雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2005

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 2005, together with comparative figures for the corresponding period in 2004, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

		Six months ended 30 September	
		2005	2004
	NOTES	***HK$***	*HK$*
		(Unaudited)	*(Unaudited and restated)*
Turnover	*4*	**6,180,521**	1,701,654
Cost of sales		**(2,265,916)**	(1,038,814)
Gross profit		**3,914,605**	662,840
Other operating income		**930,072**	536,728
Distribution costs		**(150,366)**	(152,243)
Administrative expenses		**(4,403,258)**	(4,476,254)
Surplus arising on revaluation of investment property		**1,500,000**	–
Profit (loss) from operations	*5*	**1,791,053**	(3,428,929)
Share of results of associates		**972,995**	(472,738)
Profit (loss) before taxation		**2,764,048**	(3,901,667)
Income tax expense	*6*	**(6,354)**	–
Profit (loss) for the period		**2,757,694**	(3,901,667)
Attributable to:			
Equity holders of the parent		**1,612,923**	(3,666,344)
Minority interests		**1,144,771**	(235,323)
		2,757,694	(3,901,667)
Basic earnings (loss) per share	*7*	**0.32 cents**	(0.72) cents

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2005

	NOTES	**30 September 2005 HK$ (Unaudited)**	31 March 2005 HK$ (Audited and restated)
NON-CURRENT ASSETS			
Investment property	*8*	**12,500,000**	11,000,000
Property, plant and equipment	*9*	**21,410,620**	21,764,202
Prepaid lease payments		**3,570,650**	3,538,545
Goodwill		**5,011,207**	5,011,207
Intangible assets		**1,456,449**	1,471,692
Interests in associates	*10*	**54,587,456**	52,639,388
Investments in an investee company		**56,266,778**	55,205,141
Loan to an investee company		**–**	715,055
		154,803,160	151,345,230
CURRENT ASSETS			
Inventories		**2,075,624**	1,743,038
Trade and other receivables	*11*	**3,689,167**	6,059,881
Prepaid lease payments		**78,648**	78,648
Loan to an investee company		**728,806**	–
Securities linked deposit		**3,017,282**	3,017,282
Bank deposits		**43,740,705**	43,662,111
Bank balances and cash		**17,305,904**	14,464,636
		70,636,136	69,025,596
CURRENT LIABILITIES			
Trade and other payables	*12*	**1,998,484**	2,565,081
Amount due to an associate		**787,880**	773,014
		2,786,364	3,338,095
NET CURRENT ASSETS		**67,849,772**	65,687,501
Total assets less current liabilities		**222,652,932**	217,032,731
NON-CURRENT LIABILITY			
Deposit received		**1,250,000**	1,226,415
		221,402,932	215,806,316
CAPITAL AND RESERVES			
Share capital		**50,685,395**	50,685,395
Reserves		**156,548,651**	152,341,991
Equity attributable to equity holders of the parent		**207,234,046**	203,027,386
Minority interests		**14,168,886**	12,778,930
		221,402,932	215,806,316

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Attributable to equity holders of the parent										
	Share capital HK$	Share premium HK$	Capital redemption reserve HK$	Goodwill reserve HK$	Special reserve HK$ Note (i)	Statutory reserves HK$ Note (ii)	Exchange reserve HK$	Accumulated losses HK$	Total HK$	Minority interests HK$	Total HK$
At 1 April 2004											
As originally stated	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,772,124	1,412,683	(49,949,799)	203,653,175	–	203,653,175
Effect of changes in accounting policies *(note 2)*	–	–	–	–	–	–	–	6,802	6,802	12,234,862	12,241,664
As restated	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,772,124	1,412,683	(49,942,997)	203,659,977	12,234,862	215,894,839
Utilisation of statutory reserves recognised directly in equity	–	–	–	–	–	(5,524)	–	–	(5,524)	–	(5,524)
Loss for the period (restated)	–	–	–	–	–	–	–	(3,666,344)	(3,666,344)	(235,323)	(3,901,667)
Total recognised income and expense for the period	–	–	–	–	–	(5,524)	–	(3,666,344)	(3,671,868)	(235,323)	(3,907,191)
At 30 September 2004 and 1 October 2004 (unaudited)	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,766,600	1,412,683	(53,609,341)	199,988,109	11,999,539	211,987,648
Profit for the period and total recognised income for the period	–	–	–	–	–	–	–	3,039,277	3,039,277	779,391	3,818,668
Transfer to reserves	–	–	–	–	–	192,828	–	(192,828)	–	–	–
At 31 March 2005 and 1 April 2005	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,959,428	1,412,683	(50,762,892)	203,027,386	12,778,930	215,806,316
Exchange adjustments recognised directly in equity	–	–	–	–	–	–	2,593,737	–	2,593,737	245,185	2,838,922
Profit for the period	–	–	–	–	–	–	–	1,612,923	1,612,923	1,144,771	2,757,694
Total recognised income and expense for the period	–	–	–	–	–	–	2,593,737	1,612,923	4,206,660	1,389,956	5,596,616
At 30 September 2005	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,959,428	4,006,420	(49,149,969)	207,234,046	14,168,886	221,402,932

