INTERIM REPORT 2003

雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS

The board of directors (the "Directors") of Yunnan Enterprises Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2003, together with comparative figures for the corresponding period in 2002, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

		Six months ended	
	NOTES	**30 September 2003** ***HK$*** ***(Unaudited)***	30 September 2002 *HK$* *(Unaudited)*
Turnover	*3*	**1,585,317**	155,038
Cost of sales		**(612,382)**	–
Gross profit		**972,935**	155,038
Other operating income		**686,085**	5,219,405
Selling expense		**(256,314)**	–
Administrative expenses		**(4,685,317)**	(5,165,862)
(Loss) profit from operations	*4*	**(3,282,611)**	208,581
Share of results of associates		**(775,037)**	1,106,376
(Loss) profit before taxation		**(4,057,648)**	1,314,957
Taxation	*5*	**(79,138)**	(300,185)
(Loss) profit before minority interests		**(4,136,786)**	1,014,772
Minority interests		**(132,239)**	–
Net (loss) profit for the period		**(4,269,025)**	1,014,772
Basic (loss) earnings per share	*7*	**(0.92) cents**	0.22 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2003

	NOTES	**30 September 2003**	31 March 2003
		HK$	*HK$*
		(Unaudited)	*(Audited)*
NON-CURRENT ASSETS			
Investment property	*8*	**10,700,000**	10,700,000
Plant and equipment	*9*	**4,358,845**	1,773,848
Construction in progress		**20,335,241**	–
Interests in associates	*10*	**42,193,380**	58,858,892
Goodwill		**5,453,504**	–
Investment in an investee company	*11*	**51,261,285**	31,177,196
Loan to an investee company		**5,086,555**	4,843,000
Intangible assets		**1,632,075**	–
Securities linked deposit		**3,017,282**	3,017,282
		144,038,167	110,370,218
CURRENT ASSETS			
Inventories		**917,798**	–
Trade and other receivables	*12*	**3,202,072**	4,964,371
Bank deposits		**65,143,321**	60,336,890
Bank balances and cash		**6,926,578**	16,077,207
		76,189,769	81,378,468
CURRENT LIABILITIES			
Trade and other payables	*13*	**1,620,147**	1,054,593
Amount due to an associate		**773,014**	773,014
		2,393,161	1,827,607
NET CURRENT ASSETS		**73,796,608**	79,550,861
		217,834,775	189,921,079
CAPITAL AND RESERVES			
Share capital	*14*	**50,685,395**	45,947,300
Reserves		**154,865,212**	143,972,332
		205,550,607	189,919,632
MINORITY INTERESTS		**12,284,168**	1,447
		217,834,775	189,921,079

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Share capital *HK$*	Share premium *HK$*	Capital redemption reserve *HK$*	Goodwill reserve *HK$*	Special reserve *HK$*	Statutory surplus reserve fund *HK$*	Enterprise expansion fund *HK$*	Exchange reserve *HK$*	Investment property revaluation reserve *HK$*	Deficit *HK$*	Total *HK$*
At 1 April 2002	45,947,300	187,468,964	8,000	(7,938,469)	3,460,016	–	–	1,412,683	514	(35,912,151)	194,446,857
Net profit for the period	–	–	–	–	–	–	–	–	–	1,014,772	1,014,772
At 30 September 2002	45,947,300	187,468,964	8,000	(7,938,469)	3,460,016	–	–	1,412,683	514	(34,897,379)	195,461,629
Revaluation decrease for the period not recognised in consolidated income statement	–	–	–	–	–	–	–	–	(514)	–	(514)
Net loss for the period	–	–	–	–	–	–	–	–	–	(5,541,483)	(5,541,483)
Transfer to reserve	–	–	–	–	–	1,425,260	1,425,259	–	–	(2,850,519)	–
At 31 March 2003	45,947,300	187,468,964	8,000	(7,938,469)	3,460,016	1,425,260	1,425,259	1,412,683	–	(43,289,381)	189,919,632
Share issued at premium	4,738,095	15,161,905	–	–	–	–	–	–	–	–	19,900,000
Net loss for the period	–	–	–	–	–	–	–	–	–	(4,269,025)	(4,269,025)
At 30 September 2003	**50,685,395**	**202,630,869**	**8,000**	**(7,938,469)**	**3,460,016**	**1,425,260**	**1,425,259**	**1,412,683**	**–**	**(47,558,406)**	**205,550,607**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

	Six months ended	
	30 September 2003	30 September 2002
	HK$	*HK$*
	(Unaudited)	*(Unaudited)*
Net cash (used in) from operating activities	**(2,808,269)**	6,807,375
Net cash used in investing activities	**(7,615,944)**	(8,029,433)
Net cash from financing activity	**1,273,584**	–
Net decrease in cash and cash equivalents	**(9,150,629)**	(1,222,058)
Cash and cash equivalents at beginning of the period	**16,077,207**	12,386,781
Cash and cash equivalents at end of the period, represented by bank balances and cash	**6,926,578**	11,164,723

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment property.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2003, except as described below.

