MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 March 2004, the Group recorded a turnover of HK$5.77 million which represented an increase of 68% when compared with HK$3.42 million in previous year. The increase in turnover was due to the fact that Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical") formally became a non wholly-owned subsidiary of the Company during the year under review. Turnover of Meng Sheng Pharmaceutical for the relevant period amounting to Rmb3.77 million (or HK$3.56 million) was then included in the consolidated turnover of the Group. The Group's effort in implementing stringent cost control measures continued to receive reward. During the year under review, administrative expenses for the Group (excluding deficit arising on revaluation of investment property) decreased by 15% compared to previous year.

On the other hand, sales revenues of the Group's associated company Shenzhen Xinpeng Biotechnology Engineering Company Limited were affected by the general reduction of its product prices with the entity subsequently recorded losses during the year under review. Accordingly, the Group has to share losses (before tax) of that associated company amounting to HK$420,000 during the year under review. For the financial year ended 31 March 2004, the Group recorded a net loss of HK$5.74 million, compared to a net loss of HK$4.53 million for the previous year. Results for the previous year included a compensation of HK$4.42 million in cash from Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta") in respect of the quantity differences arising from the import business for the previous two financial years. The import and export agency agreements entered with Yuxi Hongta were also terminated upon their expiration in May 2003.

As at 31 March 2004, the shareholders' funds for the Group reached HK$204 million, representing an increase of 7% when compared with HK$190 million as at 31 March 2003. The increase of the shareholders' funds was mainly attributable to the completion of the Group's acquisition of an additional 6.25% equity interest in Yuxi Globe Color Printing Carton Co., Limited during the year under review, and the Company has allotted and issued 47,380,952 ordinary shares to the vendor in September 2003 for settling the consideration for the acquisition of HK$19.9 million. As at 31 March 2004, the number of ordinary shares issued by the Company was 506,853,952 (2003: 459,473,000).

OPERATIONS ANALYSIS

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

Yuxi Globe Color Printing Carton Co., Limited ("Yuxi Globe") recorded a turnover of Rmb260 million in 2003, representing a decrease of 17% when compared with last year. The decrease of turnover was mainly resulted from the continued fierce competition in China's tobacco industry in 2003, which in turn affected the sales volume of Yuxi Globe's products. Despite that situation, Yuxi Globe's comprehensive production and quality control systems enable it to reduce the production costs effectively. As a result, the entity still recorded a net profit (after tax) of Rmb15 million for the financial year ended 31 December 2003 and is its tenth consecutive year of profitability. Accordingly, the Group was entitled to a corresponding dividend income of Rmb2.09

million (or HK$1.97 million) during the year under review. As such, the Group's total dividend income arising from investment in Yuxi Globe then amounted to HK$21.5 million.

As the operating environment is expected to remain tough in the future, Yuxi Globe will continue to control costs in stringent manner as well as to strengthen technological innovation for the entity to achieving operating performance continuously. Given the strong foundation of Yuxi Globe, the Group is optimistic with regard to its business prospect. Moreover, following the completion of its acquisition of an additional 6.25% equity interest in Yuxi Globe in September 2003, the Group's equity interest in Yuxi Globe was then increased to 18.75%. The increase in interest in Yuxi Globe will enhance the income base of the Group.

Pharmaceutical business

The Group completed the acquisition of additional 6% interest in Meng Sheng Pharmaceutical in July 2003. The interest of the Group in Meng Sheng Pharmaceutical was increased from 49% to 55%, therefore Meng Sheng Pharmaceutical became a non wholly-owned subsidiary of the Company. Meng Sheng Pharmaceutical's turnover and financial results were then consolidated into that of the Group. As a result, the pharmaceutical business of Meng Sheng Pharmaceutical was classified as one of the principal activities of the Group during the year under review.

Sales quantities of Meng Sheng Pharmaceutical's pharmaceutical products maintained a stable growth despite the current intensified competition in the domestic pharmaceutical market. Meng Sheng Pharmaceutical recorded a turnover of Rmb5.22 million for the year under review, representing an increase of 28% when compared with the corresponding amount in previous year. On the other hand, all the relevant construction work for the production base of Meng Sheng Pharmaceutical, which was located in the Kunming Economic and Technology Development Zone, have been completed by the end of 2003 with total investment amounted to Rmb20 million. Accordingly, provision for depreciation of the production base has been commenced in 2004. For the year under review, Meng Sheng Pharmaceutical recorded a profit of Rmb440,000 after providing the relevant depreciation charges. The Group was therefore entitled to a profit share of HK$120,000 during the period from April to June 2003 (during that Meng Sheng Pharmaceutical was an associated company of the Group), and included its net profit of HK$170,000 into the Group's consolidated results during the period from July 2003 to March 2004.

There are four production workshops in the production base of Meng Sheng Pharmaceutical. All these production workshops have successfully passed the inspections of State Drug Administration and have been accredited with GMP certificates. According to the notice issued by State Drug Administration, pharmaceutical manufacturers were required to comply with GMP standards by 30 June 2004, otherwise production will have to be terminated. Therefore, GMP compliance provides strong assurance for the quality of the products manufactured by Meng Sheng Pharmaceutical which will help boost sales volumes. With the current intensifying competition in the domestic pharmaceutical market, this places the entity in an advantageous position. Meng Sheng Pharmaceutical is also actively conducting research & development of other new products like health-care products. Two kinds of essence products have been applied in early 2004 and are expected to obtain production approvals in 2004 for commencement of sales. New health-care products could enhance the product diversification and competitiveness of the entity. The production base of Meng Sheng Pharmaceutical is also able to cater for future orders demand. The management is highly confident with regard to the future development of Meng Sheng Pharmaceutical and believes that the pharmaceutical business will bring about favorable returns to the Group in the future.

