

Management Discussion and Analysis

General

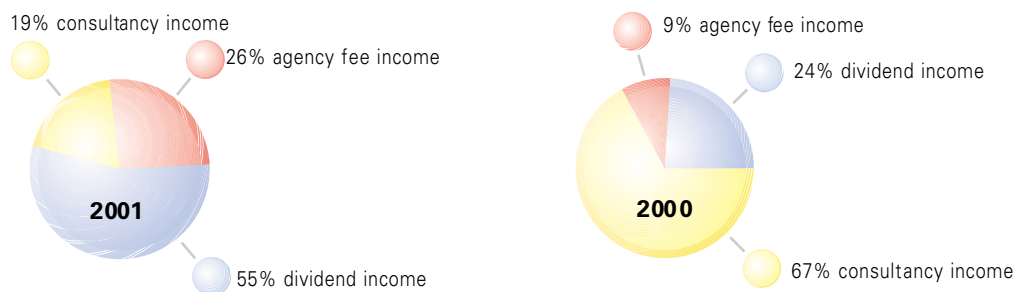
The Group is principally engaged in the trading of cigarette-related products, provision of management and consultancy services and investment in a cigarette packaging and printing joint venture in China. It is the Group's strategy to diversify its business and seek new investment opportunities that have positive prospects.

During the year under review, the Group acquired a 48% equity interest in Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering") at a consideration of RMB48 million (approximately HK\$45 million). Completion of the acquisition took place in August 2000, upon the issue of the business license by the Administration for Industry and Commerce in relation to the new sino-foreign equity joint venture. This acquisition broadens the scope of business for the Group and enables the Group's development in the biotechnology industry which has high growth potential.

Financial Review

For the year ended 31 March 2001, turnover for the Group amounted to HK\$13.4 million, compared with HK\$13.9 million for the previous year. An analysis of turnover by principal activities is shown below:-

Turnover breakdown



Although the turnover remained relatively stable when compared to the previous year, the Group recorded a net profit for the year of HK\$8.26 million, a 991% increase as compared to last year. As in previous years, the Group exercised stringent control over its administrative expenses. During the year under review, the administrative expenses of the Group amounted to HK\$12.9 million, representing a decrease of 31% as compared to last year. As a result, the operating profits of the Group increased significantly. In addition, the newly-acquired associated company, Xinpeng Biotechnology Engineering, contributed a net profit (after tax) amounting to HK\$1.39 million to the Group during the relevant year. These positive factors enabled the Group to enjoy another successful year with impressive growth in its results. As at 31 March 2001, shareholders' funds increased by 1% to HK\$190 million.

Operational Analysis



Trading Business

The trading business constitutes one of the core businesses of the Group. The Group acts as an import agent for Yuxi Hongta and is engaged in the import of corresponding materials related to cigarette manufacturing. The Group is thus entitled to receive agency fees based on the value of the products imported. For the year ended 31 March 2001, total imported values amounted to US\$14.1 million, with the Group receiving an agency fee income of US\$0.45 million (or HK\$3.5 million).

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Operational Analysis *(Continued)*

Management and consultancy services

Another core businesses of the Group is the provision of economic and technology consultancy services for enterprises in China. During the year under review, the Group earned RMB2.8 million (or HK\$2.6 million) in consultancy fees by providing relevant services. Most of these consultancy services are in relation to the provision of information for computer networking and electronic-commerce in view of the booming hi-tech environment during the year. Furthermore, the Group entered a new consultancy agreement with Yunnan Hongta Import & Export Corporation ("Yunnan Hongta") in April 2001. Pursuant to the agreement, the Group will provide consultancy services to Yunnan Hongta in relation to (i) the collection and organization of data related to the latest technology and information on the improvement of cigarette filters to reduce dangers caused by free radicals from cigarettes



smoking for Yunnan Hongta's consideration when sourcing relevant materials; and (ii) the research and conducting of feasibility studies on the improvement of filters to reduce dangers caused by free radicals from cigarettes smoking. The entire consultancy fee is RMB4.35 million over a period of nine months. With China's accession to WTO, it is anticipated that more domestic enterprises will undergo enterprise restructure and operational improvement in order to face the intense competition from foreign investors. Therefore the demand for corresponding consultancy services will keep increasing which in turn will provide a stable stream of income for the Group.

Investment in investee company – Yuxi Globe Colour Printing Carton Co., Ltd.

The Group holds a 12.5% equity interest in Yuxi Globe Colour Printing Carton Co., Ltd. ("Yuxi Globe"). Yuxi Globe, established in 1992, is principally engaged in the printing and sale of cigarette packaging packs and boxes. The principal labels of cigarette packaging packs and boxes printed by Yuxi Globe include Hongtashan, Ashima, Hongmei and Shilin which are well-known brands in China. According to the audited financial reports of Yuxi Globe for 2000, its turnover and net profit amounted to RMB293 million and RMB66 million respectively, representing a 10% increase when compared with the previous year. Yuxi Globe has achieved profitability for the seventh consecutive year. As a result, the Group received a satisfactory dividend payment of RMB7.75 million (or HK\$7.3 million) during the year under review. The Group believes that under the severe competitive market environment, with its comprehensive and effective production and quality control systems, continued strengthening of technological innovation as well as reduction of production costs and improvement in operational efficiency, Yuxi Globe will continue to maintain stable growth in its operating performance. The investment in Yuxi Globe will therefore enhance the income base of the Group.



