



雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)



Interim Report 2004

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 2004, together with comparative figures for the corresponding period in 2003, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

		Six months ended	
		30 September 2004	30 September 2003
	NOTES	HK\$ (Unaudited)	HK\$ (Unaudited)
Turnover	3	1,701,654	1,585,317
Cost of sales		<u>(1,038,814)</u>	<u>(612,382)</u>
Gross profit		662,840	972,935
Other operating income		536,728	686,085
Distribution costs		(152,243)	(256,314)
Administrative expenses		<u>(4,500,990)</u>	<u>(4,685,317)</u>
Loss from operations	4	(3,453,665)	(3,282,611)
Share of results of associates		<u>(226,486)</u>	<u>(775,037)</u>
Loss before taxation		(3,680,151)	(4,057,648)
Income tax expense	5	<u>(246,252)</u>	<u>(79,138)</u>
Loss after taxation		(3,926,403)	(4,136,786)
Minority interests		<u>246,454</u>	<u>(132,239)</u>
Net loss for the period		<u>(3,679,949)</u>	<u>(4,269,025)</u>
Basic loss per share	6	<u>(0.73) cents</u>	<u>(0.92) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2004

	NOTES	30 September 2004 HK\$ (Unaudited)	31 March 2004 HK\$ (Audited)
NON-CURRENT ASSETS			
Investment property	7	10,200,000	10,200,000
Property, plant and equipment	8	26,256,176	25,647,236
Goodwill		5,158,574	5,305,941
Intangible assets		1,514,148	1,556,604
Interests in associates	9	51,814,963	52,287,701
Investments in an investee company		55,205,141	55,205,141
Loan to an investee company		715,055	715,055
Securities linked deposit		3,017,282	3,017,282
		<u>153,881,339</u>	<u>153,934,960</u>
CURRENT ASSETS			
Inventories		1,501,871	1,025,627
Trade and other receivables	10	2,264,153	5,002,919
Bank deposits		45,395,485	46,383,796
Bank balances and cash		13,583,277	13,501,258
		<u>62,744,786</u>	<u>65,913,600</u>
CURRENT LIABILITIES			
Trade and other payables	11	2,933,700	2,080,638
Government grants		25,471	51,228
Amount due to an associate		773,014	773,014
Amount due to a shareholder		–	589,511
Amount due to a minority shareholder		943,396	471,698
		<u>4,675,581</u>	<u>3,966,089</u>
NET CURRENT ASSETS		<u>58,069,205</u>	<u>61,947,511</u>
		<u>211,950,544</u>	<u>215,882,471</u>
CAPITAL AND RESERVES			
Share capital		50,685,395	50,685,395
Reserves		149,282,307	152,967,780
		<u>199,967,702</u>	<u>203,653,175</u>
MINORITY INTERESTS		<u>11,982,842</u>	<u>12,229,296</u>
		<u>211,950,544</u>	<u>215,882,471</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Share capital	Share premium	Capital redemption reserve	Goodwill reserve	Special reserve	Statutory surplus reserve fund	Enterprise expansion fund	Exchange reserve	Deficit	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 April 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
Issue of shares, net of expenses	4,738,095	14,734,261	-	-	-	-	-	-	-	19,472,356
Net loss for the period	-	-	-	-	-	-	-	-	(4,269,025)	(4,269,025)
At 30 September 2003	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	1,425,260	1,425,259	1,412,683	(47,558,406)	205,122,963
Net loss for the period	-	-	-	-	-	-	-	-	(1,469,788)	(1,469,788)
Transfer to reserve	-	-	-	-	-	916,891	4,714	-	(921,605)	-
At 31 March 2004	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	2,342,151	1,429,973	1,412,683	(49,949,799)	203,653,175
Net loss for the period	-	-	-	-	-	-	-	-	(3,679,949)	(3,679,949)
Utilization of statutory surplus reserve fund	-	-	-	-	-	(5,524)	-	-	-	(5,524)
At 30 September 2004	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	2,336,627	1,429,973	1,412,683	(53,629,748)	199,967,702

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

	Six months ended	
	30 September	30 September
	2004	2003
	HK\$	HK\$
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash used in operating activities	(2,310,351)	(2,808,269)
Net cash from (used in) investing activities	2,510,183	(7,615,944)
Net cash (used in) from financing activity	(117,813)	1,273,584
Net increase (decrease) in cash and cash equivalents	82,019	(9,150,629)
Cash and cash equivalents at beginning of the period	13,501,258	16,077,207
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>13,583,277</u>	<u>6,926,578</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

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 No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. SIGNIFICANT 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 2004.

