

1. GENERAL

The Company is a listed 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 property holding, the provision of agency services for trading of cigarette and other related products, 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, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and an inclusion of the statements of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 “Foreign currency translation” have eliminated the choice of translating the income statements of subsidiaries operating outside Hong Kong at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash flow statement”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends received, which were previously presented under a separate heading is classified as investing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amount presented for cash and cash equivalents have been amended to exclude cash balance held for investment purposes. The re-definition of cash and cash equivalents has resulted in a restatement in the comparative amounts shown in the consolidated cash flow statement.

Employee Benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

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 consolidated 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.

3. *SIGNIFICANT ACCOUNTING POLICIES (CONT'D)***Revenue recognition (CONT'D)**

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.

Investment properties

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

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.

Plant and equipment

Plant and equipment are stated at cost less depreciation and accumulated impairment losses.

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% – 33 $\frac{1}{3}$ %
Furniture, fixtures and equipment	10% – 20%
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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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 these 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.

3. *SIGNIFICANT ACCOUNTING POLICIES (CONT'D)***Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

On consolidation, the assets and liabilities of subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised to income or as expenses in the period in which the operations are disposed of.

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.

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.

Retirement benefit costs

Payments to defined contribution retirement benefit plan and state-managed retirement benefit schemes are charged as an expense as they fall due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions – property rental, 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.

Year ended 31 March 2003

	Property rental HK\$ (Note 1)	Agency services HK\$ (Note 2)	Consultancy services HK\$	Investment holding HK\$	Consolidated HK\$
TURNOVER	387,595	-	-	3,036,000	3,423,595
SEGMENT RESULTS	(3,774,586)	3,936,836	(932,443)	(859,730)	(1,629,923)
Other operating income					1,503,208
Unallocated corporate expenses					(4,819,706)
Loss from operations					(4,946,421)
Share of results of associates					651,055
Amortisation of goodwill arising on acquisition of an associate					(214,057)
Loss before taxation					(4,509,423)
Taxation					(17,288)
Net loss for the year					(4,526,711)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

BALANCE SHEET

At 31 March 2003

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Consolidated HK\$
ASSETS					
Segment assets	11,284,411	9,517	14,819,821	39,124,153	65,237,902
Unallocated corporate assets					126,510,784
Consolidated total assets					<u>191,748,686</u>
LIABILITIES					
Segment liabilities	178,459	25,000	26,954	9,000	239,413
Unallocated corporate liabilities					1,588,194
Consolidated total liabilities					<u>1,827,607</u>

OTHER INFORMATION

Year ended 31 March 2003

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
Amortisation of goodwill arising on acquisition of an associate	-	-	-	-	214,057	214,057
Deficit arising on revaluation of investment property	3,499,486	-	-	-	-	3,499,486
Depreciation	-	-	42,228	-	266,416	308,644
Loss on write off of plant and equipment	-	-	-	-	813,129	813,129

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

Year ended 31 March 2002

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Consolidated HK\$
TURNOVER	<u>465,114</u>	<u>131,040</u>	<u>4,458,731</u>	<u>5,908,055</u>	<u>10,962,940</u>
SEGMENT RESULTS	<u>(110,922)</u>	<u>283,334</u>	<u>1,727,110</u>	<u>2,770,598</u>	<u>4,670,120</u>
Other operating income					2,699,803
Unallocated corporate expenses					<u>(5,135,460)</u>
Profit from operations					2,234,463
Share of results of associates					3,800,887
Amortization of goodwill arising on acquisition of an associate					<u>(107,029)</u>
Profit before taxation					5,928,321
Taxation					<u>(1,071,723)</u>
Net profit for the year					<u>4,856,598</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

BALANCE SHEET

At 31 March 2002

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Consolidated HK\$
ASSETS					
Segment assets	19,593,509	133,901	8,981,852	42,005,556	70,714,818
Unallocated corporate assets					125,721,445
Consolidated total assets					196,436,263
LIABILITIES					
Segment liabilities	167,339	25,000	180,894	9,000	382,233
Unallocated corporate liabilities					1,605,726
Consolidated total liabilities					1,987,959

OTHER INFORMATION

Year ended 31 March 2002

	Property rental HK\$ (Note 1)	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
Amortisation of goodwill arising on acquisition of an associate	-	-	-	-	107,029	107,029
Depreciation	-	-	42,228	-	621,717	663,945

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

Note 1: During the year, the Group identified property rental as one of the principal activities and as a separate business segment of the Group. Accordingly, rental income was classified as turnover for the year and the comparative amount was also restated.

