

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

1. GENERAL

The Company is a listed public limited company incorporated in the Cayman Islands and its shares and warrants 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 provision of agency services for trading of cigarette and other related products, and the provision of management and consultancy services and investment holdings.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31 March 2001 have been amended so that they are presented on a consistent basis.

Leases

In the current year, the Company has adopted SSAP 14 (Revised) "Leases". Disclosures for the Group's operating lease arrangements as set out in note 26 have been modified so as to meet the requirements of SSAP 14 (Revised). Comparative disclosures have been restated in order to achieve a consistent presentation.

Goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1 April 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1 April 2001 is capitalised and amortised over its estimated useful life.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of an 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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries or associates prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions of subsidiaries or associates on or after 1 April 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

Revenue recognition

Agency fee and consultancy 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 Group'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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

An investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties 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 the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the 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 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.

Property, plant and equipment

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

Depreciation is provided to write off the cost of property, 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%

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.

Interests in associates

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, less any identified impairment loss.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are 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

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars 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 dollars 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Operating leases

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

4. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions - provision of agency services, consultancy services and investment holding for dividend income. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Agency services	Consultancy services	Investment holding	Consolidated
	Year ended	Year ended	Year ended	Year ended
	31 March 2002	31 March 2002	31 March 2002	31 March 2002
	HK\$	HK\$	HK\$	HK\$
TURNOVER	131,040	4,458,731	5,908,055	10,497,826
SEGMENT RESULTS	(397,816)	1,555,388	2,713,354	3,870,926
Other operating income				3,164,917
Unallocated corporate expenses				(4,908,409)
Profit from operations				2,127,434
Share of results of associates				3,800,887
Profit before taxation				5,928,321
Taxation				(1,071,723)
Net profit for the year				4,856,598

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4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

BALANCE SHEET

	Agency services	Consultancy services	Investment holding	Consolidated
	At	At	At	At
	31 March 2002	31 March 2002	31 March 2002	31 March 2002
	HK\$	HK\$	HK\$	HK\$
ASSETS				
Segment assets	133,901	8,981,852	42,005,556	51,121,309
Unallocated corporate assets				145,314,954
Consolidated total assets				<u>196,436,263</u>
LIABILITIES				
Segment liabilities	25,000	180,894	9,000	214,894
Unallocated corporate liabilities				1,773,065
Consolidated total liabilities				<u>1,987,959</u>

OTHER INFORMATION

	Agency services	Consultancy services	Investment holding	Others	Consolidated
	Year ended	Year ended	Year ended	Year ended	Year ended
	31 March 2002	31 March 2002	31 March 2002	31 March 2002	31 March 2002
	HK\$	HK\$	HK\$	HK\$	HK\$
Amortisation of goodwill	-	-	-	107,029	107,029
Depreciation	-	42,228	-	621,717	663,945

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4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

	Agency services	Consultancy services	Investment holdings	Consolidated
	Year ended 31 March 2001 HK\$	Year ended 31 March 2001 HK\$	Year ended 31 March 2001 HK\$	Year ended 31 March 2001 HK\$
TURNOVER	<u>3,490,791</u>	<u>2,614,670</u>	<u>7,311,629</u>	<u>13,417,090</u>
SEGMENT RESULTS	<u>197,599</u>	<u>473,355</u>	<u>4,583,490</u>	5,254,444
Other operating income				6,402,388
Unallocated corporate expenses				<u>(4,782,398)</u>
Profit from operations				6,874,434
Share of results of associates				<u>1,593,317</u>
Profit before taxation				8,467,751
Taxation				<u>(203,042)</u>
Net profit for the year				<u>8,264,709</u>

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4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

