

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 sales of pharmaceutical products, property holding, provision of agency services for trading of cigarette and other related products, provision of management and consultancy services and investment holdings.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
SSAP 35	Government grants

Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the revised accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior years. Accordingly, no prior year adjustment is required.

Government grants

The adoption of SSAP 35 has had no material effects on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been made.

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 acquisition 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.

Turnover

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group, property rental income and dividend income from investments during the year.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed to customers.

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.

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 consolidated income statement. Where a decrease has previously been charged to the consolidated income statement and a revaluation increase subsequently arises, this increase is credited to the consolidated income statement to the extent of the decrease previously charged.

On subsequent disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

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

Depreciation and amortisation are 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:

Land and buildings	Over the terms of the leases
Plant and machinery	5% – 10%
Leasehold improvements	10% – 33 ¹ / ₃ %
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	10% – 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 consolidated income statement.

Construction in progress

Construction in progress represents buildings, machinery and projects under construction or installation and is stated at cost less accumulated impairment losses. Cost comprises direct and other related costs, including interest expenses, attributable to the construction activities. Upon completion of construction, the relevant costs are transferred to appropriate categories of property, plant and equipment.

No depreciation or amortisation is provided on construction in progress until the asset is completed and put into productive use.

Intangible assets

Intangible assets represent production rights which are measured initially at cost less any identified impairment loss. They are amortised over their estimated useful lives.

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 plus the goodwill in so far as it has not already been amortised, 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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. An impairment loss is 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 initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such 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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expenses.

Operating leases

Rentals payable under operating leases are charged to the consolidated 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 2004

4. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into five operating divisions – sales of pharmaceutical products, 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 2004

	Sales of pharmaceutical products HK\$ (Note 1)	Property rental HK\$	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
TURNOVER – EXTERNAL	3,561,167	232,557	-	-	1,972,053	-	5,765,777
SEGMENT RESULTS	(1,571,368)	(1,137,013)	(469,710)	(150,862)	816,357	-	(2,512,596)
Other operating income							1,418,153
Unallocated corporate expenses							(3,815,784)
Loss from operations							(4,910,227)
Share of results of associates	(587,623)	-	-	-	-	103,109	(484,514)
Amortisation of goodwill arising on acquisition of associates	(53,514)	-	-	-	-	(22,476)	(75,990)
Loss before taxation							(5,470,731)
Income tax expense							(190,715)
Loss after taxation							(5,661,446)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

BALANCE SHEET

At 31 March 2004

	Sales of pharmaceutical products HK\$ (Note 1)	Property rental HK\$	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
ASSETS							
Segment assets	35,066,693	10,686,650	2,861	12,043,765	58,521,767	-	116,321,736
Interests in associates	42,277,594	-	-	-	-	10,010,107	52,287,701
Unallocated corporate assets							51,239,123
Consolidated total assets							219,848,560
LIABILITIES							
Segment liabilities	2,621,736	210,107	9,000	27,663	618,511	-	3,487,017
Unallocated corporate liabilities							479,072
Consolidated total liabilities							3,966,089

OTHER INFORMATION

Year ended 31 March 2004

	Sales of pharmaceutical products HK\$ (Note 1)	Property rental HK\$	Agency services HK\$	Consultancy services HK\$	Investment holding HK\$	Others HK\$	Consolidated HK\$
Capital additions	26,394,137	-	-	-	-	87,372	26,481,509
Amortisation of goodwill arising on acquisition of a subsidiary	214,131	-	-	-	-	-	214,131
Deficit arising on revaluation of investment property	-	500,000	-	-	-	-	500,000
Depreciation and amortisation of property, plant and equipment	461,506	-	-	42,228	-	437,346	941,080
Loss on write off of property, plant and equipment	20,815	-	-	-	-	-	20,815