Notes:

(i) The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of a subsidiary acquired by the Company pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1992.

(ii) The statutory reserves represent the appropriation of certain percentages of profit after taxation of subsidiaries in The People's Republic of China (the "PRC") as recommended by the directors of those subsidiaries as reported under the PRC statutory financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

	Six months ended 30 September	
	2005	2004
	HK$	*HK$*
	(Unaudited)	*(Unaudited)*
Net cash used in operating activities	**(1,132,512)**	(2,310,351)
Net cash from investing activities	**3,719,466**	2,510,183
Net cash used in financing activity	**–**	(117,813)
Net increase in cash and cash equivalents	**2,586,954**	82,019
Cash and cash equivalents at beginning of the period	**14,464,636**	13,501,258
Effect of foreign exchange rate changes	**254,314**	–
Cash and cash equivalents at end of the period, represented by bank balances and cash	**17,305,904**	13,583,277

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for investment property and financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of share of tax of associates and minority interests have been changed under HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements" respectively. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

(a) Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured at cost less accumulated depreciation and impairment losses. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively (See Note 3 for the financial impact).

(b) Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 April 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair value recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. On the adoption of HKAS 39, no material financial impact on the results for the current period has been identified.

On 1 April 2005, the Group classifies and measures its securities linked deposit as financial assets at fair value through profit or loss. For investments in an investee company, the Group classifies and measures it as available-for-sale financial assets that does not have quoted market price in an active market and whose fair value cannot be reliably measured and is thus measured at cost less impairment loss (if any).

(c) Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property".

The Group has elected to use the fair value model to account for its investment property which requires gain or loss arising from change in the fair value of investment property to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment property under SSAP 13 were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The adoption of HKAS 40 has no material financial impact on the results for the current period. The gain arising from change in the fair value of the investment property held by the Group was recognised in the income statement in the current period.

(d) Business Combinations

In the current period, the Group has applied the transitional provision of HKFRS 3 "Business Combinations" and the principal effects of the application of HKFRS 3 on the financial statements of the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet and included in interest in associates, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for the corresponding prior period have not been restated.

(e) Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment property was assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the property through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment property is to be recovered through sale. Therefore, the deferred tax consequences of the investment property is now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. On the adoption of HKAS Interpretation 21, no material financial impact on the results for the current period has been identified.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in Note 2 on the results for the current and prior periods are as follows:

	HKAS 17 ***HK$*** *(Note 2a)*	**HKFRS3** ***HK$*** *(Note 2d)*	**Total effect** ***HK$***
For the six months ended 30 September 2005 (unaudited)			
Decrease in amortisation of goodwill	**–**	**147,367**	**147,367**
Decrease in amortisation of goodwill of associate	**–**	**44,953**	**44,953**
Decrease in amortisation of prepaid lease payments	**24,971**	**–**	**24,971**
Increase in profit for the period	**24,971**	**192,320**	**217,291**

	HKAS 1	HKAS 17	Total effect
	HK$	*HK$*	*HK$*
	(Note 2)	*(Note 2a)*	
For the six months ended 30 September 2004 (unaudited)			
Increase in share of loss of associates	(246,252)	–	(246,252)
Decrease in income tax expenses	246,252	–	246,252
Decrease in amortisation of prepaid lease payments	–	24,736	24,736
Decrease in loss for the period	–	24,736	24,736

