FINANCIAL REVIEW

For the year ended 31 March 2003, the Group recorded a turnover of HK$3.42 million with the corresponding amount for 2002 being HK$10.96 million. The substantial drop in turnover was due to the fact that the Group did not have consultancy income as well as the decrease in the dividend income during the year under review. On the other hand, the Group received a cash payment of US$566,400 (or HK$4.42 million) from Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta") during the year under review as compensation in respect of the current and last financial years for the quantity differences which have arisen from the import agency business. Moreover, the Group was entitled to a share of profits (before tax) of the associated companies amounting to HK$650,000 during the year under review with the corresponding amount in the previous year being HK$3.8 million.

The Group continued to maintain its cost control measures. During the year under review, administrative expenses for the Group (excluding deficit arising on revaluation of investment property) decreased by 6% compared to previous year. At the same time, the Group's investment property (located in Central) was revalued at 31 March 2003 by independent professional valuer, on an open market existing use basis. A deficit amounted to HK$3.5 million was arisen from the revaluation. Such deficit was charged to the income statement of the current year. Including this revaluation deficit, the Group recorded a net loss of HK$4.53 million for the financial year ended 31 March 2003, compared to a net profit of HK$4.86 million in the previous year.

OPERATIONS ANALYSIS

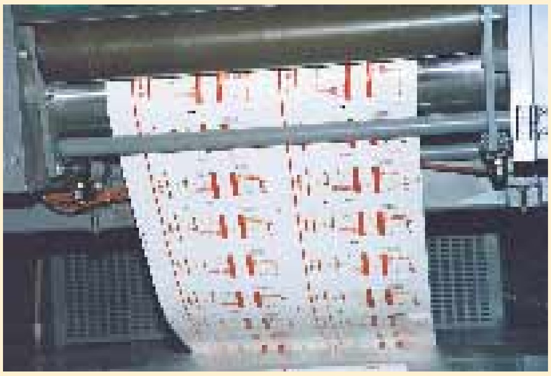
Import and export agency businesses

The Group had entered into import and export agency agreements with Yuxi Hongta in May 1998, and was engaged in the import of cigarette-related materials and export of cigarettes products for Yuxi Hongta. Sluggish market conditions prevailing in the tobacco industry affected the Group's import and export agency businesses over the past few years. Pursuant to the import agency agreement, Yuxi Hongta shall import materials with an annual aggregate quantity of not less than a specified quantity (or the "Minimum Import Quantity") through the Group. The total import quantities for the current and last financial years were both lower than the Minimum Import Quantity. As a result, Yuxi Hongta, in accordance with the relevant terms of the import agency agreement, compensated the Group in respect of the difference in the import quantities for each financial year. Total compensation fees amounting to US$566,400 (or HK$4.42 million) were paid to the Group during the year under review.

On the other hand, pursuant to the import and export agency agreements, the initial term of the agreements was for a period of five years and was expired in May 2003. After due and careful consideration and discussion between the Group and Yuxi Hongta, both parties have agreed to terminate the agreements. Both parties then entered into termination agreements in May 2003 in accordance with the relevant terms for the termination of the import and export agency agreements. Despite that, the Group does not intend to discontinue this line of business. The Group will closely monitor market conditions for that business in the future.

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

The Group has received a dividend payment of Rmb3.22 million (or HK$3.04 million) from Yuxi Globe Color Printing Carton Co., Ltd. ("Yuxi Globe", in which the Group holds a 12.5% equity interest) for the year under review. Since acquiring 12.5% equity interest in Yuxi Globe in 1999, the Group had received dividend payments of HK$19.51 million in aggregate. This represents a successful investment decision for the Group. Yuxi Globe was established in China in 1992 as a Sino-foreign equity joint venture. The entity is principally engaged in the printing and sale of cigarette packaging packs and boxes. The principal labels of cigarette packs and boxes printed by the entity include Hongtashan, Ashima, Hongmei and Shilin which are well-known brands in China. Yuxi Globe earned a profits after taxation of Rmb27.57 million (or HK$26.0 million) for the financial year ended 31 December 2002, which is its ninth consecutive year of profitability. Moreover, when compared with the corresponding amount of Rmb6.29 million (or HK$5.9 million) received for the previous year, the dividend payment received by the Group for the year under review has dropped by 48%. This was attributable to the general decline in the tobacco industry in China which resulted in pressure on the margins of Yuxi Globe's products in last year. Despite that, the product prices of Yuxi Globe have stabilized in 2003. Yuxi Globe is a well-established and profitable company which paid considerable amounts of dividend to the Group over the past years. Therefore the Group is confident and optimistic with regard to the business prospect of Yuxi Globe.