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Year ended 31 March 2003

	Sales of pharmaceutical products <i>HK\$</i> (Note 1)	Property rental <i>HK\$</i>	Agency services <i>HK\$</i> (Note 2)	Consultancy services <i>HK\$</i>	Investment holding <i>HK\$</i>	Other <i>HK\$</i>	Consolidated <i>HK\$</i>
TURNOVER - EXTERNAL	-	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	-	-	-	-	-	651,055
Amortisation of goodwill arising on acquisition of associates	(214,057)	-	-	-	-	-	(214,057)
Loss before taxation							(4,509,423)
Income tax expense							(17,288)
Loss after taxation							(4,526,711)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

BALANCE SHEET

At 31 March 2003

	Sales of pharmaceutical products <i>HK\$</i> (Note 1)	Property rental <i>HK\$</i>	Agency services <i>HK\$</i>	Consultancy services <i>HK\$</i>	Investment holding <i>HK\$</i>	Others <i>HK\$</i>	Consolidated <i>HK\$</i>
ASSETS							
Segment assets	699,629	11,284,411	9,517	14,819,821	39,124,153	–	65,937,531
Interests in associates	58,858,892	–	–	–	–	–	58,858,892
Unallocated corporate assets							66,952,263
Consolidated total assets							191,748,686
LIABILITIES							
Segment liabilities	64,000	178,459	25,000	26,954	9,000	–	303,413
Unallocated corporate liabilities							1,524,194
Consolidated total liabilities							1,827,607

OTHER INFORMATION

Year ended 31 March 2003

	Sales of pharmaceutical products <i>HK\$</i> (Note 1)	Property rental <i>HK\$</i>	Agency services <i>HK\$</i>	Consultancy services <i>HK\$</i>	Investment holding <i>HK\$</i>	Others <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	–	–	–	–	–	1,458,168	1,458,168
Deficit arising on revaluation of investment property	–	3,499,486	–	–	–	–	3,499,486
Depreciation and amortisation of property, plant and equipment	–	–	–	42,228	–	266,416	308,644
Loss on write off of property, plant and equipment	–	–	–	–	–	813,129	813,129

4. SEGMENT INFORMATION (Cont'd)

(a) Business segments (Cont'd)

Note 1: In current year, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Seng Pharmaceutical") has become a subsidiary of the Group. The Group has identified sales of pharmaceutical products as one of the principal activities and as a separate business segment of the Group. Accordingly, sales of pharmaceutical products was classified as turnover for the year.

Note 2: In prior year, the compensation income was received according to the import agency agreement entered into between the Group and Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta"), a substantial shareholder of the Company's ultimate holdings company, 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. No such compensation income was received in current year as the import agency agreement expired during the year.

(b) Geographical segments

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

5. OTHER OPERATING INCOME

	2004 HK\$	2003 HK\$
Interest income from bank deposits	961,169	1,356,449
Exchange gain	135,373	6,759
Others	321,611	140,000
	1,418,153	1,503,208

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

6. LOSS FROM OPERATIONS

	2004 HK\$	2003 HK\$
Loss from operations has been arrived at after charging:		
Staff costs, including directors' remuneration		
Salaries and other benefits	4,378,765	3,927,252
Retirement benefits scheme contributions	115,382	136,657
Total staff costs	4,494,147	4,063,909
Amortisation of goodwill (included in administrative expenses)	214,131	—
Amortisation of intangible assets (included in administrative expenses)	89,622	—
Auditors' remuneration	439,954	367,000
Depreciation and amortisation of property, plant and equipment	941,080	308,644
Loss on write off of property, plant and equipment	20,815	813,129
Research and development costs	229,904	—
Less: Government grants received	(229,904)	—
Net research and development costs	—	—
and after crediting:		
Dividend income from investment in an investee company	1,972,053	3,036,000
Gross rental income from an investment property less negligible outgoings (2003: HK\$23,000)	232,557	364,595