The cumulative effects of the adoption of new HKFRSs on balance sheet items as at 31 March 2005 and are summarised below:

	As at 31 March 2005 (originally stated)	Retrospective adjustments HKAS 27	HKAS 17	As at 31 March 2005 (restated)
	HK$	*HK$*	*HK$*	*HK$*
		(Note 2)	*(Note 2a)*	
Balance sheet items				
Property, plant and equipment	25,319,555	–	(3,555,353)	21,764,202
Prepaid lease payments	–	–	3,617,193	3,617,193
Other assets and liabilities	190,424,921	–	–	190,424,921
Total effects on assets and liabilities	215,744,476	–	61,840	215,806,316
Minority interests	(12,751,102)	12,751,102	–	–
	202,993,374	12,751,102	61,840	215,806,316
Share capital	50,685,395	–	–	50,685,395
Retained profits	(50,796,904)	–	34,012	(50,762,892)
Other reserves	203,104,883	–	–	203,104,883
Equity holders of the parent	202,993,374	–	34,012	203,027,386
Minority interests	–	12,751,102	27,828	12,778,930
Total effects on equity	202,993,374	12,751,102	61,840	215,806,316

The financial effects of the application of the new HKFRSs on the Group's equity at 1 April 2004 are summarised below:

	As at 1 April 2004 *(originally stated)* *HK$*	**Retrospective adjustments** **HKAS 27** *HK$* *(Note 2)*	**HKAS 17** *HK$* *(Note 2a)*	**As at 1 April 2004** *(restated)* *HK$*
Share capital	50,685,395	–	–	50,685,395
Accumulated losses	(49,949,799)	–	6,802	(49,942,997)
Other reserves	202,917,579	–	–	202,917,579
Equity holders of the parent	203,653,175	–	6,802	203,659,977
Minority interests	–	12,229,296	5,566	12,234,862
Total effects on equity	203,653,175	12,229,296	12,368	215,894,839

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic Equipment

4. 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 bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Sales of pharmaceutical products *HK$*	Property rental *HK$*	Agency services *HK$*	Consultancy services *HK$*	Investment holding *HK$*	Consolidated *HK$*
Six months ended 30 September 2005						
TURNOVER	**5,930,075**	**250,446**	**–**	**–**	**–**	**6,180,521**
SEGMENT RESULTS	**2,038,892**	**1,425,775**	**(216,256)**	**(60,949)**	**(487,212)**	**2,700,250**
Bank interest income						**807,652**
Other operating income						**122,420**
Unallocated corporate expenses						**(1,839,269)**
Profit from operations						**1,791,053**
Share of results of associates						**972,995**
Profit before taxation						**2,764,048**
Income tax expense						**(6,354)**
Profit for the period						**2,757,694**

	Sales of pharmaceutical products *HK$*	Property rental *HK$*	Agency services *HK$*	Consultancy services *HK$*	Investment holding *HK$*	Consolidated *HK$* *(restated)*
Six months ended 30 September 2004						
TURNOVER	1,492,949	208,705	–	–	–	1,701,654
SEGMENT RESULTS	(1,213,947)	(181,524)	(213,765)	(62,333)	(471,602)	(2,143,171)
Bank interest income						389,338
Other operating income						147,390
Unallocated corporate expenses						(1,822,486)
Loss from operations						(3,428,929)
Share of results of associates						(472,738)
Loss for the period						(3,901,667)

5. PROFIT (LOSS) FROM OPERATIONS

	Six months ended 30 September	
	2005	2004
	HK$	*HK$*
	(Unaudited)	*(Unaudited and restated)*
Profit (loss) from operations has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**1,069,253**	758,256
Amortisation of prepaid lease payments	**37,456**	37,098
Amortisation of goodwill (included in administrative expenses)	**–**	147,367
Amortisation of intangible assets (included in administrative expenses)	**43,269**	42,456
Total depreciation and amortisation	**1,149,978**	985,177
Share of taxation of associates (included in share of result of associates)	**–**	246,252
Bank interest income	**(807,652)**	(389,338)

6. INCOME TAX EXPENSE

The income tax expense represents income tax paid in the People's Republic of China at a tax rate of 24%. No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for both periods presented.