Apart from the existing core businesses of the Group, the profitable performance of associated company, Xinpeng Biotechnology Engineering, in the year also played a major contribution to the satisfactory results of the Group for the year under review.

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Operational Analysis (Continued)

Xinpeng Biotechnology Engineering

Based in Shenzhen, Guangdong Province, Xinpeng Biotechnology Engineering consists of experienced research & development ("R & D"), management and sales teams. Its major product, Recombinant Human Granulocyte Colony Stimulating Factor (rhG-CSF), obtained new medicine certification from the State Drug Administration ("SDA") and commenced commercial production in 1999. rhG-CSF plays an important role in preventing neutropenia and decrease the possibility of infection in chemotherapy patients. The drug received an overwhelming response in 2000, with turnover and sales for the year 2000 amounting to RMB20.4 million (excluding VAT) and 120,000 units, representing robust growth when compared to the corresponding figures in 1999 of RMB4.89 million (excluding VAT) and 28,000 units. The remarkable performance of this medication enabled Xinpeng Biotechnology Engineering to achieve encouraging results for the year under review with net profit (after tax) reaching RMB3.1 million (or HK\$2.9 million). This in turn entitled the Group to share its net profit of HK\$1.39 million for the relevant year.

Xinpeng Biotechnology Engineering obtained two major achievements in 2001. Firstly, its production workshops were granted Good Manufacturing Practice ("GMP") certification by the SDA in January 2001. GMP compliance provides strong assurance for the quality of the products manufactured by Xinpeng Biotechnology Engineering which will help boost sales volumes. It also provides strong foundations for the R&D and launching of new products in the future. In addition, complying with GMP certification standards enables the entity to be well-prepared for future competition from international enterprises after China enters WTO. This will benefit the overall development of the entity. Secondly, Xinpeng Biotechnology Engineering has been designated as a "High and New Technology Enterprise" by the relevant authority in Shenzhen in June 2001. This award not only signifies the entity's innovative R&D capabilities and advanced technology, but also strengthens its competitive position in the pharmaceutical sector.

With the continued economic growth in China, improvements in local living standards and advancements in the healthcare services, the domestic demand for bio-pharmaceutical products is expected to grow at a rapid pace. Xinpeng Biotechnology Engineering currently has 25 sales offices spread across mainland China with a sales force of 102 salespersons, most of whom are experienced sales professionals in the pharmaceutical sector. Building on the positive image gained through the attainment of GMP certification, Xinpeng Biotechnology Engineering will further expand its sales network to ensure the widespread market penetration of its products. Capitalizing on its strength in R&D, Xinpeng Biotechnology Engineering has been actively developing new and innovative biotechnology products with high earning potential. The continued expansion of the domestic pharmaceutical market offers excellent prospects for further development, which will bring significant returns on investment to the Group in the future.

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Investment in Yunnan Meng Sheng Pharmaceutical Co. Ltd

In May 2001, the Group entered into agreements to acquire a 49% equity interest in Yunnan Meng Sheng Pharmaceutical Co. Ltd. ("Meng Sheng Pharmaceutical") and to inject further capital into Meng Sheng Pharmaceutical. The total consideration amounted to RMB7.84 million (approximately HK\$7.33 million). Meng Sheng Pharmaceutical was established in Yunnan Province in 1997 and is engaged in the research, manufacture and sale of biotechnology products in China with strong capabilities in biotechnology R&D supported by an experienced management team. Its major products are Cerebroprotein Hydrolysate Injection and Ribonucleic Acid for Injection. Cerebroprotein Hydrolysate Injection is mainly used to enhance the growth of brain nerve cells and the recovery of brain functions. It is particularly effective in the cure of cerebral symptoms. Currently, this type of medicine is a major remedy used widely in China and is ranked as one of the 50 most popular medicines, with sales reaching approximately RMB10 billion. Meng Sheng Pharmaceutical also manufactures Ribonucleic Acid for Injection. This product can strengthen the immune function of organic cells and is especially suitable for the cure of liver related symptoms, such as chronicity deferral hepatitis, reactivity hepatitis and chronic interstitial hepatitis. Meng Sheng Pharmaceutical is also actively conducting research & development on other new medicines. The products developed by Meng Sheng Pharmaceutical have their own intellectual properties and are well received in China. They have also been adopted by the nation's medical insurance scheme, illustrating wide recognition for their effective results and huge market potential. Following the acquisition of Xinpeng Biotechnology Engineering a year ago, the investment in Meng



Sheng Pharmaceutical represents further investment by the Group in the biotechnology business. With the positive implementation of the policy to develop the western region by the central Government, together Meng Sheng Pharmaceutical's strong foundations and innovative R&D technology, the Group believes that Meng Sheng Pharmaceutical, like Xinpeng Biotechnology Engineering, will bring favorable returns to the Group and further strengthen the biotechnology business portfolio of the Group.

Financial Position

As at 31 March 2001, the total cash and bank balances of the Group amounted to approximately HK\$90 million. Most of the balance has been placed with financial institutions as short-term deposits. The Group has no debts. With this strong financial position, the Group has adequate resources to satisfy working capital requirements and to pursue new investment opportunities should they arise.