

Notes to the Financial Statements.....

For the year ended 31 March 2001

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 (the "Stock Exchange"). Its ultimate holding company is South Hong Investment Limited, a private limited company incorporated in Hong Kong.

The Company acts as an investment holding company. The principal activities of the Group are the trading of cigarette-related products, and the provision of management and consultancy services.

In the current year, the consolidated income statement presents an analysis of expenses by their nature. The Directors consider that this format present more meaningful information for users of the financial statements than the analysis by function presented in the prior year. Comparative amounts have been reclassified in a manner consistent with the current year's presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment property, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a business and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess over the purchase consideration of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a business, is credited to reserves.

On disposal of a business, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements.....

For the year ended 31 March 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Agency and consultancy fee income are recognised when services are rendered.

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investment property

An investment property is a completed property which is held for its investment potential, any rental income being negotiated at arm's length.

Notes to the Financial Statements.....

For the year ended 31 March 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment property (Continued)

An investment property is stated at its open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment property is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to consolidated income statement. Where a decrease has previously been charged to the consolidated income statement and a revaluation increase subsequently arises, this increase is credited to the consolidated income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the consolidated income statement.

No depreciation is provided on investment property except where the unexpired term of the relevant lease including the renewable period is 20 years or less.

Plant and equipment

Plant and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	10%
Furniture, fixtures and equipment	10%
Motor vehicles	20%

Notes to the Financial Statements.....

For the year ended 31 March 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries and associates which are denominated in currencies other than Hong Kong dollar are translated at the rates ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Operating leases

Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the relevant lease term.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefits scheme

The contribution payable in respect of the year is charged to the consolidated income statement.

Notes to the Financial Statements.....

For the year ended 31 March 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

3. TURNOVER

The Group's turnover and contribution to profit from operations, analysed by principal activity, are as follows:

	Turnover		Contribution to profit from operations	
	2001 HK\$	2000 HK\$ (restated)	2001 HK\$	2000 HK\$ (restated)
Agency fee income (note a)	3,490,791	1,182,347	575,791	208,347
Consultancy fee income	2,614,670	9,449,541	540,936	5,333,302
Dividend income (note b)	7,311,629	3,266,422	5,692,629	1,319,422
	13,417,090	13,898,310	6,809,356	6,861,071
Other revenue			6,402,388	5,724,457
Other operating expenses			(6,337,310)	(11,827,829)
Profit from operations			6,874,434	757,699

Note:

- (a) Agency fee income arises from the import of goods with a value of HK\$113,101,613 (2000: HK\$65,124,954) on behalf of Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta"), a substantial shareholder of the Company's ultimate holding company.
- (b) Dividend income for the year ended 31 March 2000 has been reclassified from "other revenue" to "turnover" as the Directors consider that one of the Group's principal activities is investment holding and anticipate that such income will contribute a significant proportion of the Group's turnover in the coming years and, accordingly, it is more appropriately treated as turnover.

All of the activities of the Group are based in the People's Republic of China, excluding Hong Kong (the "PRC"), and all of the Group's turnover and profit from operations (excluding interest income and rental income) are derived from the PRC.

Notes to the Financial Statements.....

For the year ended 31 March 2001

4. OTHER REVENUE

	2001 HK\$	2000 HK\$
Interest income from bank deposits	5,285,382	4,972,549
Gross rental income from an investment property	858,672	751,338
Others	258,334	570
	6,402,388	5,724,457

5. PROFIT FROM OPERATIONS

	2001 HK\$	2000 HK\$
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration	4,628,500	5,033,059
Retirement benefits scheme contributions, net of forfeited contributions of Nil (2000: HK\$106,794)	163,819	61,185
Total staff costs	4,792,319	5,094,244
Auditors' remuneration	322,774	280,000
Depreciation	683,488	944,244
Operating lease rentals in respect of premises	2,591,820	2,120,580
Provision for loan to an associate	–	460,000
Provision for doubtful debts	363,418	–
and after crediting:		
Gross rental income from an investment property less outgoings of HK\$21,400 (2000: HK\$36,710)	837,272	714,628

Notes to the Financial Statements.....