BALANCE SHEET

	Agency services	Consultancy services	Investment holding	Consolidated
	At	At	At	At
	31 March 2001	31 March 2001	31 March 2001	31 March 2001
	HK\$	HK\$	HK\$	HK\$
ASSETS				
Segment assets	2,861	12,105,379	43,416,227	55,524,467
Unallocated corporate assets				136,415,011
Consolidated total assets				<u>191,939,478</u>
LIABILITIES				
Segment liabilities	25,000	364,961	9,000	398,961
Unallocated corporate liabilities				1,148,811
Consolidated total liabilities				<u>1,547,772</u>

OTHER INFORMATION

	Agency services	Consultancy services	Investment holding	Others	Consolidated
	Year ended	Year ended	Year ended	Year ended	Year ended
	31 March 2001	31 March 2001	31 March 2001	31 March 2001	31 March 2001
	HK\$	HK\$	HK\$	HK\$	HK\$
Depreciation	–	39,217	–	644,271	683,488

(b) Geographical segments

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 revenue and profit from operations (excluding interest income and rental income) are derived from the PRC.

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5. OTHER OPERATING INCOME

	2002 HK\$	2001 HK\$
Interest income from bank deposits	2,360,388	5,285,382
Gross rental income from an investment property	465,114	858,672
Others	339,415	258,334
	3,164,917	6,402,388

6. PROFIT FROM OPERATIONS

	2002 HK\$	2001 HK\$
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration	4,212,790	4,628,500
Retirement benefits scheme contributions	278,339	163,819
Total staff costs	4,491,129	4,792,319
Auditors' remuneration	300,000	322,774
Depreciation of property, plant and equipment	663,945	683,488
Allowance for doubtful debts	–	363,418
Amortisation of goodwill	107,029	–
Loss on write off of property, plant and equipment	3,500	3,363
and after crediting:		
Gross rental income from an investment property less outgoings of HK\$16,000 (2001: HK\$21,400)	449,114	837,272

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7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2002 HK\$	2001 HK\$
Fees		
Executive directors	360,000	403,225
Independent non-executive directors	120,000	120,000
	<u>480,000</u>	<u>523,225</u>
Other emoluments (executive directors)		
Salaries and other benefits	1,437,709	1,590,933
Retirement benefits scheme contributions	53,975	54,000
	<u>1,491,684</u>	<u>1,644,933</u>
Total emoluments	<u>1,971,684</u>	<u>2,168,158</u>

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	7	9
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2001: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2001: three) individuals were as follows:

	2002 HK\$	2001 HK\$
Salaries and other benefits	1,315,900	1,470,920
Retirement benefits scheme contributions	<u>54,800</u>	<u>82,800</u>
	<u>1,370,700</u>	<u>1,553,720</u>

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7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(b) Employees' emoluments (CONT'D)

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

During the years ended 31 March 2002 and 2001, no emoluments were paid by the Company to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Company or as compensation for loss of office.

8. TAXATION

	2002 HK\$	2001 HK\$
The charge comprises:		
PRC income tax	453,576	–
Share of taxation attributable to associates	618,147	203,042
	<u>1,071,723</u>	<u>203,042</u>

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

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

Details of unrecognised deferred taxation are set out in note 22.

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9. EARNINGS PER SHARE

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

	2002 HK\$	2001 HK\$
Net profit for the year	<u>4,856,598</u>	<u>8,264,709</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>459,473,000</u>	459,544,396
Effect of dilutive potential ordinary shares in respect of warrants		<u>462,104</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>460,006,500</u>

No diluted earnings per share is presented because the exercise price of the Company's warrants was higher than the fair value per share during the year.

10. INVESTMENT PROPERTY

	THE GROUP HK\$
At 1 April 2001	15,000,000
Revaluation decrease	<u>(800,000)</u>
At 31 March 2002	<u>14,200,000</u>

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 2002 by LCH (Asia - Pacific) Surveyors Limited, an independent professional valuer, on an open market existing use basis. This valuation gave rise to a revaluation decrease of HK\$800,000 which has been charged to the investment property revaluation reserve.