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

7. BASIC EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 September	
	2005	2004
	HK$	*HK$*
	(Unaudited)	*(Unaudited and restated)*
Profit (loss) for the period attributable to equity holders of the parent	**1,612,923**	(3,666,344)
Number of ordinary shares for the purpose of basic earnings (loss) per share	**506,853,952**	506,853,952

No diluted earnings (loss) per share is presented for both years as there were no potential dilutive shares.

8. INVESTMENT PROPERTY

The Group's investment property is rented out under an operating lease and is held under a medium-term lease in Hong Kong.

The investment property is carried at its open market value, on existing use basis, on 30 September 2005 as valued by LCH (Asia – Pacific) Surveyors Limited, an independent professional valuer. The surplus arising on the revaluation amounting to HK$1,500,000, has been credited to the income statement for the period.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent an aggregate amount of HK$404,837 (six months ended 30 September 2004: HK$1,429,030) on additions to property, plant and equipment.

10. INTERESTS IN ASSOCIATES

	30 September 2005	31 March 2005
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Share of net assets	**52,901,760**	50,953,692
Goodwill arising on acquisition of an associate	**1,685,696**	1,685,696
	54,587,456	52,639,388

11. 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 and other receivables at the reporting date:

	30 September 2005	31 March 2005
	HK$	*HK$*
	(Unaudited)	*(Audited)*
Within 60 days	**1,466,894**	598,811
61 – 90 days	**–**	36,327
Over 90 days	**22,087**	64,845
	1,488,981	699,983
Dividends receivable	**–**	3,386,174
Other receivables	**2,200,186**	1,973,724
	3,689,167	6,059,881

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade and other payables at the reporting date:

	30 September 2005 *HK$* ***(Unaudited)***	31 March 2005 *HK$* *(Audited)*
Within 60 days	**302,055**	458,858
61 – 90 days	**131,435**	105,535
Over 90 days	**469,473**	424,314
	902,963	988,707
Other payables	**1,095,521**	1,576,374
	1,998,484	2,565,081

13. CAPITAL COMMITMENTS

At 30 September 2005, the Group has not committed to any capital expenditure.

At 31 March 2005, the Group was committed to capital expenditure of approximately HK$50,000 in respect of the acquisition of equipment for its pharmaceutical production facilities contracted for but not provided in the financial statements.

14. RELATED PARTY TRANSACTION

During the period, the Group has received management fee income of HK$120,000 (six months ended 30 September 2004: 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 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 30 September 2005, the Group's turnover increased by 263% to HK$6.18 million compared to the corresponding period last year. The substantial increase in turnover was due to the increase in sales of pharmaceutical products during the period under review. On the other hand, the Group's investment property in Hong Kong was revalued at 30 September 2005 in compliance with the new Hong Kong Financial Reporting Standard. The resulting revaluation surplus of HK$1.5 million was therefore accounted for in the income statement for the period under review. No revaluation of the Group's investment property was carried out at 30 September 2004. Moreover, the operating results of the Group's associated companies during the period under review were improved when compared to comparative period. The Group was entitled to a share of profits of associated companies amounting to HK$973,000 during the period under review (a share of losses of associated companies of HK$473,000 for the corresponding period last year). The Group finally recorded a profit attributable to shareholders of the Company of HK$1.61 million for the six months ended 30 September 2005 and basic earnings per share of HK0.32 cents, compared to a loss of HK$3.67 million for the corresponding period last year and a loss per share of HK0.72 cents.

Business review

Pharmaceutical business

The Group's pharmaceutical business is carried out by its non-wholly owned subsidiary, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical"), which is located in Kunming, the Yunnan Province. Sales orders for its new product "Cerebroprotein Hydrolysate for Injection" (launched in November 2004) surged up in an encouraging pace following its well response from the market. During the period under review, Meng Sheng Pharmaceutical recorded a turnover of Rmb6.23 million, represented an approximately threefold increase over the comparative amount in last year. Accordingly, Meng Sheng Pharmaceutical recorded a net profit of HK$2.54 million during the period under review and continued to maintain its growing trend in its operating results.

