



雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability) (stock code: 455)

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 2006, together with comparative figures for the corresponding period in 2005, as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

		Six months ended	
		30 September	
	<i>NOTES</i>	2006	2005
		HK\$	HK\$
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Continuing operations			
Revenue	3	7,083,427	6,180,521
Cost of sales		<u>(3,191,527)</u>	<u>(2,265,916)</u>
Gross profit		3,891,900	3,914,605
Other income		1,133,459	930,072
Distribution costs		(203,551)	(150,366)
Administrative expenses		(5,574,087)	(4,126,053)
Impairment loss on investment in an investee company		(9,640,000)	–
Gain arising from change in fair value of an investment property	4	1,800,000	1,500,000
Share of results of associates		<u>250,936</u>	<u>972,995</u>
(Loss) profit before tax	5	(8,341,343)	3,041,253
Income tax expense	6	<u>(4,120)</u>	<u>(6,354)</u>
(Loss) profit for the period from continuing operations		<u>(8,345,463)</u>	<u>3,034,899</u>
Discontinued operations			
Loss for the period from discontinued operations		–	<u>(277,205)</u>
(Loss) profit for the period		<u>(8,345,463)</u>	<u>2,757,694</u>
(Loss) profit attributable to:			
Equity holders of the Company		(9,481,918)	1,612,923
Minority interests		<u>1,136,455</u>	<u>1,144,771</u>
		<u>(8,345,463)</u>	<u>2,757,694</u>
Basic (loss) earnings per share	7		
From continuing and discontinued operations		<u>(1.87) cents</u>	<u>0.32 cents</u>
From continuing operations		<u>(1.87) cents</u>	<u>0.37 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2006

	NOTES	30 September 2006 HK\$ (Unaudited)	31 March 2006 HK\$ (Audited)
NON-CURRENT ASSETS			
Investment property	8	17,400,000	15,600,000
Property, plant and equipment	9	25,509,527	20,898,469
Prepaid lease payments		3,498,049	3,532,837
Goodwill		5,107,576	5,107,576
Intangible assets		1,369,906	1,413,178
Interests in associates	10	57,101,592	56,850,656
Investment in an investee company		45,565,141	55,205,141
Deposit paid for the acquisition of plant and equipment		–	746,154
		<u>155,551,791</u>	<u>159,354,011</u>
CURRENT ASSETS			
Inventories		2,002,037	2,267,663
Loan to an investee company		728,806	728,806
Trade and other receivables	11	3,126,022	7,530,258
Prepaid lease payments		75,623	78,648
Tax recoverable		36,888	188,445
Bank deposits		43,796,546	43,151,728
Bank balances and cash		20,768,505	20,318,641
		<u>70,534,427</u>	<u>74,264,189</u>
CURRENT LIABILITIES			
Trade and other payables	12	3,239,157	3,668,969
Government grants – current portion		336,539	211,538
Deposit received		961,538	961,538
Tax payable		4,120	6,789
Amount due to an associate		787,880	787,880
		<u>5,329,234</u>	<u>5,636,714</u>
NET CURRENT ASSETS			
		<u>65,205,193</u>	<u>68,627,475</u>
Total assets less current liabilities		220,756,984	227,981,486
NON-CURRENT LIABILITY			
Government grants – non-current portion		3,028,846	1,903,847
		<u>217,728,138</u>	<u>226,077,639</u>
CAPITAL AND RESERVES			
Share capital		50,685,395	50,685,395
Reserves		152,180,441	161,666,397
Equity attributable to equity holders of the Company		202,865,836	212,351,792
Minority interests		14,862,302	13,725,847
		<u>217,728,138</u>	<u>226,077,639</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Attributable to equity holders of the Company										
	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 2005	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,959,428	1,412,683	(47,488,231)	206,302,047	12,778,930	219,080,977
Exchange adjustments recognised directly in equity	-	-	-	-	-	-	1,734,133	-	1,734,133	245,185	1,979,318
Profit for the period	-	-	-	-	-	-	-	1,612,923	1,612,923	1,144,771	2,757,694
Total recognised income for the period	-	-	-	-	-	-	1,734,133	1,612,923	3,347,056	1,389,956	4,737,012
At 30 September 2005 and 1 October 2005	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,959,428	3,146,816	(45,875,308)	209,649,103	14,168,886	223,817,989
Exchange adjustments recognised directly in equity	-	-	-	-	-	-	(20,400)	-	(20,400)	-	(20,400)
Profit for the period	-	-	-	-	-	-	-	2,742,377	2,742,377	983,275	3,725,652
Total recognised income and expense for the period	-	-	-	-	-	-	(20,400)	2,742,377	2,721,977	983,275	3,705,252
Utilisation of statutory reserve	-	-	-	-	-	(19,288)	-	-	(19,288)	-	(19,288)
Transfer to reserve	-	-	-	-	-	759,551	-	(759,551)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	(1,426,314)	(1,426,314)
At 31 March 2006 and 1 April 2006	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	4,699,691	3,126,416	(43,892,482)	212,351,792	13,725,847	226,077,639
(Loss) profit and total recognised income and expenses for the period	-	-	-	-	-	-	-	(9,481,918)	(9,481,918)	1,136,455	(8,345,463)
Utilisation of statutory reserve	-	-	-	-	-	(4,038)	-	-	(4,038)	-	(4,038)
At 30 September 2006	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	4,695,653	3,126,416	(53,374,400)	202,865,836	14,862,302	217,728,138