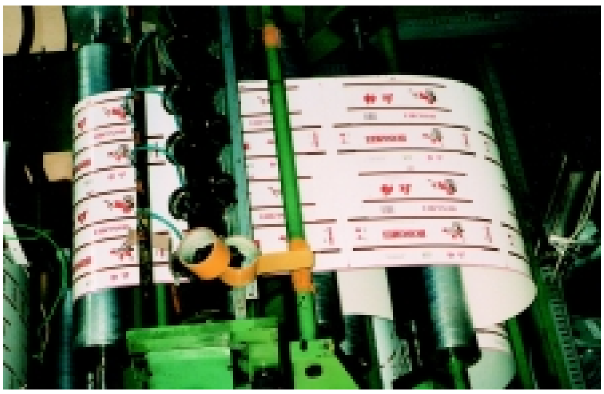
Associated Companies

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

In 2003, the National Development and Reform Commission of China set up the highest retail selling prices in respect of a series of medicines for manufacturers' information. Amongst those medicines was rhG-CSF, Xinpeng Biotechnology Engineering's medical product. Pursuant to that, the current reference selling prices for rhG-CSF represented an average reduction of up to 38% when compared with the previous selling prices. Accordingly, Xinpeng Biotechnology Engineering adjusted down the selling prices of rhG-CSF which therefore affected its sales revenues during the year under review. Despite the fact that sales quantities of rhG-CSF maintained a growing trend, the reduction of prices caused a turnover of Rmb25.46 million recorded during the year under review which represented a decrease of 14% when compared with the corresponding amount in previous year. Under such situation, Xinpeng Biotechnology Engineering recorded a loss (before tax) of Rmb920,000 during the year under review, compared to a profit (before tax) of Rmb710,000 in the previous year. As a result, the Group shared HK$420,000 losses (before tax) attributable to that associated company during the year.

In order to meet the challenges resulting from the reduction of product prices, the sales team of Xinpeng Biotechnology Engineering further enhanced the sales and marketing efforts for rhG-CSF. Furthermore, the management also enforced stringent control on the entity's operating costs in order to minimize the impact on its results. On the other hand, Xinpeng Biotechnology Engineering is actively developing new products with good potential, including Chuiluosu (TR1). The research of TR1, an anti-cancer drug, was carried out jointly with the Institute of Basic Medical Sciences of the Chinese Academy of Medical Sciences.

Xinpeng Biotechnology Engineering has already invested Rmb5 million for part of technology purchase consideration in relation to TR1. The management expects that TR1 could facilitate Xinpeng Biotechnology Engineering's product diversification in the future. Xinpeng Biotechnology Engineering could also be leveraging TR1 to develop further anti-cancer drugs.



(2) *Yunnan Xingning Color Material Printing Co., Limited ("Yunnan Xingning")*

In August 2003, the Group entered into a sale and purchase agreement for the acquisition of a 25% interest in Yunnan Xingning. The aggregate consideration for the acquisition was Rmb10,270,000. Yunnan Xingning was established in Yunnan Province in 1996 with the registered capital being Rmb37,660,000. The entity is principally engaged in the printing and sale of cigarette packaging packs and boxes in China. The principal brands of cigarette packs and boxes printed by Yunnan Xingning include Hongtashan, Ashima and Hongmei. Such acquisition has been formally completed in December 2003. Yunnan Xingning then became one of the associated companies of the Group. The joint venture partner is Yunnan Hongta Group Co., Ltd. ("Hongta Group") which holds 75% interest in Yunnan Xingning. After that shareholding restructure, Hongta Group provides full support to the business of Yunnan Xingning with the entity then recorded a turnover of Rmb5.11 million and a profit of Rmb440,000 for the period from January to March 2004. The Group was therefore entitled to an immediate profit share of HK$100,000 for the year under review. With the strong business support from Hongta Group, Yunnan Xingning will have a promising development prospect. The Group believes that Yunnan Xingning will generate fruitful investment returns to the Group in the future and further strengthen its investment portfolio in China's cigarette packaging and printing entities.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy financial position. As at 31 March 2004, the Group held cash and bank balances of approximately HK$63 million. Approximately 72% and 20% of the total cash and bank balances were denominated in US dollars and Renminbi respectively with the remaining in Hong Kong dollars. As in the past, the Group has no external borrowings. With this strong financial foundation, the Group has adequate resources to meet its working capital and future development requirements.

CHARGES ON ASSETS

The Group did not have any charges on assets as at 31 March 2004 and 31 March 2003.

EXCHANGE RATE EXPOSURE

The Group's assets, liabilities and transactions were denominated either in Hong Kong dollars, Renminbi or US dollars. As the exchange rate of Hong Kong dollars, Renminbi and US dollars were relatively stable during the year, the Group was not exposed to material exchange rate risk at the moment & no hedging measures are necessary at this stage.

EMPLOYEES

The Group has approximately 50 employees at 31 March 2004. Employees are remunerated according to nature of the job and market trends.