Note 2: The Group, as an import agent for Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta"), is engaged in the business of import of corresponding materials related to cigarette manufacturing. Pursuant to the import agency agreement entered into between the Group and Yuxi Hongta, Yuxi Hongta shall import materials with an annual aggregate value of not less than a specified quantity (or the "Minimum Import Quantity") through the Group. The Group's total import quantities for the current and last financial years were lower than the Minimum Import Quantity. As a result, Yuxi Hongta, in accordance with the 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 approximately HK\$4,418,000 (US\$566,400), prior to deducting related expenses, were received by the Group during the year.

(b) Geographical segments

The Group's activity of property holding for rental income is located in Hong Kong while the provision of agency services and consultancy services and investment holding for dividend income are located in the PRC. The Group's revenue and segment results of each operating division are derived from the respective geographical areas.

5. OTHER OPERATING INCOME

	2003 HK\$	2002 HK\$
Interest income from bank deposits	1,356,449	2,360,388
Exchange gain	6,759	–
Others	140,000	339,415
	1,503,208	2,699,803

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

6. (LOSS) PROFIT FROM OPERATIONS

	2003 HK\$	2002 HK\$
(Loss) profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration	3,927,252	4,328,928
Retirement benefits scheme contributions	136,657	162,201
Total staff costs	4,063,909	4,491,129
Auditors' remuneration	367,000	300,000
Depreciation of plant and equipment	308,644	663,945
Loss on write off of plant and equipment	813,129	3,500
and after crediting:		
Dividend income from investment in an investee company	3,036,000	5,908,055
Gross rental income from an investment property less outgoings of HK\$23,000 (2002: HK\$16,000)	364,595	449,114

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2003 HK\$	2002 HK\$
Fees		
Executive directors	360,000	360,000
Independent non-executive directors	120,000	120,000
	480,000	480,000
Other emoluments (executive directors)		
Salaries and other benefits	1,448,494	1,437,709
Retirement benefits scheme contributions	53,934	53,975
	1,502,428	1,491,684
Total emoluments	1,982,428	1,971,684

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

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

(a) Directors' emoluments (CONT'D)

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	9	7
HK\$1,000,001 to HK\$1,500,000	1	1

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2002: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2002: three) individuals were as follows:

	2003 HK\$	2002 HK\$
Salaries and other benefits	1,133,776	1,315,900
Retirement benefits scheme contributions	51,120	54,800
	1,184,896	1,370,700

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 2003 and 2002, 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

The charge comprises:

	2003 HK\$	2002 HK\$
PRC income tax	33,384	453,576
Share of taxation attributable to associates	(16,096)	618,147
	17,288	1,071,723

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

8. TAXATION (CONT'D)

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 23.

9. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the following data:

	2003 HK\$	2002 HK\$
Net (loss) profit for the year	(4,526,711)	4,856,598
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	459,473,000	459,473,000

No diluted (loss) earnings per share is presented because the exercise price of the Company's warrants was higher than the fair value per share for both years.

