

During the year, the Group continued to expand its biotechnology business. The Group acquired a 49% equity interest in Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical") during the year under review. This acquisition was then completed in August 2001 upon the issuance of business license by the Administration for Industry and Commerce for the new sino-foreign joint venture. In addition to further capital being injected, the Group's investment in Meng Sheng Pharmaceutical for the reviewing year totalled RMB10.78 million. This is fully compliant with the Group's strategy to invest in biotechnology business.

FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2002 amounted to HK\$10.5 million, which represented a decrease of 22% when compared with HK\$13.4 million in 2001. The decrease in turnover was mainly attributable to the drop in the Group's import business. In addition, other revenue (mainly comprising of bank interest income) declined significantly as a result of the sustained drop in interest rates during 2001. Despite these factors, the Group continued to control its operating costs in an effective manner. During the year under review, the administrative expenses for the Group decreased by 11% compared to the previous year. At the same time, the Group was entitled to a share of profits (before tax) of its two biotechnology associates amounting to HK\$3.8 million and representing a 1.4 times increase as compared to the previous year. This has helped to mitigate the drop in the Group's turnover and other revenue for the year under review. As a result, the Group recorded a net profit of HK\$4.86 million for the financial year ended 31 March 2002, compared with HK\$8.26 million of the previous year. As at 31 March 2002, the shareholders' funds for the Group increased by 2% to HK\$194 million.

OPERATIONS ANALYSIS

Core businesses

As disclosed in the 2000 Annual Report, sluggish economic environment affected the Group's tobacco export business. Since then, the situation has continued to deteriorate, and hence the Group determined to suspend the export business. The Group will continue to closely monitor the market conditions for such export business in the year ahead. Such sluggish market conditions also affected the Group's import business for cigarette-related products. For the year ended 31 March 2002, the Group received an agency fee income of HK\$131,000 from imported materials amounting to US\$1.12 million, which was a decrease compared to the previous year. Besides, Yuxi Globe Color Printing Carton Co., Ltd. ("Yuxi Globe"), in which the Group holds a 12.5% equity interest, was also affected under this highly competitive environment. However, with its strong foundations, the company was able to report a turnover of RMB298 million in 2001, and accordingly earned a net profit of RMB54 million. This is its eighth consecutive year of profitability and from such the Group received a dividend payment of RMB6.29 million (or HK\$5.9 million) from Yuxi Globe during the year under review, consolidating the Group's income base.

Another core business venture for the Group is the provision of management and consultancy services for enterprises in China. This business recorded stable performance during the year, bringing the Group a consultancy fee income of RMB 4.726 million (or HK\$4.459 million) for the provision of economic and technology consulting services. Following China's entry into the World Trade Organization and the consequent reform and restructuring of many Chinese enterprises, together with the Group's proven success in such provision of services over the past few years, there will be plenty of opportunities for expansion.

Performances of associates

(1) Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering")



Since Xinpeng Biotechnology Engineering's major product rhG-CSF was launched in the market in 1999, its turnover has seen rapid growth. Turnover and sales of this medicine for the year 2001 amounted to RMB32.7 million (excluding VAT) and 202,000 units respectively, representing a corresponding increase of 60% and 68% when compared to 2000. Xinpeng Biotechnology Engineering currently has 25 sales offices spreading across the various provinces in China with 100 salesforce. With the Good Manufacturing Practice ("GMP") certification awarded in early 2001, the sales and marketing efforts for rhG-CSF were enhanced via sponsorships and promotional activities, resulting in elevated penetration rate and well maintained customer relationships. Its comprehensive sales network and flexible marketing strategies were hence the main force in achieving a new peak in turnover in 2001. As a result, Xinpeng Biotechnology Engineering recorded a profit (before tax) of RMB7.663 million (or HK\$7.229 million) for the year under review. This in turn entitled the Group to share a profit (before tax) of HK\$3.47 million in the respective year, thus providing lucrative profit contribution to the Group.

With its solid foundation, Xinpeng Biotechnology Engineering is seeking to expand its market share in China's pharmaceutical market. In April 2002, Xinpeng Biotechnology Engineering invested to set up a joint venture, Yunnan Pharmaceutical Group Co., Ltd. ("Yunnan Pharmaceutical") at a cash consideration of RMB20 million for a 62.5% equity interest. Registered in the Kunming Economic and Technology Development Zone in Yunnan Province, Yunnan Pharmaceutical is a high-tech enterprise mainly engaged in the research, development and manufacture of biopharmaceuticals, new Chinese medicines as well as other pharmaceutical raw materials and agents. Yunnan Pharmaceutical owns the production certificates for its major products such as Cordyceps Mycelia Liquor, Heparin Calcium Injection and LMWHS Injection. The management anticipates that these products will have defined demands in China with positive market potential. The investment from Xinpeng Biotechnology Engineering will be used to build a GMP-compliant production line and to further the R&D for new products. Yunnan Pharmaceutical's products can on one hand broaden the product range offered by Xinpeng Biotechnology Engineering. On the other hand, it can expand its market share in China through the comprehensive and established sales network of Xinpeng Biotechnology Engineering, preparing for the highly competitive pharmaceutical marketplace in China.