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2004 HK\$	2003 HK\$
Fees		
Executive directors	389,194	360,000
Independent non-executive directors	120,000	120,000
	509,194	480,000
Other emoluments (executive directors)		
Salaries and other benefits	1,449,525	1,448,494
Retirement benefits scheme contributions	54,000	53,934
	1,503,525	1,502,428
Total emoluments	2,012,719	1,982,428

The emoluments of the directors were within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	8	9
HK\$1,000,001 to HK\$1,500,000	1	1

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2003: three) individuals were as follows:

	2004 HK\$	2003 HK\$
Salaries and other benefits	1,056,416	1,133,776
Retirement benefits scheme contributions	47,520	51,120
	1,103,936	1,184,896

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 2004 and 2003, no emoluments were paid by the Group to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Group or as compensation for loss of office.

8. INCOME TAX EXPENSE

	2004 HK\$	2003 HK\$
The income tax expense comprises:		
Current year		
PRC income tax	8,377	33,384
Share of taxation attributable to associates	182,338	(16,096)
	190,715	17,288

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

Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/04 year of assessment. The effect of this increase has been reflected in the calculation of deferred tax balances at 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

8. INCOME TAX EXPENSE (Cont'd)

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

Details of deferred tax assets and liabilities for the year are set out in note 29.

The charge for the year can be reconciled to the loss per the income statement as follows:

	2004		2003	
	HK\$	%	HK\$	%
Loss before taxation	(5,470,731)		(4,509,423)	
Tax at Hong Kong profits tax rate of 17.5% (2002: 16%)	(957,378)	(17.5)	(721,508)	(16.0)
Tax effect of share of results of associates	267,128	4.9	(120,265)	(2.6)
Tax effect of expenses that are not deductible for tax purpose	170,464	3.1	789,514	17.5
Tax effect of income that is not taxable for tax purpose	(511,105)	(9.3)	(1,620,015)	(35.9)
Tax effect on deferred tax assets not recognised	12,364	0.2	79,128	1.8
Tax effect of tax losses not recognised	1,239,640	22.6	1,628,394	36.1
Utilisation of tax losses previously not recognised	(1,919)	–	(3,116)	(0.1)
Utilisation of deferred tax assets previously not recognised	–	–	(26,300)	(0.6)
Effect of tax exemptions granted to the PRC subsidiaries	(34,636)	(0.6)	(11,455)	(0.3)
Effect of different tax rates of subsidiaries operating in other jurisdictions	6,157	0.1	22,911	0.5
Tax expense and effective tax rate for the year	190,715	3.5	17,288	0.4

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

9. LOSS PER SHARE

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

	2004 HK\$	2003 HK\$
Net loss for the year	(5,738,813)	(4,526,711)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	485,824,598	459,473,000

No diluted loss per share is presented for the year as there was no potential dilutive shares.

No diluted loss per share was presented for the year ended 31 March 2003 because the exercise price of the Company's warrants was higher than the fair value per share that year and the warrants expired on 30 September 2002.

10. INVESTMENT PROPERTY

	THE GROUP HK\$
At 1 April 2003	10,700,000
Revaluation deficit	(500,000)
At 31 March 2004	10,200,000