For the year ended 31 March 2001

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2001 HK\$	2000 HK\$
Fees		
Executive Directors	403,225	300,000
Independent non-executive Directors	120,000	86,833
	523,225	386,833
Other emoluments (executive Directors)		
Salaries and other benefits	1,590,933	2,076,000
Retirement benefits scheme contributions	54,000	53,997
	1,644,933	2,129,997
Total emoluments	2,168,158	2,516,830

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2001	2000
Nil to HK\$1,000,000	9	9
HK\$1,000,001 to HK\$1,500,000	1	1

Notes to the Financial Statements.....

For the year ended 31 March 2001

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2000: three) were Directors of the Company whose emoluments are included in the disclosures in note 6(a) above. The emoluments of the remaining three (2000: two) individuals were as follows:

	2001 HK\$	2000 HK\$
Salaries and other benefits	1,470,920	868,354
Retirement benefits scheme contributions	82,800	40,800
	1,553,720	909,154

The aggregate emoluments of each of the highest paid individuals during the relevant periods were not more than HK\$1,000,000.

During the years ended 31 March 2001 and 2000, no emoluments were paid by the Group to the five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

7. TAXATION

	2001 HK\$	2000 HK\$
Share of taxation attributable to an associate	203,042	—

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit during the year.

The Group's subsidiary operating in the PRC is eligible for tax concessions and was exempted from PRC income taxes for the year.

Details of unrecognised deferred taxation are set out in note 23.

8. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK\$8,264,709 (2000: net profit of HK\$757,699), a net loss of HK\$31,593,956 (2000: a net loss of HK\$4,734,588) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements.....

For the year ended 31 March 2001

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2001	2000
	HK\$	HK\$
Net profit for the year	8,264,709	757,699
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	459,544,396	404,110,377
Effect of dilutive potential ordinary shares in respect of warrants	462,104	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	460,006,500	404,110,377

10. INVESTMENT PROPERTY

	THE GROUP	
	2001	2000
	HK\$	HK\$
Balance brought forward	15,000,000	19,700,000
Revaluation deficit	–	(4,700,000)
Balance carried forward	15,000,000	15,000,000

The Group's investment property is rented out under operating lease and is held under a medium-term lease in Hong Kong. The investment property was revalued at 31 March 2001 by LCH (Asia-Pacific) Surveyors Limited, an independent professional valuer, on an open market existing use basis.

Notes to the Financial Statements.....

For the year ended 31 March 2001

11. PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP				
COST				
At 1 April 2000	1,192,080	5,375,826	1,265,029	7,832,935
Exchange adjustment	–	6,457	–	6,457
Additions	–	1,000	–	1,000
Written off	–	(3,843)	–	(3,843)
At 31 March 2001	1,192,080	5,379,440	1,265,029	7,836,549
DEPRECIATION				
At 1 April 2000	200,169	3,636,116	1,265,029	5,101,314
Exchange adjustment	–	1,148	–	1,148
Provided for the year	119,208	564,280	–	683,488
Eliminated on written off	–	(480)	–	(480)
At 31 March 2001	319,377	4,201,064	1,265,029	5,785,470
NET BOOK VALUES				
At 31 March 2001	872,703	1,178,376	–	2,051,079
At 31 March 2000	991,911	1,739,710	–	2,731,621
THE COMPANY				
COST				
At 1 April 2000	1,192,080	640,883	1,265,029	3,097,992
Additions	–	1,000	–	1,000
Written off	–	(3,843)	–	(3,843)
At 31 March 2001	1,192,080	638,040	1,265,029	3,095,149
DEPRECIATION				
At 1 April 2000	200,169	166,738	1,265,029	1,631,936
Provided for the year	119,208	64,382	–	183,590
Eliminated on written off	–	(480)	–	(480)
At 31 March 2001	319,377	230,640	1,265,029	1,815,046
NET BOOK VALUES				
At 31 March 2001	872,703	407,400	–	1,280,103
At 31 March 2000	991,911	474,145	–	1,466,056

Notes to the Financial Statements.....