(2) Yunnan Meng Sheng Pharmaceutical Co. Ltd. ("Meng Sheng Pharmaceutical")



Meng Sheng Pharmaceutical is the Group's newly-acquired associate company during the year under review. Established in Yunnan Province in 1997, it is engaged in the R&D, manufacture and sale of biotechnology products. Its major product, Cerebroprotein Hydrolysate Injection, is among the few of its type on the market which fully conform to new production standards issued by the State Drug Administration in early 2001. In the few months between the issuance of business license and 31 March 2002, Meng Sheng Pharmaceutical recorded a turnover of RMB2.53 million and profit before taxation of RMB716,000. The Group was then entitled to an immediate profit share of HK\$330,000 during the year under review.

Cerebroprotein Hydrolysate Injection is expected to have huge market potential, and its sales orders are increasing rapidly. The construction work of Meng Sheng Pharmaceutical's new production plant, located at the Kunming Economic and Technology Development Zone, commenced last year and is now completed. The new production base is equipped with modern production facilities and the production workshops fully comply with GMP standards. Relevant authority has conducted GMP inspections in the new production base, and the management believes that Meng Sheng Pharmaceutical will be awarded the GMP certification in the near future. The new production base will increase Meng Sheng Pharmaceutical's production

capacity by six to eight times to cater for future market demands. Besides, Meng Sheng Pharmaceutical is actively developing new products with excellent potential such as Ribonucleic Acid for Injection and Anti-HBs Immune-Acidum Ribonucleicum Injection. Meng Sheng Pharmaceutical was designated a "High and New Technology Enterprise" in 1998, which signifies its innovative R&D capabilities and advanced technology. This recognition helps to foster an advantageous position for the Company in China's pharmaceutical market.

With the innovative R&D technology, a modernized production base, and the pending GMP certification, the Group strongly believes that Meng Sheng Pharmaceutical has a promising development prospect in generating lucrative returns to the Group.



INVESTMENT IN SHANGHAI PINE & POWER BIOMATERIAL COMPANY LIMITED

Following the investments in Xinpeng Biotechnology Engineering and Meng Sheng Pharmaceutical, the Group has added a new member to its biotechnology investment portfolio. In April 2002, the Group set up a sino-foreign joint venture, Shanghai Pine & Power Biomaterial Company Limited ("Pine & Power Biomaterial"), at a cash consideration of RMB1.35 million for a 25 % equity interest. Pine & Power Biomaterial is a hi-tech entity registered in Shanghai Zhangjiang Hi-Tech Park. It is engaged in the research, manufacture and sale of medical biomaterials, with total investment and registered capital amounting to RMB5.38 million. Pine & Power Biomaterial's business license was then issued by the Administration for Industry and Commerce of Shanghai in June 2002.

Pine & Power Biomaterial's management consists mainly of a team of professionals who have studied abroad in Europe and Japan, specializing in bio-medical and business management areas. They have strong competence in the research and development of medical biomaterials and corporate management, as well as a wealth of experience in sales and marketing management.

Pine & Power Biomaterial's major product is the Fibrin Glue series. Fibrin Glue is one of the most effective surgical hemostats and surgical sealants, which can be widely applied in modern surgeries, such as neurosurgery, thoracicsurgery, plastic surgery, burns, obstetrics & gynecology and otorhinolaryngology. Currently, similar products in the market use human blood as the core raw materials. Not only is this highly expensive, but supply is limited. It is also difficult to completely avoid contaminations from pathogenetic microbe in the human blood such as HIV and hepatitis viruses. Pine & Power Biomaterial uses mammal blood to replace human blood to solve these documented problems. As evaluated by the Chinese Academy of Science's Shanghai Documentation & Information Centre, this technology leads the development in China and is on a par with international standards. Pine & Power Biomaterial has strong R&D capabilities, an enterprising spirit as well as modern management framework. The Group believes that Pine & Power Biomaterial is capable to bring favorable returns to the Group in the future.

APPOINTMENT OF NEW DIRECTORS

Mr. Liu Wandong was appointed as the Company's Chairman and executive director, whereas Mr. Li Guanglin was appointed as executive director by the Board of Directors, effective 29 May 2002.

Mr. Zi Guorui and Mr. Chen Toliu resigned as directors effective 29 May 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position remains strong. As at 31 March 2002, the Group held cash and bank balances of approximately HK\$83 million with no debts or borrowings. With this strong financial foundation, the Group has adequate resources to meet its working capital requirements and to pursue new investment opportunities should they arise.