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 2004 by LCH (Asia – Pacific) Surveyors Limited, an independent professional valuer, on an open market existing use basis. The deficit arising on the revaluation amounting to HK\$500,000, has been charged to the income statement. For the year ended 31 March 2003, the deficit arising on the revaluation amounted to HK\$3,500,000, of which HK\$514 had 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, had been charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$	Plant and machinery HK\$	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Construction in progress HK\$	Total HK\$
THE GROUP							
COST							
At 1 April 2003	–	–	1,412,080	1,324,608	1,265,029	–	4,001,717
Acquired on acquisition of a subsidiary	–	1,518,988	–	279,809	1,048,377	19,293,585	22,140,759
Additions	–	875,343	–	90,674	–	1,728,507	2,694,524
Transfer	17,813,593	3,208,499	–	–	–	(21,022,092)	–
Written off	–	(21,132)	–	–	–	–	(21,132)
At 31 March 2004	17,813,593	5,581,698	1,412,080	1,695,091	2,313,406	–	28,815,868
DEPRECIATION AND AMORTISATION							
At 1 April 2003	–	–	196,229	766,611	1,265,029	–	2,227,869
Provided for the year	136,639	211,684	359,634	153,304	79,819	–	941,080
Eliminated on write off	–	(317)	–	–	–	–	(317)
At 31 March 2004	136,639	211,367	555,863	919,915	1,344,848	–	3,168,632
NET BOOK VALUES							
At 31 March 2004	17,676,954	5,370,331	856,217	775,176	968,558	–	25,647,236
At 31 March 2003	–	–	1,215,851	557,997	–	–	1,773,848
THE COMPANY							
COST							
At 1 April 2003	–	–	1,119,580	488,000	1,265,029	–	2,872,609
Additions	–	–	–	82,402	–	–	82,402
At 31 March 2004	–	–	1,119,580	570,402	1,265,029	–	2,955,011
DEPRECIATION							
At 1 April 2003	–	–	172,041	206,848	1,265,029	–	1,643,918
Provided for the year	–	–	330,384	40,830	–	–	371,214
At 31 March 2004	–	–	502,425	247,678	1,265,029	–	2,015,132
NET BOOK VALUES							
At 31 March 2004	–	–	617,155	322,724	–	–	939,879
At 31 March 2003	–	–	947,539	281,152	–	–	1,228,691

The land and buildings are situated in the PRC and the Group is in the process of obtaining the land use right certificate for the medium-term leasehold land and the ownership certificate for the buildings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

12. GOODWILL

THE GROUP

HK\$

COST

Arising on acquisition of a subsidiary (Note 30)	1,613,510
Transfer from goodwill on associates (Note 15)	4,281,162

At 31 March 2004

5,894,672

AMORTISATION

Transferred from goodwill on associates (Note 15)	374,600
Provided for the year	214,131

At 31 March 2004

588,731

NET BOOK VALUE

At 31 March 2004

5,305,941

Goodwill is amortised over a period of 20 years.

13. INTANGIBLE ASSETS

Production rights

HK\$

THE GROUP

COST

Arising on acquisition of a subsidiary and balance at 31 March 2004	1,646,226
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AMORTISATION

Provided for the year and balance at 31 March 2004	89,622
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NET BOOK VALUE

At 31 March 2004

1,556,604

Production rights are amortised over a period of 20 years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	11,338,022	11,338,022
Amounts due from subsidiaries	163,780,622	133,731,124
	175,118,644	145,069,146
Less: Impairment loss	(65,150,872)	(65,150,872)
	109,967,772	79,918,274

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 2004 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 Meng Sheng Pharmaceutical Co., Limited	PRC**	RMB36,000,000	–	55	Research, development, manufacture and sale of biotechnology products

14. 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
			%	%	
Yunnan Nominees Limited	Hong Kong	HK\$2	100	–	Investment holding
Yunnan Yunyu Economic & Technology Consulting Co., Limited	PRC*	US\$100,000	–	100	Provision of consultancy services
Yunyu Bio – Pharmaceutical Company Limited	British Virgin Islands/PRC	US\$1	–	100	Investment holding
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.

* Company registered as wholly foreign owned enterprise.

