



雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability) (Stock Code: 0455)*

Interim Report

2007

The board of directors (the “Board”) 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 2007, together with comparative figures for the corresponding period in 2006, as follows:–

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>NOTES</i>	<b>2007</b>	2006
		<b>HK\$</b>	HK\$
		<b>(Unaudited)</b>	(Unaudited)
Revenue	3	<b>17,438,320</b>	7,083,427
Cost of sales		<b>(4,982,938)</b>	(3,191,527)
Gross profit		<b>12,455,382</b>	3,891,900
Other income		<b>1,037,022</b>	1,133,459
Distribution costs		<b>(754,655)</b>	(203,551)
Administrative expenses		<b>(7,122,792)</b>	(5,574,087)
Impairment loss on investment in an investee company	4	<b>(260,000)</b>	(9,640,000)
Gain arising from change in fair value of an investment property		<b>2,200,000</b>	1,800,000
Share of results of associates		<b>507,940</b>	250,936
Profit (loss) before tax	5	<b>8,062,897</b>	(8,341,343)
Income tax expense	6	<b>(611,883)</b>	(4,120)
Profit (loss) for the period		<b>7,451,014</b>	(8,345,463)
Profit (loss) attributable to:			
Equity holders of the Company		<b>3,630,772</b>	(9,481,918)
Minority interests		<b>3,820,242</b>	1,136,455
		<b>7,451,014</b>	(8,345,463)
Basic earnings (loss) per share	8	<b>0.72 HKcent</b>	(1.87) HKcents

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2007

	NOTES	30 September 2007 HK\$ (Unaudited)	31 March 2007 HK\$ (Audited)
<b>NON-CURRENT ASSETS</b>			
Investment property	9	19,600,000	17,400,000
Property, plant and equipment	10	24,060,504	24,755,418
Prepaid lease payments		3,671,589	3,640,439
Goodwill		5,485,778	5,250,359
Interests in associates	11	43,866,715	42,472,664
Investment in an investee company		32,465,141	32,725,141
		<b>129,149,727</b>	126,244,021
<b>CURRENT ASSETS</b>			
Inventories		2,058,968	1,742,685
Loan to ultimate holding company		350,000	350,000
Loan to an investee company		49,583	49,583
Trade and other receivables	12	2,892,419	7,657,579
Prepaid lease payments		81,223	79,570
Tax recoverable		77,547	84,747
Bank balances and cash		74,728,908	66,142,117
		<b>80,238,648</b>	76,106,281
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	4,202,853	4,183,300
Government grants – current portion		464,566	400,135
Deposit received		303,515	303,515
Amount due to an associate		846,219	809,904
Tax payable		7,539	6,633
		<b>5,824,692</b>	5,703,487
<b>NET CURRENT ASSETS</b>			
		<b>74,413,956</b>	70,402,794
Total assets less current liabilities		<b>203,563,683</b>	196,646,815
<b>NON-CURRENT LIABILITY</b>			
Government grants – non-current portion		2,536,882	2,536,882
		<b>201,026,801</b>	194,109,933
<b>CAPITAL AND RESERVES</b>			
Share capital		50,685,395	50,685,395
Reserves		131,684,646	126,169,803
Equity attributable to equity holders of the Company		<b>182,370,041</b>	176,855,198
Minority interests		18,656,760	17,254,735
		<b>201,026,801</b>	194,109,933

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

	Attributable to the equity holders of the Company										Total HK\$	Minority interests HK\$	Total HK\$
	Share capital HK\$	Share premium HK\$	Capital redemption reserve HK\$	Goodwill reserve HK\$	Special reserve HK\$ <i>Note (i)</i>	Statutory reserves HK\$ <i>Note (ii)</i>	Exchange reserve HK\$	Accumulated losses HK\$	Total HK\$	Minority interests HK\$			
At 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		
Utilisation of statutory reserve	-	-	-	-	-	(4,038)	-	-	(4,038)	-	(4,038)		
(Loss) profit for the period	-	-	-	-	-	-	-	(9,481,918)	(9,481,918)	1,136,455	(8,345,463)		
At 30 September 2006 and 1 October 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		
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	4,324,435	-	4,324,435	784,668	5,109,103		
(Loss) profit for the period	-	-	-	-	-	-	-	(30,329,458)	(30,329,458)	1,607,765	(28,721,693)		
Utilisation of statutory reserve	-	-	-	-	-	(5,615)	-	-	(5,615)	-	(5,615)		
Transfer between categories	-	-	-	-	-	942,752	-	(942,752)	-	-	-		
At 31 March 2007 and 1 April 2007	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	5,632,790	7,450,851	(84,646,610)	176,855,198	17,254,735	194,109,933		
Profit for the period	-	-	-	-	-	-	-	3,630,772	3,630,772	3,820,242	7,451,014		
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	1,884,071	-	1,884,071	-	1,884,071		
Dividend paid	-	-	-	-	-	-	-	-	-	(2,418,217)	(2,418,217)		
At 30 September 2007	<u>50,685,395</u>	<u>202,203,225</u>	<u>8,000</u>	<u>(7,938,469)</u>	<u>3,460,016</u>	<u>5,632,790</u>	<u>9,334,922</u>	<u>(81,015,838)</u>	<u>182,370,041</u>	<u>18,656,760</u>	<u>201,026,801</u>		