For the year ended 31 March 2001

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$	2000 HK\$
Unlisted shares, at cost	11,338,022	11,338,014
Amounts due from subsidiaries	140,742,831	87,966,570
	152,080,853	99,304,584
Less: Provision for diminution in value	(71,835,145)	(41,304,172)
	80,245,708	58,000,412

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the Directors, the amounts will not be received in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

Details of the principal subsidiaries at 31 March 2001 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by		Principal activity
			The Company %	The subsidiaries %	
Yunyu Holdings Limited	Hong Kong	HK\$2	100	–	Investment holding
Yunyu International Limited	Hong Kong	HK\$2	100	–	Investment holding
Yunyu Management & Consultant Limited	Hong Kong	HK\$2	100	–	Provision of management and consultancy services
Yunnan Nominees Limited	Hong Kong	HK\$2	100	–	Investment holding
Yunyu Trading Development Limited	Hong Kong	HK\$5,000,000	100	–	Investment holding and property investment

Notes to the Financial Statements.....

For the year ended 31 March 2001

12. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by		Principal activity
			The Company %	The subsidiaries %	
Multifortune Holdings Limited	British Virgin Islands/PRC	US\$1	–	100	Provision of agency services
Yunnan Yunyu Economic & Technology Consulting Co., Ltd.	PRC	US\$100,000	–	100	Provision of consultancy services
Yunyu Bio – Pharmaceutical Company Limited	British Virgin Islands	US\$1	–	100	Investment holding

The Directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the subsidiaries which principally affect the results or assets and liabilities of the Group.

None of the subsidiaries had any loan capital outstanding at the balance sheet date or at any time during the year.

Notes to the Financial Statements.....

For the year ended 31 March 2001

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 HK\$	2000 HK\$
Share of net assets	40,571,687	52,000
Loans to associates	42,000	1,892,063
Less: Provision for doubtful debts	(42,000)	(1,360,000)
	–	532,063
	40,571,687	584,063

Details of the associates at 31 March 2001 are as follows:

Name of associate	Place of establishment and operation	Proportion of nominal value of issued share capital held by the Group %	Principal activity
深圳新鵬生物工程有限公司	PRC	48	Research, development, manufacture and sale of biotechnology products
Kam Wo – Hansom (Ocean) Limited	Hong Kong	20	In liquidation

Notes to the Financial Statements.....

For the year ended 31 March 2001

13. INTERESTS IN ASSOCIATES (Continued)

The following details have been extracted from the audited financial statements of 深圳新鹏生物工程有 限公司:

Operating results for the period from date of acquisition to 31 March 2001:

	HK\$
Turnover	12,589,629
Depreciation	1,211,486
Profit before taxation	3,319,410
Profit before taxation attributable to the Group	1,593,317

Financial position at 31 March 2001:

	HK\$
Non-current assets	30,509,940
Current assets	59,113,452
Current liabilities	(3,919,802)
Non-current liabilities	(1,179,245)
Net assets	84,524,345
Net assets attributable to the Group	40,571,687

14. INVESTMENT IN AN INVESTEE COMPANY

	THE GROUP
	2001 & 2000
	HK\$
Unlisted equity securities, at cost	31,177,196

The investment represents the Group's 12.5% interest in the registered capital of Yuxi Globe Colour Printing Carton Co., Ltd., a company registered in the PRC which is engaged in the business of printing and sale of cigarette packs and boxes.

Included in the cost of unlisted equity securities is an amount of HK\$2,020,196 in respect of direct expenses incurred for the acquisition of the securities.

Notes to the Financial Statements.....

For the year ended 31 March 2001

15. LOAN TO AN INVESTEE COMPANY

The loan to the investee company is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of the directors, the loan will not be received in the next twelve months from the balance sheet date and accordingly, the loan is shown as non-current.

16. TRADE AND OTHER RECEIVABLES

A breakdown of trade and other receivables and an aged analysis of trade receivables are as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Trade receivables, over 120 days	–	363,418
Dividends receivable	7,311,629	–
Other receivables	1,413,348	1,368,909
	8,724,977	1,732,327

17. TRADE AND OTHER PAYABLES

A breakdown of trade and other payables and an aged analysis of trade payable are as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Trade payable, over 120 days	–	140,279
Other payables	1,547,772	1,168,656
	1,547,772	1,308,935

18. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

Notes to the Financial Statements.....

