of the Company proposed to increase the authorised share capital of the Company from HK$200,000,000 to HK$400,000,000 by the creation of 2,000,000,000 shares of HK$0.1 each. This proposal has been approved by the shareholders at the EGM.

Details of (iii) and (iv) are set out in the circular of the Company dated 22 June 2010.

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Company at 31 March 2010 and 2009 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 | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | **2010** **%** | 2009 % | **2010** **%** | 2009 % | |
| Heroway Limited | British Virgin Islands/PRC | US$1 | **100** | 100 | **–** | – | Investment holding |
| Yunnan Meng Sheng Pharmaceutical Co., Limited* | PRC | RMB36,000,000 | **–** | – | **55** | 55 | Research, development, manufacture and sale of pharmaceutical and biotech products |
| Yunnan Nominees Limited | Hong Kong | HK$2 | **100** | 100 | **–** | – | Investment holding |
| Yunyu Bio-Pharmaceutical Company Limited | British Virgin Islands/PRC | US$1 | **–** | – | **100** | 100 | Investment holding |
| Yunyu Holdings Limited | Hong Kong | HK$2 | **100** | 100 | **–** | – | Investment holding |
| Tianheng Properties Limited | Hong Kong | HK$10,000 | **–** | – | **100** | 100 | Investment holding |
| Tianda Mining (Yunnan) Limited | Hong Kong | HK$100 | **51** | 51 | **–** | – | Investment holding |
| Tianda Mining (Gansu) Limited | Hong Kong | HK$100 | **51** | 51 | **–** | – | Investment holding |
| Yunnan Tianda Mining Limited** | PRC | US$1,395,000 | **–** | – | **51** | 51 | Exploration and development of mineral resources |
| Gansu Tianda Mining Limited** | PRC | RMB2,030,000 | **–** | – | **51** | 51 | Exploration and development of mineral resources |
| Yunyu Trading Development Limited | Hong Kong | HK$5,000,000 | **100** | 100 | **–** | – | Investment holding and property holding |
| Zhuhai Tianheng Real Estate Company Limited** | PRC | RMB55,000,000 | **–** | – | **100** | 100 | Properties development |

*	Company incorporated as cooperative joint venture enterprise.

**	Company established as foreign invested limited liability company.

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 end of the reporting period or at any time during the year.

# PARTICULARS OF MAJOR PROPERTY

## A. INVESTMENT PROPERTY

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

## B. PROPERTY HELD FOR DEVELOPMENT

| Location | Lot number | Group's interest | Approx. Site Area (sq.m.) | Existing Land use | Stage of Completion | Estimated Date of Completion |
|---|---|---|---|---|---|---|
| Southwest of Gangwan Main Road, Yinkeng, Xiangzhou, Zhuhai, PRC | C0404009 and C0404007 | 100% | 25,137.99 | Residential | Planning (Note) | – |

Note:

On 5 May 2010, the Company entered into an asset swap agreement with Tianda Group to transfer its entire equity interest in Tinwise Investment Limited ("Tinwise"), a wholly-owned subsidiary of the Company holding the properties held for development, its major assets, to Tianda Group for a consideration of HK$160 million in exchange for Tianda Group's 60% equity interest in Cheng Cheng Printing plus cash of HK$40 million. The asset swap agreement has been approved by the shareholders at the EGM.