** Company incorporated as cooperative joint venture enterprise.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004	2003
	HK\$	HK\$
Share of net assets	50,512,100	54,898,816
Goodwill arising on acquisition of associates (<i>Note</i>)	1,775,601	3,960,076
	52,287,701	58,858,892

Note: HK\$

COST

At 1 April 2003	4,281,162
Arising on acquisition of an associate	1,798,077
Transfer to goodwill of subsidiary (<i>Note 12</i>)	(4,281,162)

At 31 March 2004 **1,798,077**

AMORTISATION

At 1 April 2003	321,086
Provided for the year	75,990
Transfer to goodwill of subsidiary (<i>Note 12</i>)	(374,600)

At 31 March 2004 **22,476**

NET BOOK VALUES

At 31 March 2004 **1,775,601**

At 31 March 2003 3,960,076

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

15. INTERESTS IN ASSOCIATES (Cont'd)

Details of the associates of the Group at 31 March 2004 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
深圳新鵬生物工程有限公司	Incorporated	PRC	48	Research, development, manufacture and sale of biotechnology products
上海松力生物技術有限公司	Incorporated	PRC	25	Research, development, manufacture and sale of biotechnology products
雲南華寧興寧彩印有限公司	Incorporated	PRC	25	Printing and sale of cigarette packaging packs and boxes

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

Results for the year

	深圳新鵬 生物工程有限公司		上海松力生物 技術有限公司		雲南華寧興寧 彩印有限公司
	1.4.2003 to 31.3.2004 HK\$	1.4.2002 to 31.3.2003 HK\$	1.4.2003 to 31.3.2004 HK\$	21.6.2002 (date of incorporation) to 31.3.2003 HK\$	18.12.2003 (date of acquisition) to 31.3.2004 HK\$
Turnover	24,022,358	27,864,125	560,347	–	4,822,180
Depreciation	1,822,595	2,510,969	111,817	23,255	509,224
(Loss) profit before taxation	(867,333)	665,892	(1,169,630)	(669,935)	412,438
(Loss) profit before taxation attributable to the Group	(416,320)	319,628	(292,408)	(167,484)	103,109

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2004

15. INTERESTS IN ASSOCIATES (Cont'd)

Financial position

	深圳新鵬 生物工程有限公司		上海松力生物 技術有限公司		雲南華寧興寧 彩印有限公司
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$	2004 HK\$
Non-current assets	62,051,031	65,424,318	3,104,549	2,800,890	16,468,723
Current assets	43,595,708	38,873,879	2,427,301	3,689,250	17,795,753
Current liabilities	(10,447,929)	(13,099,274)	(2,277,078)	(2,065,735)	(1,326,452)
Non-current liabilities	(8,815,683)	(3,571,434)	-	-	-
Net assets	86,383,127	87,627,489	3,254,772	4,424,405	32,938,024
Net assets attributable to the Group	41,463,901	42,061,195	813,693	1,106,101	8,234,506

16. INVESTMENTS IN AN investee COMPANY

	THE GROUP	
	2004 HK\$	2003 HK\$
Investment securities		
Unlisted equity securities, at cost	55,205,141	35,548,696

The investment represents the Group's 18.75% (2003: 12.50%) interest in the registered capital of 玉溪環球彩印紙盒有限公司 Yuxi Globe Colour Printing Carton Co., Ltd. ("Yuxi Globe"), a company registered in the People's Republic of China which is engaged in the business of printing and sale of cigarette packaging pack and boxes. The directors consider that the investment worth at least its cost.

On 10 September 2003, the Group acquired an additional 6.25% equity interest in, and a loan receivable from, Yuxi Globe for a consideration of HK\$19,656,445 and HK\$243,555 respectively, by issuing 47,380,952 shares in the Company of HK\$0.10 each at HK\$0.42 per share. As a result of the acquisition, the Group's interest in Yuxi Globe increased from 12.50% to 18.75%.

17. 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.

18. 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.

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

At 31 March 2004 and up to the date of the report, the closing prices of this designated share were higher than the pre-determined price.