In the current interim period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the adoption 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 condensed financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions.

The adoption of SSAP 12 (Revised) has no material impact on the condensed financial statements.

3. SEGMENT INFORMATION

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.

	Sales of pharmaceutical products	**Property rental**	**Agency services**	**Consultancy services**	**Investment holding**	**Consolidated**
	HK$ *(Note)*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Six months ended 30 September 2003						
TURNOVER	**1,391,519**	**193,798**	**–**	**–**	**–**	**1,585,317**
SEGMENT RESULTS	**(489,497)**	**(219,557)**	**(216,066)**	**(73,886)**	**(555,748)**	**(1,554,754)**
Bank interest income						**484,474**
Other operating income						**201,611**
Unallocated corporate expenses						**(2,413,942)**
Loss from operations						**(3,282,611)**
Share of results of associates						**(775,037)**
Loss before taxation						**(4,057,648)**
Taxation						**(79,138)**
Loss before minority interest						**(4,136,786)**
Minority interest						**(132,239)**
Net loss for the period						**(4,269,025)**

	Sales of pharmaceutical products HK$ (Note)	Property rental HK$	Agency services HK$	Consultancy services HK$	Investment holding HK$	Consolidated HK$
Six months ended 30 September 2002						
TURNOVER	–	155,038	–	–	–	155,038
SEGMENT RESULTS	–	(19,879)	3,582,904	(491,683)	(1,366,015)	1,705,327
Bank interest income						781,475
Other operating income						20,010
Unallocated corporate expenses						(2,298,231)
Profit from operations						208,581
Share of results of associates						1,106,376
Profit before taxation						1,314,957
Taxation						(300,185)
Net profit for the period						1,014,772

Note: In the current period, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng 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 period.

4. LOSS (PROFIT) FROM OPERATIONS

	Six months ended	
	30 September 2003	30 September 2002
	HK$	*HK$*
Loss (profit) from operations has been arrived at after charging (crediting):		
Depreciation of plant and equipment	**319,258**	147,242
Amortisation of goodwill (included in administrative expenses)	**120,082**	–
Amortisation of intangible assets (included in administrative expenses)	**14,151**	–
Total depreciation and amortisation	**453,491**	147,242
Bank interest income	**(484,474)**	(781,475)

5. TAXATION

	Six months ended	
	30 September 2003	30 September 2002
	HK$	*HK$*
The charge comprises:		
PRC income tax	**–**	33,383
Share of taxation attributable to associates	**79,138**	266,802
	79,138	300,185

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

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

There is no material deferred taxation for the period or at the balance sheet date.

6. DIVIDEND

No dividends was paid during the period. The directors do not recommend the payment of an interim dividend.

7. BASIS (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the net loss for the period of HK$4,269,025 (net profit of HK$1,014,772 for the six months ended 30 September 2002) and on the weighted average number of 464,910,158 (459,473,000 for the six months ended 30 September 2002) ordinary shares in issue during the period.

No diluted (loss) earnings per share is presented because the exercise price of the Company's outstanding warrants was higher than the average market price for shares during last period and all warrants expired in September 2002.

8. INVESTMENT PROPERTY

The directors have considered the carrying amount of the Group's investment property carried at revalued amount and have estimated that the carrying amount does not differ significantly from that which would have been determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

9. PLANT AND EQUIPMENT

During the period, the Group acquired HK$2,847,175 (Nil for the six months ended 30 September 2002) plant and equipment in pursuant to the acquisition of Meng Sheng Pharmaceutical as a subsidiary of the Group.

10. INTERESTS IN ASSOCIATES

	30 September 2003	31 March 2003
	HK$	*HK$*
Share of net assets	**42,193,380**	54,898,816
Goodwill arising on acquisition of an associate	**–**	3,960,076
	42,193,380	58,858,892

During the period, the Group acquired an additional 6% equity interest in an associate, Meng Sheng Pharmaceutical, resulting in the increase of interest in Meng Sheng Pharmaceutical from 49% to 55% and Meng Sheng Pharmaceutical became a subsidiary of the Group.