10. INVESTMENT PROPERTY

	THE GROUP HK\$
At 1 April 2002	14,200,000
Revaluation deficit	(3,500,000)
At 31 March 2003	10,700,000

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 2003 by LCH (Asia – Pacific) Surveyors Limited, an independent professional valuer, on an open market existing use basis. The deficit arising on the revaluation amounted to HK\$3,500,000 (2002: HK\$800,000), of which HK\$514 has been charged to the investment property revaluation reserve and the remaining balance of HK\$3,499,486, being the excess of the deficit over the balance on the investment property revaluation reserve, is charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

11. PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP				
COST				
At 1 April 2002	1,192,080	5,457,758	1,265,029	7,914,867
Additions	1,228,611	229,557	–	1,458,168
Written off	(1,008,611)	(4,362,707)	–	(5,371,318)
At 31 March 2003	1,412,080	1,324,608	1,265,029	4,001,717
DEPRECIATION				
At 1 April 2002	438,585	4,745,301	1,265,029	6,448,915
Provided for the year	152,589	156,055	–	308,644
Eliminated on write off	(394,945)	(4,134,745)	–	(4,529,690)
At 31 March 2003	196,229	766,611	1,265,029	2,227,869
NET BOOK VALUES				
At 31 March 2003	1,215,851	557,997	–	1,773,848
At 31 March 2002	753,495	712,457	–	1,465,952
THE COMPANY				
COST				
At 1 April 2002	1,192,080	700,858	1,265,029	3,157,967
Additions	936,111	143,079	–	1,079,190
Written off	(1,008,611)	(355,937)	–	(1,364,548)
At 31 March 2003	1,119,580	488,000	1,265,029	2,872,609
DEPRECIATION				
At 1 April 2002	438,585	299,854	1,265,029	2,003,468
Provided for the year	128,401	52,649	–	181,050
Eliminated on write off	(394,945)	(145,655)	–	(540,600)
At 31 March 2003	172,041	206,848	1,265,029	1,643,918
NET BOOK VALUES				
At 31 March 2003	947,539	281,152	–	1,228,691
At 31 March 2002	753,495	401,004	–	1,154,499

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$	2002 HK\$
Unlisted shares, at cost	11,338,022	11,338,022
Amounts due from subsidiaries	133,731,124	142,517,581
	145,069,146	153,855,603
Less: Impairment loss	(65,150,872)	(71,835,145)
	79,918,274	82,020,458

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 2003 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 the company the subsidiary % %		Principal activity
Heroway Limited	British Virgin Islands/PRC	US\$1	100	-	Investment holding
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

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 the company the subsidiary		Principal activity
			%	%	
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 those 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.

* *It is wholly foreign owned enterprise.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$	2002 HK\$
Share of net assets	54,898,816	48,296,297
Goodwill arising on acquisition of an associate (note a)	3,960,076	4,174,133
	58,858,892	52,470,430
Note a:		
		HK\$
COST		
At 1 April 2002 and 31 March 2003		4,281,162
AMORTISATION		
At 1 April 2002		107,029
Charge for the year		214,057
At 31 March 2003		321,086
NET BOOK VALUES		
At 31 March 2003		3,960,076
At 31 March 2002		4,174,133

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

Details of the associates of the Group at 31 March 2003 are as follows:

Name of associate	Form of business structure	Place of establishment and operation	Attributable interest in registered capital held by the Group %	Principal activity
雲南盟生藥業有限公司	Incorporated	PRC	49	Research, development, manufacture and sale of biotechnology products
深圳新鵬生物工程有限公司	Incorporated	PRC	48	Research, development, manufacture and sale of biotechnology products
深圳市雷克藥業有限公司*	Incorporated	PRC	44	Not yet commence business

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

13. INTERESTS IN ASSOCIATES (CONT'D)

Name of associate	Form of business structure	Place of establishment and operation	Attributable interest in registered capital held by the Group %	Principal activity
上海松力生物技術有限公司	Incorporated	PRC	25	Research, development, manufacture and sale of biotechnology products

* 深圳市雷克藥業有限公司 became a subsidiary of 深圳新鵬生物工程有限公司 during the year. The post acquisition results for the period and financial position at 31 March 2003 are consolidated with 深圳新鵬生物工程有限公司 for disclosure purpose.