19. INVENTORIES

	THE GROUP	
	2004 HK\$	2003 HK\$
Raw materials	345,311	—
Work in progress	123,153	—
Finished goods	557,163	—
	1,025,627	—

All inventories are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

20. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade receivables at the balance date:

	THE GROUP	
	2004	2003
	HK\$	HK\$
Within 60 days	189,700	—
61 – 90 days	42,581	—
Over 90 days	93,867	—
	326,148	—
Dividends receivable	2,561,564	3,462,775
Other receivables	2,115,207	1,501,596
	5,002,919	4,964,371

21. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$	HK\$
Within 60 days	54,315	—
61 – 90 days	164,673	—
Over 90 days	126,694	—
	345,682	—
Other payables	2,206,654	1,054,593
	2,552,336	1,054,593

22. GOVERNMENT GRANTS

Government grants of HK\$281,132 (2003: nil) have been received in the current year for the development of biotechnology products. The amount of HK\$229,904 (2003: nil) have been deducted in reported research and development costs for biotechnology products.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

23. AMOUNTS DUE TO SUBSIDIARIES

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

24. AMOUNT DUE TO AN ASSOCIATE

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

25. AMOUNT DUE TO A SHAREHOLDER

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

26. SHARE CAPITAL

	Number of shares		Amount	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 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	100,000,000	100,000,000
Issued and fully paid:				
At beginning of the year	459,473,000	459,473,000	45,947,300	45,947,300
Increased during the year (Note)	47,380,952	–	4,738,095	–
At end of the year	506,853,952	459,473,000	50,685,395	45,947,300

Note: On 10 September 2003, the Group acquired an additional 6.25% equity interest in, and a loan receivable from, Yuxi Globe by issuing 47,380,952 shares in the Company of HK\$0.10 each at HK\$0.42 per share.

27. 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 entitled 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 on 30 September 2002.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

28. RESERVES

	Share premium <i>HK\$</i>	Capital redemption reserve <i>HK\$</i>	Deficit <i>HK\$</i>	Total <i>HK\$</i>
THE COMPANY				
At 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 and 1 April 2003	187,468,964	8,000	(88,021,163)	99,455,801
Share premium arising on issue of shares, net of expenses	14,734,261	—	—	14,734,261
Net loss for the year	—	—	(4,127,894)	(4,127,894)
At 31 March 2004	202,203,225	8,000	(92,149,057)	110,062,168

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 2004

29. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

THE GROUP

	Accelerated tax depreciation <i>HK\$</i>	Tax losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 April 2002			
– as previously stated	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	58,648	(58,648)	–
– as restated	58,648	(58,648)	–
Charge (credit) to income statement	3,116	(3,116)	–
At 31 March 2003 and 1 April 2003	61,764	(61,764)	–
(Credit) charge to income for the year	(40,805)	40,805	–
Effect of change in tax rate			
– charge (credit) to income statement	5,791	(5,791)	–
At 31 March 2004	26,750	(26,750)	–

At the balance sheet date, the Group had unused tax losses of approximately HK\$99,148,000 (2003: HK\$92,309,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK\$153,000 (2003: HK\$386,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$98,995,000 (2003: HK\$91,923,000) due to the unpredictability of future profit streams. All these losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$674,000 (2003: HK\$603,000). No deferred tax asset has been recognised in relation to such deductible temporary differences, as it is not probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

29. DEFERRED TAXATION (Cont'd)

THE COMPANY

	Accelerated tax depreciation HK\$	Tax losses HK\$	Total HK\$
At 1 April 2002			
– as previously stated	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	50,202	(50,202)	–
– as restated	50,202	(50,202)	–
(Credit) charge to income statement	(4,426)	4,426	–
At 31 March 2003 and 1 April 2003	45,776	(45,776)	–
(Credit) charge to income for the year	(41,961)	41,961	–
Effect of change in tax rate			
– charge (credit) to income statement	4,292	(4,292)	–
At 31 March 2004	8,107	(8,107)	–

At the balance sheet date, the Company had unused tax losses of approximately HK\$45,127,000 (2003: HK\$40,412,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK\$46,000 (2003: HK\$286,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$45,081,000 (2003: HK\$40,126,000) due to the unpredictability of future profit streams. All these losses may be carried forward indefinitely.