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 <i>HK\$</i>	Property rental <i>HK\$</i>	Agency services <i>HK\$</i>	Consultancy services <i>HK\$</i>	Investment holding <i>HK\$</i>	Consolidated <i>HK\$</i>
Six months ended 30 September 2004						
TURNOVER	<u>1,492,949</u>	<u>208,705</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,701,654</u>
SEGMENT RESULTS	<u>(1,247,959)</u>	<u>(181,524)</u>	<u>(213,765)</u>	<u>(62,333)</u>	<u>(471,602)</u>	<u>(2,177,183)</u>
Bank interest income						389,338
Other operating income						147,390
Unallocated corporate expenses						<u>(1,813,210)</u>
Loss from operations						<u>(3,453,665)</u>
Share of results of associates						<u>(226,486)</u>
Loss before taxation						<u>(3,680,151)</u>
Income tax expense						<u>(246,252)</u>
Loss before minority interests						<u>(3,926,403)</u>
Minority interests						<u>246,454</u>
Net loss for the period						<u><u>(3,679,949)</u></u>

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

4. LOSS FROM OPERATIONS

	Six months ended	
	30 September 2004 <i>HK\$</i> <i>(Unaudited)</i>	30 September 2003 <i>HK\$</i> <i>(Unaudited)</i>

Loss from operations has been arrived at after charging (crediting):

Depreciation of property, plant and equipment	820,090	319,258
Amortisation of goodwill (included in administrative expenses)	147,367	120,082
Amortisation of intangible assets (included in administrative expenses)	42,456	14,151
Total depreciation and amortisation	<u>1,009,913</u>	<u>453,491</u>
Bank interest income	<u>(389,338)</u>	<u>(484,474)</u>

5. INCOME TAX EXPENSE

The income tax expense represents share of taxation attributable to an associate. No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for both periods.

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

6. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$3,679,949 (six months ended 30 September 2003: HK\$4,269,025) and on 506,853,952 shares (six months ended 30 September 2003: weighted average number of 464,910,158 shares) in issue during the period.

No diluted loss per share is presented as there were no potential dilutive shares.

7. 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.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent an aggregate amount of HK\$1,429,030 (six months ended 30 September 2003: HK\$2,847,175) on additions to property, plant and equipment.

9. INTERESTS IN ASSOCIATES

	30 September 2004 HK\$ (Unaudited)	31 March 2004 HK\$ (Audited)
Share of net assets	50,084,315	50,512,100
Goodwill arising on acquisition of an associate	1,730,648	1,775,601
	<u>51,814,963</u>	<u>52,287,701</u>

10. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 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 2004 HK\$ (Unaudited)	31 March 2004 HK\$ (Audited)
Within 60 days	197,368	189,700
61 – 90 days	–	42,581
Over 90 days	101,927	93,867
	299,295	326,148
Dividends receivable	–	2,561,564
Other receivables	1,964,858	2,115,207
	<u>2,264,153</u>	<u>5,002,919</u>

11. 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 2004 HK\$ (Unaudited)	31 March 2004 HK\$ (Audited)
Within 60 days	221,831	54,315
61 – 90 days	256,465	164,673
Over 90 days	<u>453,844</u>	<u>126,694</u>
	932,140	345,682
Other payables	<u>2,001,560</u>	<u>1,734,956</u>
	<u>2,933,700</u>	<u>2,080,638</u>

12. CAPITAL COMMITMENTS

At 30 September 2004, the Group was committed to capital expenditure of approximately HK\$50,000 (31 March 2004: HK\$272,000) in respect of the acquisition of equipment for its pharmaceutical production facilities contracted for but not provided in the financial statements.

13. RELATED PARTY TRANSACTION

During the period, the Group has received management fee income of HK\$120,000 (six months ended 30 September 2003: HK\$120,000) from a substantial shareholder of the Company, Tianda Group Limited.