For the year ended 31 March 2001

19. SHARE CAPITAL

	Number of shares		Amount	
	2001	2000	2001 HK\$	2000 HK\$
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning of the year	1,000,000,000	450,000,000	100,000,000	45,000,000
Increase during the year	–	550,000,000	–	55,000,000
At end of the year	1,000,000,000	1,000,000,000	100,000,000	100,000,000
Issued and fully paid:				
At beginning of the year	459,553,000	255,702,000	45,955,300	25,570,200
Issued by capitalisation of share premium account (note a)	–	127,851,000	–	12,785,100
Issued during the year (note b)	–	76,000,000	–	7,600,000
Repurchased (note c)	(80,000)	–	(8,000)	–
At end of the year	459,473,000	459,553,000	45,947,300	45,955,300

Notes:

- (a) A bonus issue of shares to those shareholders whose names appeared in the register of members of the Company on 10 September 1999 was made by capitalisation of the share premium account, on the basis of one new share of HK\$0.10 each for two existing shares then held.
- (b) Pursuant to a subscription agreement on 13 December 1999, South Hong Investment Limited subscribed for 76,000,000 new shares of HK\$0.10 each in the Company at a price of HK\$1.00 per share. The proceeds will be used for future investment opportunities. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 11 September 1999 and rank pari passu with other shares in issue in all respects.
- (c) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate paid (before expenses) HK\$
		Highest HK\$	Lowest HK\$	
February 2001	60,000	0.48	0.48	28,800
March 2001	20,000	0.42	0.42	8,400
	80,000			37,200

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account.

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20. SHARE OPTION SCHEME

The Company has a share option scheme pursuant to which the Company may grant options to executive directors and employees of the Group to subscribe for shares in the Company in accordance with the terms of the share option scheme, subject to a maximum of 10% of the issued share capital of the Company from time to time.

No option was granted under the share option scheme during the year and no option was outstanding at any time during the year or at the balance sheet date.

21. WARRANTS

On 6 December 1999, a bonus issue of 76,710,600 warrants was made on the basis of one warrant for every five issued shares held on 2 December 1999. Each warrant entitles its holder to subscribe in cash at a price of HK\$1.60 for one share of the Company at any time from 10 December 1999 to 30 September 2002, both days inclusive. No warrant was exercised during the year and exercise in full of these warrants would result in the issue of 76,710,600 additional shares of HK\$0.10 each.

22. RESERVES

	Capital		Investment property		Exchange		Accumulated	Total
	Share premium	redemption reserve	Goodwill reserve	Special reserve	revaluation reserve	reserve	losses	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP								
At 1 April 1999	133,492,608	-	-	3,460,016	-	5,500,514	(49,791,157)	92,661,981
Issue of bonus shares	(12,785,100)	-	-	-	-	-	-	(12,785,100)
Shares issued at premium	68,400,000	-	-	-	-	-	-	68,400,000
Share issue expenses	(1,601,040)	-	-	-	-	-	-	(1,601,040)
Revaluation decrease	-	-	-	-	-	(4,700,000)	-	(4,700,000)
Net profit for the year	-	-	-	-	-	-	757,699	757,699
At 31 March 2000	187,506,468	-	-	3,460,016	-	800,514	(49,033,458)	142,733,540
Exchange differences on translation of overseas operations	-	-	-	-	1,412,683	-	-	1,412,683
Repurchase of shares	(37,200)	8,000	-	-	-	-	-	(29,200)
Expenses on share repurchased	(304)	-	-	-	-	-	-	(304)
Goodwill arising on acquisition of an associate	-	-	(7,938,469)	-	-	-	-	(7,938,469)
Net profit for the year	-	-	-	-	-	-	8,264,709	8,264,709
At 31 March 2001	187,468,964	8,000	(7,938,469)	3,460,016	1,412,683	800,514	(40,768,749)	144,442,959

Notes to the Financial Statements.....

For the year ended 31 March 2001

22. RESERVES (Continued)

	Share premium HK\$	Capital redemption reserve HK\$	Accumulated losses HK\$	Total HK\$
THE COMPANY				
At 1 April 1999	133,492,608	–	(43,625,338)	89,867,270
Shares issued at premium	68,400,000	–	–	68,400,000
Issue of bonus shares	(12,785,100)	–	–	(12,785,100)
Share issue expenses	(1,601,040)	–	–	(1,601,040)
Net loss for the year	–	–	(4,734,588)	(4,734,588)
At 31 March 2000	187,506,468	–	(48,359,926)	139,146,542
Repurchase of shares	(37,200)	8,000	–	(29,200)
Expenses on share repurchased	(304)	–	–	(304)
Net loss for the year	–	–	(31,593,956)	(31,593,956)
At 31 March 2001	187,468,964	8,000	(79,953,882)	107,523,082

The accumulated losses of the Group include profit of HK\$1,229,642 (2000: loss of HK\$160,633) attributable to associates.