30. ACQUISITION OF A SUBSIDIARY

On 15 April 2003, the Group entered into an agreement to acquire an additional 6% equity interest in Meng Sheng Pharmaceutical. The acquisition was completed on 10 July 2003 and after the acquisition, the Group's interest in Meng Sheng Pharmaceutical increased from 49% to 55% and Meng Sheng Pharmaceutical became a subsidiary of the Group. This transaction has been accounted for using the purchase method of accounting.

	2004 HK\$	2003 HK\$
Net assets acquired:		
Property, plant and equipment	22,140,759	—
Intangible assets	1,646,226	—
Inventories	970,515	—
Trade and other receivables	1,956,228	—
Bank balances and cash	1,296,638	—
Trade and other payables	(2,131,113)	—
Short term loan	(1,273,584)	—
Dividend payable	(426,775)	—
Minority interests	(10,876,898)	—
	13,301,996	—
Goodwill arising on acquisition (<i>Note 12</i>)	1,613,510	—
Total consideration	14,915,506	—
Satisfied by:		
Cash paid on acquisition	3,064,245	—
Reclassification from interest in associate	11,851,261	—
	14,915,506	—
Net cash outflow arising on acquisition:		
Cash consideration paid	(3,064,245)	—
Bank balances and cash acquired	1,296,638	—
	(1,767,607)	—

The subsidiary acquired contributed HK\$3,561,166 to the Group's turnover, and a profit of HK\$171,927 to the Group's loss from operation between the date of acquisition and the balance sheet date.

31. 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.

The ORSO Scheme is funded by monthly contributions from both 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\$102,270 (2003: HK\$136,657) 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. This subsidiary is exempted for the contributions to the retirement benefit schemes in both years.

The employees of Yunnan Meng Sheng Pharmaceutical Co., Limited (雲南盟生藥業有限公司) are members of state-managed retirement benefit schemes operated by the PRC government. This subsidiary is required to contribute 24% 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 2004, the total cost charged to income statement of HK\$13,112 (2003: nil) represents contributions paid to the state-managed retirement benefit schemes by the Group in respect of current year.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

Minimum lease payment paid under operating leases in respect of premises during the year amounted to HK\$875,280 (2003: HK\$2,498,587).

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	
	2004 HK\$	2003 HK\$
Within one year	934,000	875,000
In the second to fifth year inclusive	817,000	1,751,000
	1,751,000	2,626,000

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.

The Group as lessor

Property rental income earned during the year was HK\$232,557 (2003: HK\$387,595). The property is expected to generate rental yields of 4.5% (2003: 3.6%) on an ongoing basis. The premise held has committed tenants for the next 3 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	
	2004 HK\$	2003 HK\$
Within one year	459,000	426,000
In the second to fifth year inclusive	918,000	427,000
	1,377,000	853,000

33. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	THE GROUP	
	2004 HK\$	2003 HK\$
Commitments for acquisition of property, plant and equipment – contracted for but not provided in the financial statements	271,749	–
Commitments for acquisition of additional interests in an investee company – authorised but not contracted for	–	19,900,000
	271,749	19,900,000

34. NON-CASH TRANSACTION

During the year, the Group acquired an additional 6.25% equity interest in, and a loan receivable from, Yuxi Globe for a consideration of HK\$19,656,445 and HK\$243,555 respectively, by issuing 47,380,952 shares in the Company of HK\$0.10 each at HK\$0.42 per share.

For the year ended 31 March 2003, the Group entered into a trade-in arrangement in respect of an equipment for a trade-in value of HK\$28,499.

35. RELATED PARTY TRANSACTIONS

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

	2004 HK\$	2003 HK\$
Management fee income received from Tianda Group Limited	240,000	140,000
Compensation income from Yuxi Hongta	–	4,417,920

Tianda Group Limited is a substantial shareholder of the Company.

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

In prior year, the compensation income was received 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.