11. INVESTMENT IN AN INVESTEE COMPANY

During the period, the Group acquired a further 6.25% interest in Yuxi Globe Color Printing Carton Co., Ltd. ("Yuxi Globe") for a consideration of HK$19.9 million by issuing 47,380,952 shares in the Company 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%.

12. TRADE AND OTHER RECEIVABLES

The Group allows a credit period of 60-90 days to its trade customers.

Included in trade and other receivables is accounts receivable with an aged analysis at the reporting date, as follows:

	30 September 2003	31 March 2003
	HK$	*HK$*
0 – 60 days	**121,425**	–
60 – 90 days	**–**	–
Over 90 days	**241,957**	–
	363,382	–

13. TRADE AND OTHER PAYABLES

Included in trade and other payables is accounts payable with an aged analysis at the reporting date, as follows:

	30 September 2003	31 March 2003
	HK$	*HK$*
0 – 60 days	**97,104**	–
60 – 90 days	**39,109**	–
Over 90 days	**210,961**	–
	347,174	–

14. SHARE CAPITAL

	Number of shares	**Share Capital**
		HK$
Ordinary shares of HK$0.10 each		
Issued and fully paid		
At 1 April 2003	459,473,000	45,947,300
Shares issued as consideration for the acquisition of a further 6.25% interest in Yuxi Globe	47,380,952	4,738,095
At 30 September 2003	**506,853,952**	**50,685,395**

15. CAPITAL COMMITMENTS

At 30 September 2003, the Group was committed to capital expenditure of HK$362,000 in respect of the acquisition of equipment for its pharmaceutical production facilities contracted for but not provided in the financial statements.

16. 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.

The effect of the acquisition is summarized as follows:

	HK$
Net assets acquired	24,178,894
Less: Minority interests	(10,876,898)
Interest acquired in prior years	(11,851,261)
	1,450,735
Goodwill arising on acquisition	1,613,510
Cash consideration	3,064,245
Net cash outflow arising on acquisition	
Cash consideration	3,064,245
Bank balances and cash acquired	1,296,638
	1,767,607

The subsidiary acquired during the period contributed HK$1,391,519 to the Group's turnover, and HK$489,497 to the Group's loss from operations, respectively.

17. POST BALANCE SHEET EVENT

On 26 August 2003, the Group entered into an agreement to acquire a 25% equity interest in Yunnan Xingning Color Material Printing Co., Ltd. for a cash consideration of Rmb10.27 million (approximately HK$9.7 million). The transaction was not completed at 30 September 2003.

INTERIM DIVIDEND

The Directors do not declare an interim dividend for the six months ended 30 September 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 September 2003, the Group recorded a turnover of HK$1,590,000 with the corresponding amount for 2002 being HK$160,000. The substantial rise 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 period under review. Turnover of Meng Sheng Pharmaceutical for the period from July to September 2003 amounting to Rmb1,480,000 (or HK$1,390,000) was then included in the consolidated turnover of the Group. During the period under review, the Group's effort in implementing stringent cost control measures continued to receive reward. Administrative expenses for the Group during the period decreased by 9% compared to last 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 period under review. Accordingly, the Group has to share losses (before tax) of the associated companies amounting to HK$780,000 during the period. For the six months ended 30 September 2003, the Group recorded a net loss of HK$4,270,000, compared to a net profit of HK$1,010,000 for the corresponding period last year. Results for the corresponding period last year included a compensation of HK$4,420,000 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 30 September 2003, the shareholders' funds for the Group reached HK$206,000,000, representing an increase of 8% when compared with HK$190,000,000 as at 31 March 2003. The increase of the shareholders' funds was mainly attributable to the completion of the acquisition of an additional 6.25% equity interest in Yuxi Globe Color Printing Carton Co., Ltd. during the period under review, and at the same time the Company has allotted and issued 47,380,952 ordinary shares to the vendor for settling the consideration for the acquisition of HK$19,900,000. Moreover, the Group maintained a healthy financial position during the period. As at 30 September 2003, the Group held bank balances and deposits of approximately HK$75,000,000 with no debts.

Business review

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 and as a separate business segment of the Group during the period under review.

Sales quantities of Meng Sheng Pharmaceutical's major product Cerebroprotein continued to increase, despite the current intensified competition in the domestic pharmaceutical market. Meng Sheng Pharmaceutical recorded a turnover of Rmb2,920,000 during the period under review, representing an increase of 19% when compared with the corresponding amount in last year and also maintaining a progressive growth. During the period under review, Meng Sheng Pharmaceutical also recorded a net profit of Rmb570,000. 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$290,000 into the Group's consolidated results during the period from July to September 2003.