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 pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on the Stock Exchange in 1992.

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Associations, provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can only be distributed out of the profits of the Company. Accordingly, no dividend can be distributed out of the share premium account of the Company but dividends can be distributed out of profits earned in the current financial year of the Company, regardless of losses of a prior financial year, provided the Company remains solvent throughout.

Notes to the Financial Statements.....

For the year ended 31 March 2001

23. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the amount of the net potential deferred tax asset (liabilities) in respect of timing differences which has not been recognised in the balance sheet is as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:				
Estimated tax losses	12,994,490	12,699,910	4,821,007	4,654,888
Excess of tax allowances over depreciation	(192,927)	(298,733)	(166,144)	(207,270)
	12,801,563	12,401,177	4,654,863	4,447,618

Deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will crystallise in the foreseeable future.

The amount of the net unrecognised deferred tax credit for the year is as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:				
Estimated tax losses	294,580	1,161,625	166,119	1,252,773
Excess of depreciation over tax allowances	105,806	99,008	41,126	51,140
	400,386	1,260,633	207,245	1,303,913

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of investment property as profits arising on the disposal of this asset would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

Notes to the Financial Statements.....

For the year ended 31 March 2001

24. RECONCILIATION OF PROFIT FROM OPERATIONS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$	2000 HK\$
Profit from operations	6,874,434	757,699
Depreciation	683,488	944,244
Loss on written off of plant and equipment	3,363	–
Loss on liquidation of an associate	12,069	–
Provision for loan to an associate	–	460,000
Interest income	(5,285,382)	(4,972,549)
(Increase) decrease in trade and other receivables	(6,992,650)	2,221,564
Increase (decrease) in trade and other payables	238,837	(9,772,768)
Net cash outflow from operating activities	(4,465,841)	(10,361,810)

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital HK\$	Share premium HK\$	Capital redemption reserve HK\$
At 1 April 1999	25,570,200	133,492,608	–
Proceeds from issue of shares	7,600,000	68,400,000	–
Share issue expenses	–	(1,601,040)	–
Issue of bonus shares	12,785,100	(12,785,100)	–
At 31 March 2000	45,955,300	187,506,468	–
Repurchase of shares	(8,000)	(37,200)	8,000
Expenses on repurchase of shares	–	(304)	–
At 31 March 2001	45,947,300	187,468,964	8,000

26. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

Notes to the Financial Statements.....

For the year ended 31 March 2001

26. RETIREMENT BENEFITS SCHEME (Continued)

At 31 March 2001, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which were available to reduce the contributions payable in the future years was HK\$14,859 (2000: HK\$14,859).

27. LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had outstanding commitments under non-cancellable operating leases in respect of land and buildings amounting to HK\$2,591,820 (2000: HK\$2,591,820), which are expiring in the second to fifth year inclusive.

28. PLEDGE OF ASSETS

At 31 March 2001, bank deposits of the Group amounting to HK\$5,000,000 (2000: Nil) and the investment property of the Group have been pledged against the general banking facilities of the Group.

29. RELATED PARTY TRANSACTIONS

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

	2001 HK\$	2000 HK\$
Agency fee income from Yuxi Hongta	3,490,791	1,182,347
Consultancy income from Yuxi Hongta	2,476,415	–
Consultancy income from Yunnan Hongta Industrial Co., Ltd.	–	9,449,541

Yunnan Hongta Industrial Co., Ltd. is a wholly-owned subsidiary of Yuxi Hongta.

The above transactions were carried out at cost plus a percentage profit mark-up.

30. POST BALANCE SHEET EVENTS

On 3 April 2001, the Group entered into an agreement with Yunnan Hongta Import & Export Corporation ("Yunnan Hongta") to provide consultancy services to Yunnan Hongta in relation to the improvement of filters to reduce dangers caused by free radicals from cigarettes smoking. The entire consultancy fee is Rmb4.35 million (approximately HK\$4.1 million).

On 22 May 2001, the Group entered into agreements to acquire a 49% equity interest in 雲南盟生藥業有限公司 ("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 is a company established in the PRC and is engaged in the research, manufacture and sale of biotechnology products in the PRC.