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

Results for the year

	雲南盟生藥業有限公司		深圳新鵬 生物工程有限公司		上海松力生物 技術有限公司
	1.4.2002 to 31.3.2003 HK\$	1.9.2001 (date of acquisition) to 31.3.2002 HK\$	1.4.2002 to 31.3.2003 HK\$	1.4.2001 to 31.3.2002 HK\$	21.6.2002 (date of incorporation) to 31.3.2003
Turnover	3,841,614	2,383,603	27,864,125	32,551,524	-
Depreciation	262,103	129,207	2,510,969	2,451,143	23,255
Profit (loss) before taxation	1,018,186	675,192	665,892	7,229,254	(669,935)
Profit (loss) before taxation attributable to the Group	498,911	330,844	319,628	3,470,043	(167,484)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

13. INTERESTS IN ASSOCIATES (CONT'D)

Financial position

	雲南盟生藥業有限公司		深圳新鵬 生物工程有限公司		上海松力生物 技術有限公司
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$
Non-current assets	22,923,159	13,210,380	65,424,318	26,923,714	2,800,890
Current assets	4,087,592	5,824,374	38,873,879	69,145,818	3,689,250
Current liabilities	(3,068,873)	(5,624,903)	(13,099,274)	(6,782,979)	(2,065,735)
Non-current liabilities	-	-	(3,571,434)	(2,358,491)	-
Net assets	23,941,878	13,409,851	87,627,489	86,928,062	4,424,405
Net assets attributable to the Group	11,731,520	6,570,827	42,061,195	41,725,470	1,106,101

14. INVESTMENTS IN AN INVESTEE COMPANY

	THE GROUP 2003 & 2002 HK\$
Investment securities	
Unlisted equity securities, at cost	31,177,196

The investment securities 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. SECURITIES LINKED DEPOSIT

The amount represents a deposit which will be converted into designated listed shares in Hong Kong at the maturity date of the deposit if the closing price of this designated share fall below the pre-determined price at that date. If the closing price of this designated share is higher than the pre-determined price at maturity, the Company will receive cash with pre-agreed interest amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

16. SECURITIES LINKED DEPOSIT (CONT'D)

In the opinion of directors, the fair value of the deposit at the balance sheet date are not materially different from their investment cost.

On 31 March 2003 and up to the date of the report, the closing prices of this share were higher than the pre-determined price.

17. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2003 HK\$	2002 HK\$
Trade receivables, current	–	131,040
Dividends receivable	3,462,775	7,606,168
Other receivables	1,501,596	1,166,046
	4,964,371	8,903,254

18. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand.

19. AMOUNT DUE TO AN ASSOCIATE

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

20. SHARE CAPITAL

	Number of shares	Amount
	2003 & 2002	2003 & 2002 HK\$
Ordinary shares of HK\$0.10 each		
Authorised:		
At beginning and at end of the year	1,000,000,000	100,000,000
Issued and fully paid:		
At beginning and at end of the year	459,473,000	45,947,300

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

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 in the Company at any time from 10 December 1999 to 30 September 2002, both days inclusive. No warrants were exercised and the warrants expired during the year.

22. RESERVES

	Share premium HK\$	Capital redemption reserve HK\$	Deficit HK\$	Total HK\$
THE COMPANY				
At 1 April 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 and 1 April 2002	187,468,964	8,000	(83,752,851)	103,724,113
Net loss for the year	—	—	(4,268,312)	(4,268,312)
At 31 March 2003	187,468,964	8,000	(88,021,163)	99,455,801

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 2003

23. 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	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Tax effect of timing differences because of:				
Estimated tax losses	14,885,441	13,407,278	6,348,848	5,618,434
Excess of tax allowances over depreciation	(184,518)	(124,921)	(158,419)	(150,451)
	14,700,923	13,282,357	6,190,429	5,467,983

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	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Tax effect of timing differences because of:				
Estimated tax losses	1,478,163	412,788	730,414	797,427
Excess of depreciation over tax allowances	(59,597)	68,006	(7,968)	15,693
	1,418,566	480,794	722,446	813,120

24. RETIREMENT BENEFITS SCHEME

The Group operates in a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") for its employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

24. RETIREMENT BENEFITS SCHEME (CONT'D)

The ORSO Scheme is funded by monthly contributions from the employees and the Group at 5% of the employee's basic salary.

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. There is no forfeited contribution for both years.