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 and reported under the PRC statutory financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

	Six months ended	
	30 September	
	2006	2005
	HK\$	HK\$
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash generated from (used in) operating activities	1,058,578	(1,132,512)
Net cash (used in) generated from investing activities		
Purchases of property, plant and equipment	(4,178,431)	(404,837)
Increase in bank deposits	(644,818)	(69,523)
Dividend received from an investee company	1,831,076	3,386,174
Interest received	1,133,459	807,652
	(1,858,714)	3,719,466
Cash generated from financing activity		
Government grants received	1,250,000	–
Net increase in cash and cash equivalents	449,864	2,586,954
Cash and cash equivalents at beginning of the period	20,318,641	14,464,636
Effect of foreign exchange rate changes	–	254,314
Cash and cash equivalents at end of the period, represented by bank balances and cash	20,768,505	17,305,904

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

1. BASIS OF PREPARATION

The condensed consolidated 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.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for an investment property, which is measured at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-INT 8	Scope of HKFRS 2 ²
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives ³
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

3. SEGMENT INFORMATION

For management purposes, the Group was previously organised into five operating divisions – sales of pharmaceutical products, property rental, investment holding for dividend income, provision of agency services and consultancy services. These divisions were the bases on which the Group's primary segment information was reported. During the period, the Group discontinued the business of provision of agency services and consultancy services. The discontinuance has no material effect on the current period's results and the financial position of the Group.

Segment information about these businesses is presented below.

	Continuing operations				Discontinued operations			
	Sales of pharmaceutical products	Property rental	Investment holding	Total	Agency services	Consultancy services	Total	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Six months ended								
30 September 2006								
REVENUE	6,832,981	250,446	-	7,083,427	-	-	-	7,083,427
SEGMENT RESULTS	1,195,804	1,489,048	(10,522,216)	(7,837,364)	-	-	-	(7,837,364)
Bank interest income				1,133,459				1,133,459
Unallocated corporate expenses				(1,888,374)				(1,888,374)
Share of results of associates				250,936				250,936
Loss before tax				(8,341,343)				(8,341,343)
Income tax expense				(4,120)				(4,120)
Loss for the period				(8,345,463)				(8,345,463)

	Continuing operations				Discontinued operations			
	Sales of pharmaceutical products	Property rental	Investment holding	Total	Agency services	Consultancy services	Total	Consolidated
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Six months ended								
30 September 2005								
REVENUE	5,930,075	250,446	-	6,180,521	-	-	-	6,180,521
SEGMENT RESULTS	2,038,892	1,425,775	(487,212)	2,977,455	(216,256)	(60,949)	(277,205)	2,700,250
Bank interest income				807,652				807,652
Other income				122,420				122,420
Unallocated corporate expenses				(1,839,269)				(1,839,269)
Share of results of associates				972,995				972,995
Profit before tax				3,041,253			(277,205)	2,764,048
Income tax expense				(6,354)			-	(6,354)
Profit for the period				3,034,899			(277,205)	2,757,694

4. IMPAIRMENT LOSS ON INVESTMENT IN AN INVESTEE COMPANY

Management conducted a review of the recoverable amount of the Group's investment in an investee company. In view of the anticipated decline in economic inflows from such investment, management considers it appropriate to provide for an impairment loss of HK\$9,640,000 in the current period against the cost of such investment.

5. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 September	
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Unaudited)
(Loss) profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	1,374,248	1,069,253
Amortisation of prepaid lease payments	37,813	37,456
Amortisation of intangible assets (included in cost of sales)	43,272	43,269
	<hr/>	<hr/>
Total depreciation and amortisation	1,455,333	1,149,978
Bank interest income	<u>(1,133,459)</u>	<u>(807,652)</u>

6. INCOME TAX EXPENSE

The income tax expense represents income tax payable for one of the Group's subsidiaries in the People's Republic of China (the "PRC") at a tax rate of 24%. No provision of income tax for the remaining PRC subsidiary of the Group as the assessable profit is wholly absorbed by tax credit arising from the acquisition of plant and equipment granted to that PRC subsidiary.

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 (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic (loss) earnings per share from continuing and discontinued operations attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30 September	
	2006	2005
	HK\$	HK\$
	(Unaudited)	(Unaudited)
(Loss) profit for the period attributable to equity holders of the Company	<u>(9,481,918)</u>	<u>1,612,923</u>
Number of ordinary shares for the purpose of basic (loss) earnings per share	<u>506,853,952</u>	<u>506,853,952</u>

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

From discontinued operations

For the six months ended 30 September 2005, basic loss per share in respect of discontinued operations was HK0.05 cents per share, based on the loss for the period from the discontinued operations of HK\$277,205 and on 506,853,952 ordinary shares in issue.

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, at 30 September 2006 as valued by LCH (Asia-Pacific) Surveyors Limited, an independent professional valuer. The gain arising from change in fair value amounting to HK\$1,800,000, has been credited to the income statement for the period.

9. PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment for the period amounted to a total of HK\$6,075,967 (six months ended 30 September 2005: HK\$404,837), of which HK\$1,897,536 was paid in the prior year.

10. INTERESTS IN ASSOCIATES

	30 September 2006 HK\$ (Unaudited)	31 March 2006 HK\$ (Audited)
Cost of investments in associates	48,909,109	48,909,109
Share of post-acquisition profits, net of dividends received	<u>8,192,483</u>	<u>7,941,547</u>
	<u>57,101,592</u>	<u>56,850,656</u>

Included in cost of investments is goodwill of carrying amount of HK\$1,717,501 (2006: HK\$1,717,501) arising on acquisition of an associate.

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 2006 HK\$ (Unaudited)	31 March 2006 HK\$ (Audited)
Within 60 days	1,187,381	1,770,745
61 – 90 days	5,400	–
Over 90 days	14,290	19,712
	<hr/>	<hr/>
Dividends receivable	1,207,071	1,790,457
Other receivables	–	1,831,076
	1,918,951	3,908,725
	<hr/>	<hr/>
	3,126,022	7,530,258
	<hr/>	<hr/>

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 2006 HK\$ (Unaudited)	31 March 2006 HK\$ (Audited)
Within 60 days	714,976	632,951
61 – 90 days	199,058	56,938
Over 90 days	304,956	327,374
	<hr/>	<hr/>
Other payables	1,218,990	1,017,263
	2,020,167	2,651,706
	<hr/>	<hr/>
	3,239,157	3,668,969
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13. CAPITAL COMMITMENTS

At 30 September 2006, the Group has not committed to any capital expenditure.

At 31 March 2006, the Group was committed to capital expenditure of approximately HK\$1,400,000 in respect of the acquisition of equipment for its pharmaceutical production facilities contracted for but not provided in the financial statements.

14. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Six months ended	
	30 September	
	2006	2005
	HK\$	HK\$
Management fee income received from Tianda Group Limited*	—	120,000
	<u> </u>	<u> </u>

* *Tianda Group Limited is a substantial shareholder of the Company.*

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended	
	30 September	
	2006	2005
	HK\$	HK\$
Short-term benefits	522,000	1,014,000
Post-employment benefits	15,600	41,400
	<u> </u>	<u> </u>
	537,600	1,055,400
	<u> </u>	<u> </u>

The remuneration of directors and key executives is determined by reference to the performance of individuals and market trends.

15. COMPARATIVE AMOUNTS

Certain prior period's comparative amounts have been reclassified to re-present the disclosures related to discontinued operations in prior period.

INTERIM DIVIDEND

The Directors do not declare an interim dividend for the six months ended 30 September 2006 (2005: Nil).