### Notes:

- (i) The special reserve of the Company 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 2007

	Six months ended 30 September	
	2007	2006
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	<b>10,159,840</b>	1,058,578
Net cash generated from (used in) investing activities		
Purchases of property, plant and equipment	<b>(403,932)</b>	(4,178,431)
Dividend received from an investee company	–	1,831,076
Interest received	<b>945,884</b>	1,133,459
	<b>541,952</b>	(1,213,896)
Cash (used in) generated from financing activity		
Dividend paid to a minority shareholder of a subsidiary	<b>(2,418,217)</b>	–
Government grants received	–	1,250,000
	<b>(2,418,217)</b>	1,250,000
Net increase in cash and cash equivalents	<b>8,283,575</b>	1,094,682
Cash and cash equivalents at beginning of the period	<b>66,142,117</b>	63,470,369
Effect of foreign exchange rate changes	<b>303,216</b>	–
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>74,728,908</b>	64,565,051

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

### 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 are measured at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of Yunnan Enterprises Holdings Limited (the "Company") for the year ended 31 March 2007.

In the current interim period, the Company 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 the Company's financial year beginning on 1 April 2007. The adoption of the new HKFRSs has 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 Company has not early applied the following new revised standard and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>2</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. SEGMENT INFORMATION

For management purposes, the Company is organised into three operating divisions – sales of pharmaceutical products, property rental and investment holding for dividend income. These divisions are the bases on which the Company's primary segment information is reported.

Segment information about these businesses is presented below.

	<b>Sales of pharmaceutical products HK\$ (Unaudited)</b>	<b>Property rental HK\$ (Unaudited)</b>	<b>Investment holding HK\$ (Unaudited)</b>	<b>Consolidated HK\$ (Unaudited)</b>
<b>Six months ended 30 September 2007</b>				
REVENUE	<b><u>17,008,984</u></b>	<b><u>429,336</u></b>	<b><u>–</u></b>	<b><u>17,438,320</u></b>
SEGMENT RESULTS	<b><u>9,085,940</u></b>	<b><u>2,574,451</u></b>	<b><u>(4,089,833)</u></b>	<b><u>7,570,558</u></b>
Bank interest income				<b>945,884</b>
Unallocated corporate income				<b>91,138</b>
Unallocated corporate expenses				<b>(1,052,623)</b>
Share of results of associates				<b><u>507,940</u></b>
Profit before tax				<b>8,062,897</b>
Income tax expense				<b><u>(611,883)</u></b>
Profit for the period				<b><u>7,451,014</u></b>

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

#### 4. IMPAIRMENT LOSS ON INVESTMENT IN AN INVESTEES COMPANY

Management conducted a review of the recoverable amount of the Company's investment in an investee company, which is carried at cost less accumulative impairment at balance sheet date. In view of the anticipated decline in economic inflows from such investment, management considers it appropriate to provide for an impairment loss of HK\$260,000 (2006: HK\$9,640,000) in the current period against the cost of such investment.

The recoverable amount of the investment has been determined based on expected dividend income covering a eighteen-year period which is the estimated project life of the investment, using a discount rate of 6.11%.



## 5. PROFIT (LOSS) BEFORE TAX

	Six months ended 30 September	
	2007	2006
	HK\$	HK\$
	(Unaudited)	(Unaudited)
Profit (loss) before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	<b>1,540,793</b>	1,374,248
Amortisation of prepaid lease payments	<b>40,320</b>	37,813
Amortisation of intangible assets (included in cost of sales)	—	43,272
Total depreciation and amortisation	<b>1,581,113</b>	1,455,333
Bank interest income	<b>(945,884)</b>	(1,133,459)

## 6. INCOME TAX EXPENSE

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

Taxation arising in other regions of the People's Republic of China 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.