INTERIM DIVIDEND

The Directors do not declare an interim dividend for the six months ended 30 September 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 30 September 2004, turnover of the Group amounted to HK\$1,700,000 which represented an increase of 7% over the corresponding period last year. Turnover was mainly comprised of sales of pharmaceutical products in the People's Republic of China (the "PRC") performed by Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical"), a 55% – owned subsidiary of the Company. On the other hand, despite the fact that the Group's associated company Shenzhen Xinpeng Biotechnology Engineering Company Limited recorded losses during the period under review, this was nevertheless mitigated by the continued profit contribution from another associate Yunnan Xingning Color Material Printing Co., Limited during the same period. Accordingly, the Group's share of losses (before tax) of the associated companies amounted to HK\$230,000 during the period under review when compared with its share of losses (before tax) of the associated companies of HK\$780,000 for the corresponding period last year. For the six months ended 30 September 2004, the Group recorded a net loss of HK\$3,680,000, compared to a net loss of HK\$4,270,000 for the corresponding period last year.

Outlook

Meng Sheng Pharmaceutical has obtained production approvals for two new products in 2004 with sales of these products being recently commenced. This could enhance the product diversification and competitiveness of the entity. Moreover, Yuxi Globe Color Printing Carton Co., Limited ("Yuxi Globe"), in which the Group now holds 18.75% equity interest, continued to maintain its stable operating performance during the period under review. Yuxi Globe is therefore expected to achieve fruitful results in 2004. As a result, the dividend income derived from investment in Yuxi Globe in next year could strengthen the income base of the Group. Coupled with the improving operating results of the associated companies as well as the commitment of the Group to maintain effective cost control measures, the Group therefore believes that better results performance could be achieved in the coming years.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to sustain a liquidity position. As at 30 September 2004, the Group had cash and bank balances of approximately HK\$62 million. Cash and bank balances were denominated in United States dollar, Renminbi and Hong Kong dollar. As in the past, the Group has no external borrowings. With this strong financial position, the Group has sufficient financial resources to meet its operations and future development needs.

EXCHANGE RATE EXPOSURE

The Group's assets, liabilities and transactions are denominated either in Hong Kong dollar, Renminbi or United States dollar. As the exchange rates of Hong Kong dollar, Renminbi and United States dollar were relatively stable during the period, the Group was not exposed to material exchange rate risk.

CHARGES ON ASSETS

The Group did not have any charges on assets as at 30 September 2004.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2004, the Group employed approximately 60 employees in Hong Kong and the PRC. The Group remunerates its employees based on their performance, experience and prevailing industry practice.

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

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the period for the six months ended 30 September 2004, save that the independent non-executive directors are not appointed for specific terms, but are subject to retirement by rotation and re-election in accordance with the articles of association of the Company.

AUDIT COMMITTEE

Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai were appointed as independent non-executive directors and audit committee members of the Company with effect from 22 September 2004. The audit committee was established in accordance with the requirement of the Code. The audit committee comprises of three members, Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai who are independent non-executive directors of the Company. The audit committee has reviewed with the management and the auditors the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including the review of the unaudited interim financial statements for the six months ended 30 September 2004 of the Company.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2004, save for the corporate interest of a director as disclosed under the section "Substantial Shareholders", no other directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register as required to be kept under Section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of the relevant interests of the issued share capital of the Company:

Name of shareholder	Capacity	Number of shares held	Percentage of the issued share capital
South Hong Investment Limited	Beneficial owner	262,442,930 <i>(Note 1)</i>	51.78
China National Tobacco Corporation Yunnan Branch	Held by controlled corporation	262,442,930 <i>(Note 1)</i>	51.78
Yuxi Hongta Tobacco (Group) Limited	Held by controlled corporation	262,442,930 <i>(Note 1)</i>	51.78
Yunnan International Trust and Investment Corporation	Held by controlled corporation	262,442,930 <i>(Note 1)</i>	51.78
Tianda Group Limited	Beneficial owner	47,380,952 <i>(Note 2)</i>	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. Mr. Fang Wen Quan has 99.99% share interests in Tianda Group Limited and, accordingly, is deemed to have a corporate interest in the said 47,380,952 shares owned by Tianda Group Limited.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the six months ended 30 September 2004.

COMPOSITION OF BOARD OF DIRECTORS

As at the date of this report, the executive directors of the Company are Mr. Li Suiming, Mr. Ma Pizhi, Mr. Cheng Hau Yan, Mdm. Dong Jianhua, Mr. Li Hong, Mr. Li Guanglin and Mr. Fang Wen Quan; and the independent non-executive directors are Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai.

By order of the Board
Ma Pizhi
Managing Director

Hong Kong, 15 December 2004

Deloitte.

德勤

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 8.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public 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 No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public 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 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 15 December 2004