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

For the six months ended 30 September 2006, the Group recorded a revenue of HK\$7.08 million which represented an increase of 15% when compared to the corresponding period in last year. The increase in revenue was attributable to that sales of the Group's pharmaceutical products continued to maintain its increasing trend during the period under review. Moreover, the fair value of the Group's investment property at 30 September 2006 was valued as HK\$17.4 million. The resulting gain arising from change in fair value of the investment property of HK\$1.8 million was therefore recognized in the income statement for the period under review. On the other hand, an impairment loss on the Group's investment in an investee company in Yunnan (Yuxi Globe Color Printing Carton Co., Ltd., "Yuxi Globe") amounting to HK\$9.64 million was provided and recognized in the income statement during the period under review. This impairment loss was resulted from the difference between the recoverable amount and the carrying amount in respect of investment in Yuxi Globe. During the period under review, the Group continued to share profits of the two associated companies in China amounting to HK\$251,000 (a share of profits of associated companies amounting to HK\$973,000 for the corresponding period in last year). Finally, the Group recorded a loss attributable to shareholders of the Company of HK\$9.48 million for the six months ended 30 September 2006 and basic loss per share of HK1.87 cents, compared to a profit attributable to shareholders of the Company of HK\$1.61 million and basic earnings per share of HK0.32 cents for the corresponding period in last year.

Business review

Pharmaceutical business

Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical"), the Group's non-wholly owned subsidiary in Kunming, the Yunnan Province, recorded a turnover of Rmb7.11 million during the period under review which represented an increase of 15% over the comparative amount in last year. With strong research and development foundation as well as modern production facilities, the qualities of the products of Meng Sheng Pharmaceutical are assured and therefore well received by the customers even though the entity is facing intense competition in the domestic pharmaceutical market. Accordingly, Meng Sheng Pharmaceutical recorded a net profit of HK\$2.53 million during the period under review. The Group's pharmaceutical business therefore continued to record profitable results.

Associated companies

Product price of Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering", one of the Group's associated companies) continued to face downward pressure during the period under review. Nevertheless, sales quantity of the corresponding product was able to record growing trend which was attributable to the enhanced marketing efforts enforced by the entity's sales team. Turnover for the period under review only dropped by approximately 4%. Under such situation, Xinpeng Biotechnology Engineering then recorded a loss of Rmb968,000 during the period under review (compared to a profit of Rmb50,000 for the comparative period in last year). On the other hand, the Group's another associated company Yunnan Xingning Color Material Printing Co., Limited ("Yunnan Xingning") continued its increasing trend in operating results. Yunnan Xingning recorded a profit of Rmb2.9 million during the period under review, representing an encouraging growth when compared with a profit of Rmb1.98 million for the comparative period in last year. Finally, the Group was entitled to share a profits of associated companies amounting to HK\$251,000 during the period under review.

Outlook

Despite that an impairment loss on Yuxi Globe amounting of HK\$9.64 million has to be recognized during the period under review, it is anticipated that Yuxi Globe will continue to record profit for its financial year ending 31 December 2006. Given the strong foundation of Yuxi Globe, the Group is still optimistic with regard to its prospect. Moreover, the Group believes that the pharmaceutical business could continue its encouraging performance given the operating results of Meng Sheng Pharmaceutical. The Group will also endeavor to maintain effective cost control measures and commit to improve its results in the future.

Liquidity and financial resources

The Group continued to sustain a liquidity position. As at 30 September 2006, the Group had cash and bank balances of approximately HK\$65 million. Approximately 60% and 35% 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 in Hong Kong dollar, Renminbi or United States dollar. The Group considers that there is no material exchange rate risk currently 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 2006.

Employment and remuneration policy

As at 30 September 2006, 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 2006, 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 of Hong Kong Limited ("the Listing Rules") during the six months period ended 30 September 2006 except that the code provision E.1.2 of the Code which 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 25 August 2006 in Hong Kong. This constitutes a deviation from the code provision E.1.2 of the Code.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 September 2006, except for Mr. Fang Wen Quan who is also the beneficial owner of Tianda Group Limited, one of the substantial shareholders of the Company whose interest is disclosed under the section "Substantial Shareholders", none of the director 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 (the "SFO")) which were recorded in the register as required to be kept by the Company under Section 352 of the SFO.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2006, 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	%
South Hong Investment Limited	Beneficial owner	262,442,930 (<i>Note 1</i>)	51.78
Hongta Tobacco (Group) Limited	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 92.28% by Hongta Tobacco (Group) Limited. Accordingly, Hongta Tobacco (Group) Limited is 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 100% equity 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.

All the interests stated above represent long positions. As at 30 September 2006, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more in the Company's issued share capital as at 30 September 2006.

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 the directors of the Company, they all confirm that they have complied with the Model Code throughout the six months ended 30 September 2006.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive directors. 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 results for the six months ended 30 September 2006.

By order of the Board
Ma Pizhi
Managing director

Hong Kong, 20 December 2006

Deloitte.

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INDEPENDENT INTERIM 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 10.

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 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 20 December 2006