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For the year ended 31 March 2002

Yunnan Enterprises Holdings Limited

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP				
COST				
At 1 April 2001	1,192,080	5,379,440	1,265,029	7,836,549
Additions	–	82,318	–	82,318
Written off	–	(4,000)	–	(4,000)
At 31 March 2002	1,192,080	5,457,758	1,265,029	7,914,867
DEPRECIATION				
At 1 April 2001	319,377	4,201,064	1,265,029	5,785,470
Provided for the year	119,208	544,737	–	663,945
Eliminated on write off	–	(500)	–	(500)
At 31 March 2002	438,585	4,745,301	1,265,029	6,448,915
NET BOOK VALUES				
At 31 March 2002	753,495	712,457	–	1,465,952
At 31 March 2001	872,703	1,178,376	–	2,051,079
THE COMPANY				
COST				
At 1 April 2001	1,192,080	638,040	1,265,029	3,095,149
Additions	–	66,818	–	66,818
Written off	–	(4,000)	–	(4,000)
At 31 March 2002	1,192,080	700,858	1,265,029	3,157,967
DEPRECIATION				
At 1 April 2001	319,377	230,640	1,265,029	1,815,046
Provided for the year	119,208	69,714	–	188,922
Eliminated on write off	–	(500)	–	(500)
At 31 March 2002	438,585	299,854	1,265,029	2,003,468
NET BOOK VALUES				
At 31 March 2002	753,495	401,004	–	1,154,499
At 31 March 2001	872,703	407,400	–	1,280,103

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12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$	2001 HK\$
Unlisted shares, at cost	11,338,022	11,338,022
Amounts due from subsidiaries	142,517,581	140,742,831
	153,855,603	152,080,853
Less: Impairment loss	(71,835,145)	(71,835,145)
	82,020,458	80,245,708

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

Details of the principal subsidiaries of the Company at 31 March 2002 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 subsidiary %	
Multifortune Holdings Limited	British Virgin Islands/PRC	US\$1	–	100	Provision of agency services
Yunnan Nominees Limited	Hong Kong	HK\$2	100	–	Investment holding
Yunnan Yunyu Economic & Technology Consulting Co., Ltd.	PRC	US\$100,000	–	100	Provision of consultancy services
Yunyu Bio - Pharmaceutical Company Limited	British Virgin Islands/PRC	US\$1	–	100	Investment holding

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12. INTERESTS IN SUBSIDIARIES (CONT'D)

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 subsidiary %	
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 consultancy services
Yunyu Trading Development Limited	Hong Kong	HK\$5,000,000	100	–	Investment holding and property investment

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 issued any debt securities at the balance sheet date or at any time during the year.

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13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002	2001
	HK\$	HK\$
Share of net assets	48,296,297	40,571,687
Goodwill arising on acquisition of an associate (note a)	4,174,133	—
	<u>52,470,430</u>	<u>40,571,687</u>
Note a:		
		HK\$
COST		
Arising on acquisition of an associate and balance at 31 March 2002		4,281,162
AMORTISATION		
Charge for the year and balance at 31 March 2002		<u>107,029</u>
NET BOOK VALUE		
At 31 March 2002		<u>4,174,133</u>

Goodwill is amortised over its estimated useful life of 20 years.

Details of the associates of the Group at 31 March 2002 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
雲南盟生藥業有限公司	PRC	49	Research, development, manufacture and sale of biotechnology products
深圳新鵬生物工程有限公司	PRC	48	Research, development, manufacture and sale of biotechnology products

The financial statements of the associates are not audited by Deloitte Touche Tohmatsu.

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13. INTERESTS IN ASSOCIATES (CONT'D)

The following details have been extracted from the audited management accounts of the Group's associates.