In June 2003, the Group entered into a conditional sale and purchase agreement to acquire an additional 6.25% equity interest in Yuxi Globe. The aggregate consideration for the acquisition shall be HK$19.9 million which shall be satisfied by way of allotment and issue of 47,380,952 ordinary shares of HK$0.10 each of the Company at an issue price of HK$0.42 per share. Upon completion of the sale and purchase agreement, the Group's equity interest in Yuxi Globe would be increased to 18.75%. This could increase the share of dividends from Yuxi Globe and further enhance the income base of the Group. It is therefore beneficial to the Group to acquire an additional 6.25% equity interest in Yuxi Globe.

Associates

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

Competition in China's pharmaceutical market intensified in 2002. Sales of Xinpeng Biotechnology Engineering's major product rhG-CSF were also affected under such tough market environment. During the year under review, turnover of rhG-CSG together with the inherent income amounted to Rmb33.2 million, representing a decrease of 15% when compared with the corresponding amount of Rmb39.2 million in the previous year. At the same time, in order to cope with the intense competition in the domestic pharmaceutical market as well as to minimize the impact of the market environment on turnover, the sales team of Xinpeng Biotechnology Engineering continued to enhance the sales and marketing efforts for rhG-CSF during the year under review.

Therefore Xinpeng Biotechnology Engineering's selling and related expenditures for the year under review increased by 10% compared to previous year. Under such situations, Xinpeng Biotechnology Engineering recorded a profit before taxation of Rmb710,000 during the year under review. The Group is entitled to a profit share (before taxation) of HK$320,000 for the relevant year with the corresponding amount of profit share for the previous year being HK$3.47 million.

During the year under review, Xinpeng Biotechnology Engineering cooperates with the Institute of Basic Medical Sciences of the Chinese Academy of Medical Sciences to jointly carry out the "Chuiluosu intermediate tests and clinical researches", which was approved under the Tenth 5-year plan Major Key Program in October 2002, to develop a Category I anti-cancer drug – Chuiluosu. Chuiluosu is a functional protein which naturally exists in human cells. It possesses a broad spectrum of anti-tumor functions. Compared to traditional chemotherapy drugs, Chuiluosu has two distinct characteristics. Firstly, Chuiluosu is able to kill targeted tumor cells with no toxic effects on normal cells. Secondly, Chuiluosu possesses a broad spectrum of anti-tumor activity, which induces various tumor cells, including rectum, lung, liver, mammary gland and kidney cancers, malignant melanomas, as well as glioma, to shrink away. Chuiluosu will therefore bring a new era of hope for many cancer patients. With its strong research capabilities and its many years of experience in R&D, Xinpeng Biotechnology Engineering will be leveraging Chuiluosu to create a R&D platform for further anti-cancer drugs development and promoting these drugs through its existing comprehensive sales channels. The Group is highly optimistic with regard to the future development of Chuiluosu, and believes that it will create considerable returns for Xinpeng Biotechnology Engineering in the future.

(2) *Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical")*

During the year under review, the Group injected further capital of Rmb5.39 million into Meng Sheng Pharmaceutical. As at 31 March 2003, the Group's total investment in Meng Sheng Pharmaceutical amounted to Rmb16.17 million which signifies that the Group is confident in the development prospect of the entity. Meng Sheng Pharmaceutical maintained progressive growth in its operating performance during the year under review, with a turnover of Rmb4.07 million and net profit of Rmb1.08 million being recorded. The Group was therefore entitled to a profit share of HK$500,000 during the year under review.

The first phase of construction work for Meng Sheng Pharmaceutical's production plant, located in the Kunming Economic and Technology Development Zone, was completed. The relevant production workshops have successfully passed inspections conducted by the State Drug Administration and been awarded the GMP certification in July 2002. This proves that the manufacturing process, including production facilities, equipment, raw materials, production management and quality control, are fully compliant with GMP standards. GMP compliance provides strong assurance for the quality of the products manufactured by Meng Sheng Pharmaceutical which will help boost sales volume. With the current intensifying competition in the domestic pharmaceutical market, this places the entity in a favorable position.

In order to further strengthen the Group's investment portfolio, the Group entered into a sale and purchase agreement to acquire an additional 6% interest in Meng Sheng Pharmaceutical at a cash consideration of Rmb3.0 million in April 2003. The sale and purchase agreement has been completed recently following the obtaining of the approval and consent by the relevant authority. The interest of the Group in Meng Sheng Pharmaceutical has been increased from 49% to 55%. Meng Sheng Pharmaceutical then becomes a non wholly-owned subsidiary of the Company. Meng Sheng Pharmaceutical's turnover and financial results could then be consolidated into that of the Group. The Group will be able to benefit more from the increase in its interest in Meng Sheng Pharmaceutical in the future given the development potential of the entity.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position remains strong. As at 31 March 2003, the Group held cash and bank balances of approximately HK$79 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.