Upon completion of the first phase of the construction work for its production base which is located in the Kunming Economic and Technology Development Zone, the second phase of the construction work has already been commenced in the current year. Such construction work are expected to complete by the end of this year, followed by GMP certification procedures on the relevant production workshops. The production capacity of Meng Sheng Pharmaceutical will be further enhanced in the future. Moreover, the Group injected further capital of Rmb1,650,000 into Meng Sheng Pharmaceutical during the period under review, which signifies that the Group is confident in the development prospect of the entity. The management believes that the development potential of Meng Sheng Pharmaceutical will bring about fruitful returns to the Group in the future.

Associate

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 period under review. Despite the fact that sales quantities of rhG-CSF maintained a growing trend, the reduction of prices caused a turnover of Rmb13,690,000 recorded during the period under review which represented a decrease of 17% when compared with the corresponding amount of Rmb16,450,000 in last year. Under such situation, Xinpeng Biotechnology Engineering recorded a loss (before tax) of Rmb1,550,000 during the period under review, compared to a profit (before tax) of Rmb1,630,000 in the previous year. As a result, the Group shared HK$700,000 losses (before tax) attributable to that associated company during the period.

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.

New investment

In August 2003, the Group entered into a sale and purchase agreement for the acquisition of a 25% interest in Yunnan Xingning Color Material Printing Co., Ltd. ("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. Completion of such acquisition is expected to be no later than 31 December 2003. Yunnan Xingning will also become a sino-foreign equity joint venture upon completion. The joint venture partner is Yunnan Hongta Investment Company Limited ("Hongta Investment") which will then hold 75% interest in Yunnan Xingning. With Hongta Investment's full support to the business of Yunnan Xingning, the Group believes that Yunnan Xingning will generate favorable investment returns to the Group in the future and further strengthen its investment portfolio in China's cigarette packaging and printing entities.

Prospects

Since the Group's acquisition of 49% interest in Meng Sheng Pharmaceutical in August 2001 till the acquisition of further 6% interest in the entity during the period under review, Meng Sheng Pharmaceutical has been maintaining stable operating performance throughout that period and brought about sustained profit contribution to the Group. Its production base consists of advanced production facilities and GMP-compliant production workshops, which could act as catalysts for its increasing sales trend. The Group believes that the pharmaceutical business will generate favorable returns to the Group in the future. On the other hand, the Group continues to have confidence in Xinpeng Biotechnology Engineering. With its strong business foundations as well as experienced management team, Xinpeng Biotechnology Engineering would be able to cope with the tough challenges prevailing in the domestic pharmaceutical market. By virtue of the net loss incurred during the period under review, the Group will keep on to reduce operating expenses in stringent manner in order to improve the results performance.

Employees

The Group has approximately 60 employees at 30 September 2003. Employees are remunerated according to nature of the job and market trends.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2003, none of the Directors, chief executives or their associates had any interests or short positions in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, according to the register maintained by the Company pursuant to section 336 of the SFO, the Company had been notified of the following persons who were directly or indirectly interested in 5% or more of the issued share capital of the Company:

Name	Number of shares held	Percentage of the issued share capital
South Hong Investment Limited	262,442,930 *(Note 1)*	51.78%
China National Tobacco Corporation Yunnan Branch	262,442,930 *(Note 1)*	51.78%
Yuxi Hongta Tobacco (Group) Limited	262,442,930 *(Note 1)*	51.78%
Yunnan International Trust and Investment Corporation	262,442,930 *(Note 1)*	51.78%
Tianda Group Limited	47,380,952 *(Note 2)*	9.35%

Notes:

(1) These 262,442,930 shares are beneficially owned by South Hong Investment Limited ("South Hong") which is owned as to 29.4% by China National Tobacco Corporation Yunnan Branch; 47.1% by Yuxi Hongta Tobacco (Group) Limited and 17.6% by Yunnan International Trust and Investment Corporation. China National Tobacco Corporation Yunnan Branch, Yuxi Hongta Tobacco (Group) Limited and Yunnan International Trust and Investment Corporation, all being substantial shareholders of South Hong, are deemed to be interested in the 262,442,930 shares owned by South Hong.

(2) These 47,380,952 shares are beneficially owned by Tianda Group Limited.

Save as disclosed above, the Company had not been notified of any other persons who had interests in 5 % or more of the issued share capital of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussing auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September 2003 of the Company now reported on. At the request of the Directors, the Group's external auditors have carried out a review of the unaudited interim financial statements in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By order of the Board
Ma Pizhi
Managing Director

Hong Kong, 16 December 2003

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Deloitte Touche Tohmatsu

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
YUNNAN ENTERPRISES HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 1 to 9.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2003.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 16 December 2003