Results for the year

	雲南盟生藥業有限公司 1.9.2001 (date of acquisition) to 31.3.2002 HK\$	深圳新鵬生物工程有限公司 1.4.2001 to 31.3.2002 HK\$	21.8.2000 (date of acquisition) to 31.3.2001 HK\$
Turnover	<u>2,383,603</u>	<u>32,551,524</u>	<u>12,589,629</u>
Depreciation	<u>129,207</u>	<u>2,451,143</u>	<u>1,211,486</u>
Profit before taxation	<u>675,192</u>	<u>7,229,254</u>	<u>3,319,410</u>
Profit before taxation attributable to the Group	<u>330,844</u>	<u>3,470,043</u>	<u>1,593,317</u>

Financial position

	雲南盟生藥業有限公司 2002 HK\$	深圳新鵬生物工程有限公司 2002 HK\$	2001 HK\$
Non-current assets	<u>13,210,380</u>	<u>26,923,714</u>	<u>30,509,940</u>
Current assets	<u>5,824,374</u>	<u>69,145,818</u>	<u>59,113,452</u>
Current liabilities	<u>(5,624,903)</u>	<u>(6,782,979)</u>	<u>(3,919,802)</u>
Non-current liabilities	<u>–</u>	<u>(2,358,491)</u>	<u>(1,179,245)</u>
Net assets	<u>13,409,851</u>	<u>86,928,062</u>	<u>84,524,345</u>
Net assets attributable to the Group	<u>6,570,827</u>	<u>41,725,470</u>	<u>40,571,687</u>

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14. INVESTMENTS IN AN INVESTEE COMPANY

THE GROUP
2002 & 2001
HK\$

Investment securities

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. The directors consider that the investments worth at least their costs.

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

The Group allows a credit period of 21 days to its trade debtors.

THE GROUP

2002 2001
HK\$ HK\$

Trade receivables, current

131,040 –

Dividends receivable

7,606,168 7,311,629

Other receivables

1,166,046 1,413,348

8,903,254 **8,724,977**

17. AMOUNTS DUE TO SUBSIDIARIES

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

18. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

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19. SHARE CAPITAL

	Number of shares		Amount	
	2002	2001	2002	2001
			HK\$	HK\$
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning and at end of the year	1,000,000,000	1,000,000,000	1,000,000,000	100,000,000
Issued and fully paid:				
At beginning of the year	459,473,000	459,553,000	45,947,300	45,955,300
Repurchased (note)	–	(80,000)	–	(8,000)
At end of the year	459,473,000	459,473,000	45,947,300	45,947,300

Note:

In 2001, 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.

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 the share option scheme has been expired as at the balance sheet date.

20. 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.

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21. RESERVES

	Share premium	Capital redemption reserve	Goodwill reserve	Special reserve	Exchange reserve	Investment property revaluation reserve	Deficit	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP								
At 1 April 2000	187,506,468	-	-	3,460,016	-	800,514	(49,033,458)	142,733,540
Exchange differences on translation of operations outside Hong Kong	-	-	-	-	1,412,683	-	-	1,412,683
Repurchase of shares	(37,200)	8,000	-	-	-	-	-	(29,200)
Expenses on share repurchase	(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
Revaluation decrease for the year	-	-	-	-	-	(800,000)	-	(800,000)
Net profit for the year	-	-	-	-	-	-	4,856,598	4,856,598
At 31 March 2002	187,468,964	8,000	(7,938,469)	3,460,016	1,412,683	514	(35,912,151)	148,499,557

	Share premium	Capital redemption reserve	Deficit	Total
	HK\$	HK\$	HK\$	HK\$
THE COMPANY				
At 1 April 2000	187,506,468	-	(48,359,926)	139,146,542
Repurchase of shares	(37,200)	8,000	-	(29,200)
Expenses on share repurchase	(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
Net loss for the year	-	-	(3,798,969)	(3,798,969)
At 31 March 2002	187,468,964	8,000	(83,752,851)	103,724,113

The deficit of the Group include profit of HK\$4,412,382 (2001: HK\$1,229,642) attributable to associates.