Associated companies

Turnover of Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering", one of the Group's associated companies) remained fairly stable during the period under review in view of tough competition in the domestic pharmaceutical market. Despite that, the management of the entity continued to exercise stringent control on its operating costs during the period. As a result, Xinpeng Biotechnology Engineering was able to record a profit of HK$50,000 during the period under review, representing an encouraging improvement when compared to a loss of Rmb1.89 million for the corresponding period last year. On the other hand, the Group's another associated company Yunnan Xingning Colour Material Printing Co., Limited ("Yunnan Xingning") continued its increasing trend in operating results. Yunnan Xingning recorded a profit of Rmb1.98 million during the period under review (a profit of

Rmb1.28 million for the corresponding period last year), further indicating the full support of the joint venture partner in its business. Accordingly, the Group was able to benefit from such improvement in the operating results of its associated companies, which entitled the Group to share a profits of associated companies amounting to HK$973,000 during the period under review.

Outlook

With strong research and development foundation, Meng Sheng Pharmaceutical will continue to explore and develop other new products. Diversified product portfolio and modern production facilities enable the entity to cope with the intense competition in the domestic pharmaceutical market effectively. The Group therefore believes that the pharmaceutical business will be further enhanced in the future. Moreover, the operating results of the Group's two main associated companies, Xinpeng Biotechnology Engineering and Yunnan Xingning, will continue to improve and increase under their existing experienced management team. The Group will also commit to maintain its effective cost control measures. The Group therefore believes that satisfactory results could be achieved in the coming years.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to sustain a liquidity position. As at 30 September 2005, the Group had cash and bank balances of approximately HK$64 million. Approximately 67 % and 25 % of the total cash and bank balances were denominated in United States dollar and Renminbi respectively with the remaining in 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. The Group considers that the exchange rate risk is minimal and no hedging measures are necessary at this stage.

CHARGES ON ASSETS

The Group did not have any charges on assets as at 30 September 2005.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2005, the Group employed approximately 80 employees in Hong Kong and China. The Group remunerates its employees based on market terms, and the qualifications and experience of the employees concerned.

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

During the six months ended 30 September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has met the code provisions of the Code on Corporate Governance Practices ("the Code") as set out in the Appendix 14 of The Rules Governing the Listing of Securities on the Stock Exchange during the six months period ended 30 September 2005 except Code provision C.2 on internal control (which will be implemented for accounting period commencing on or after 1 July 2005) and the following:–

(1) The code provision A.4.2 of the Code (the last sentence) provides that, every director (including directors with specific terms) should be subject to retirement by rotation at least once every three years. According to Article 99 of the Articles of Association of the Company then in effect before 26 August 2005, at each annual general meeting, one-third of the directors for the time being or, of their number is not 3 or a multiple of three, the number nearest to one-third shall retire from office provided that notwithstanding anything therein, the Chairman of the Directors and the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

    The said Article constitutes a deviation from the code provision A.4.2 of the Code. To comply with the code provision A.4.2 of the Code, amendments to Article 99 of the Articles of Association of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 26 August 2005.

(2) The code provision E.1.2 of the Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. LI Suiming, the Chairman of the Board who resides in Yunnan, was unable to attend the annual general meeting of the Company held on 26 August 2005 in Hong Kong. This constitutes a deviation from the code provision E.1.2 of the Code.

AUDIT COMMITTEE

The Company has established an audit committee comprising three independent non-executive directors. Terms of reference of the audit committee have been updated in compliance with the Code. The audit committee has reviewed together with the management of the Company the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including review of the interim report for the six months ended 30 September 2005.

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference in accordance with the Code. The remuneration committee comprises one executive director and three independent non-executive directors.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2005, 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 2005, 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 in 5% or more 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 *(Note 1)*	51.78
China National Tobacco Corporation Yunnan Branch	Held by controlled corporation	262,442,930 *(Note 1)*	51.78
Yuxi Hongta Tobacco (Group) Limited	Held by controlled corporation	262,442,930 *(Note 1)*	51.78
Yunnan International Trust and Investment Corporation	Held by controlled corporation	262,442,930 *(Note 1)*	51.78
Tianda Group Limited	Beneficial owner	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. Mr. Fang Wen Quan, a director of the Company, has 100% 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") of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, they all confirm that they have complied with the Model Code throughout the six months ended 30 September 2005.

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, 21 December 2005

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 13.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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 Hong Kong Accounting Standard 34 "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 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquires 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 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 December 2005