The total cost charged to income of HK\$136,657 (2002: HK\$154,941) represents contributions paid to the scheme by the Group in respect of the current year.

The employees of Yunnan Yunyu Economic & Technology Consultancy Co., Ltd. (雲南雲玉經濟技術諮詢有限公司) are members of state-managed retirement benefit schemes operated by the PRC government. This subsidiary is required to contribute 27.5% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

For the year ended 31 March 2002, the total costs charged to income statement of HK\$7,260 represents contributions paid to the state-managed retirement benefit schemes by the Group in respect of last year. For current year, this subsidiary is exempted for the contributions to the retirement benefit schemes.

25. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payment paid under operating leases in respect of premises during the year amounted to HK\$2,498,587 (2002: 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	
	2003	2002
	HK\$	HK\$
Within one year	875,000	2,120,000
In the second to fifth year inclusive	1,751,000	–
	2,626,000	2,120,000

Operating lease payments represent rentals payable by the Group for office premises. Leases are negotiated for an average term of 3 years and rentals are fixed for an average of 3 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

25. OPERATING LEASE COMMITMENTS (CONT'D)

The Group as lessor

Property rental income earned during the year was HK\$387,595 (2002: HK\$465,114). The property is expected to generate rental yields of 3.6% (2002: 3.3%) on an ongoing basis. The premise held have committed tenants for the next 2 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Within one year	426,000	387,000
In the second to fifth year inclusive	427,000	853,000
	853,000	1,240,000

26. CAPITAL COMMITMENTS

At 31 March 2003, the Group was in the process of negotiating with a third party to acquire an additional 6.25% interest in the registered capital of its investee company, Yuxi Globe Colour Printing Carton Co., Ltd. Details of the capital commitments please refer to note 30(c).

There was no capital commitment at 31 March 2002.

27. PLEDGE OF ASSETS

At 31 March 2002, fixed bank deposits of the Group amounting to HK\$5,000,000 and the Group's investment property had been pledged to secure the general banking facilities granted to the Group. The pledged assets were released upon the expiry of the banking facilities during the year.

28. NON-CASH TRANSACTION

During the year, the Group entered into a trade-in arrangement in respect of an equipment for a trade-in value of HK\$28,499.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2003

29. RELATED PARTY TRANSACTIONS

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

	2003 HK\$	2002 HK\$
Agency fee income from Yuxi Hongta	–	131,040
Consultancy income from Yuxi Hongta	–	353,774
Consultancy income from Yunnan Hongta Import & Export Co. Ltd. ("Yunnan Hongta")	–	4,104,957
Compensation income from Yuxi Hongta	4,417,920	–

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

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

Agency fee income was carried out at cost plus a percentage profit mark-up.

Consultancy income was negotiated with the related companies at the prevailing market price.

Compensation income was paid according to the import agency agreement entered into between the Group and Yuxi Hongta, pursuant to which the Group was entitled to receive compensation income from Yuxi Hongta if the agreed volume of purchase was not achieved by Yuxi Hongta.

30. POST BALANCE SHEET EVENTS

- (a) On 15 April 2003, the Group entered into an agreement to acquire an additional 6% equity interest in an associate, 雲南盟生藥業有限公司 for a cash consideration of RMB3 million, (approximately HK\$2.8 million). After the acquisition, 雲南盟生藥業有限公司 becomes the Group's subsidiary with 55% equity interest held by the Group.
- (b) On 22 May 2003, the Group entered into termination agreements with Yuxi Hongta. Pursuant to the termination agreements, the Group and Yuxi Hongta agreed to terminate the import and export agency agreements. Despite the termination, the Group does not intend to discontinue this line of business.
- (c) On 17 June 2003, the Group entered into a conditional agreement to acquire an additional 6.25% interest in the registered capital of its investee company, Yuxi Globe Colour Printing Carton Co., Ltd. for a consideration of HK\$19.9 million by issuing 47,380,952 shares in the Company at HK\$0.42 per share. Upon completion of the acquisition, the Group's interest in the registered capital of Yuxi Globe Colour Printing Carton Co., Ltd. will become 18.75%.