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21. RESERVES (CONT'D)

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 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.

22. UNRECOGNISED DEFERRED TAXATION

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

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Tax effect of timing differences because of:				
Estimated tax losses	13,407,278	12,994,490	5,618,434	4,821,007
Excess of tax allowances over depreciation	(124,921)	(192,927)	(150,451)	(166,144)
	13,282,357	12,801,563	5,467,983	4,654,863

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.

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.

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22. UNRECOGNISED DEFERRED TAXATION (CONT'D)

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

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Tax effect of timing differences because of:				
Estimated tax losses	412,788	294,580	797,427	166,119
Excess of depreciation over tax allowances	68,006	105,806	15,693	41,126
	<u>480,794</u>	<u>400,386</u>	<u>813,120</u>	<u>207,245</u>

23. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2002	2001
	HK\$	HK\$
Profit before taxation	5,928,321	8,467,751
Share of results of associates	(3,800,887)	(1,593,317)
Depreciation	663,945	683,488
Amortisation of goodwill	107,029	–
Loss on write off of property, plant and equipment	3,500	3,363
Loss on liquidation of an associate	–	12,069
Interest income	(2,360,388)	(5,285,382)
Decrease (increase) in trade and other receivables	1,519,836	(6,992,650)
(Decrease) increase in trade and other payables	(513,720)	238,837
Increase in amount due to an associate company	773,014	–
	<u>2,320,650</u>	<u>(4,465,841)</u>
Net cash inflow (outflow) from operating activities		

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	Share premium	Capital redemption reserve
	HK\$	HK\$	HK\$
At 1 April 2000	45,955,300	187,506,468	–
Repurchase of shares	(8,000)	(37,200)	8,000
Expenses on shares repurchase	–	(304)	–
	<u>45,947,300</u>	<u>187,468,964</u>	<u>8,000</u>
At 31 March 2001 & 2002			

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25. 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.

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 contribution payable in the future years was HK\$14,859. There is no forfeited contribution as at 31 March 2002.

26. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payment paid under operating leases in respect of premises during the year amounting to HK\$2,591,820 (2001: HK\$2,591,820).

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	2,120	2,592
In the second to fifth year inclusive	—	2,120
	<u>2,120</u>	<u>4,712</u>

Operating lease payments represent rentals payable by the Group for office premises. Leases are negotiated for an average term of 4 years and rentals are fixed for an average of 4 years.

The Group as lessor

Property rental income earned during the year was HK\$465,114 (2001: HK\$858,672). The premise held have committed tenants for the next 3 years.

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26. OPERATING LEASE COMMITMENTS (CONT'D)

The Group as lessor (CONT'D)

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	387	465
In the second to fifth year inclusive	853	—
	<u>1,240</u>	<u>465</u>

27. PLEDGE OF ASSETS

At 31 March 2002, bank deposits of the Group amounting to HK\$5,000,000 (2001: HK\$5,000,000) have been pledged against the general banking facilities of the Group.

28. RELATED PARTY TRANSACTIONS

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

	2002 HK\$	2001 HK\$
Agency fee income from Yuxi Hongta	131,040	3,490,791
Consultancy income from Yuxi Hongta	353,774	2,476,415
Consultancy income from Yunnan Hongta Import & Export Co. Ltd. ("Yunnan Hongta")	<u>4,104,957</u>	<u>—</u>

Yuxi Hongta is a substantial shareholder of the Company's ultimate holding company.

Yunnan Hongta is a wholly-owned subsidiary of Yuxi Hongta.

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

29. POST BALANCE SHEET EVENT

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 (approximately HK\$1.27 million) for a 25% equity interest. Pine & Power Biomaterial is a hi-tech entity registered in Shanghai Zhangjiang Hi-Tech Park, the PRC. It is engaged in the research, manufacture and sale of medical biomaterials.