## 7. DIVIDENDS

The directors resolved not to pay an interim dividend for the six months ended 30 September 2007 (2006: Nil).

## 8. BASIC EARNINGS (LOSS) PER SHARE

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

	<b>Six months ended 30 September</b>	
	<b>2007</b>	2006
	<b>HK\$</b>	HK\$
	<b>(Unaudited)</b>	(Unaudited)
Profit (loss) for the period attributable to the equity holders of the Company	<u>3,630,772</u>	<u>(9,481,918)</u>
Number of ordinary shares for the purpose of basic earnings (loss) per share	<u>506,853,952</u>	<u>506,853,952</u>

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

## 9. INVESTMENT PROPERTY

The Company'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 the period end date, by reference to the valuation on the property at 31 August 2007 conducted by Vigers Appraisal and Consulting Limited, an independent professional valuer. The gain arising from change in fair value amounting to HK\$2,200,000, has been credited to the income statement for the period.

## 10. PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment for the period amounted to a total of HK\$403,932 (six months ended 30 September 2006: HK\$6,075,967).

## 11. INTERESTS IN ASSOCIATES

	<b>30 September 2007 HK\$ (Unaudited)</b>	31 March 2007 HK\$ (Audited)
Cost of unlisted investments in associates	<b>52,246,744</b>	52,246,744
Share of post-acquisition (losses) profits, net of dividends received	<b>(12,812,421)</b>	(13,320,361)
Exchange realignment	<b>4,432,392</b>	3,546,281
	<b><u>43,866,715</u></b>	<b><u>42,472,664</u></b>

Included in the cost of investments is goodwill of a carrying amount of HK\$1,844,677 (year ended 31 March 2007: HK\$1,807,131) arising on acquisition of an associate.

## 12. TRADE AND OTHER RECEIVABLES

The Company has a policy of allowing an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Company's trade receivables at the balance sheet dates:

	<b>30 September 2007 HK\$ (Unaudited)</b>	31 March 2007 HK\$ (Audited)
Trade receivables		
Within 60 days	<b>718,205</b>	3,309,135
61 – 90 days	<b>3,862</b>	7,133
Over 90 days	–	18,212
	<b><u>722,067</u></b>	<u>3,334,480</u>
Dividends receivable	–	2,501,472
Other receivables	<b>2,170,352</b>	1,821,627
	<b><u>2,892,419</u></b>	<b><u>7,657,579</u></b>

### 13. TRADE AND OTHER PAYABLES

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

	<b>30 September 2007 HK\$ (Unaudited)</b>	31 March 2007 HK\$ (Audited)
Trade payables		
Within 60 days	<b>1,171,294</b>	786,362
61 – 90 days	<b>14,280</b>	250,466
Over 90 days	<b>299,253</b>	249,600
	<b>1,484,827</b>	1,286,428
Other payables	<b>2,718,026</b>	2,896,872
	<b>4,202,853</b>	4,183,300

### 14. RELATED PARTY TRANSACTIONS

#### (a) *Compensation of key management personnel*

The remunerations of directors and other members of key management in respect of the period are as follows:

	<b>Six months ended 30 September 2007 HK\$ (Unaudited)</b>	2006 HK\$ (Unaudited)
Short-term benefits	<b>549,500</b>	522,000
Post-employment benefits	<b>5,000</b>	15,600
	<b>554,500</b>	537,600

The remunerations of directors and key management personnel were determined by reference to the performance of individuals and market trends.

## 15. EVENTS AFTER THE BALANCE SHEET DATE

On 25 October 2007, the Company entered into an agreement to acquire 100% interest in Tianda Properties Limited for a consideration of HK\$167 million. The consideration will be settled by the issue of 428,205,108 new shares at HK\$0.39 each of the Company.

The consideration shares represent approximately 84.5% of the existing issued share capital of the Company and approximately 45.8% of the enlarged issued share capital of the Company immediately after completion.

The authorized share capital of the Company has been increased to HK\$200,000,000 pursuant to the resolution passed at the EGM of the Company on 10 December 2007.

Certain conditions precedent have yet to be fulfilled and the transaction has not been completed up to the date of this report.

Details of the acquisition of the interest in Tianda Properties Limited are included in a circular of the Company dated 23 November 2007.

## MANAGEMENT DISCUSSION & ANALYSIS

### Financial Review

For the six months ended 30 September 2007, the Group recorded a revenue of approximately HK\$17,438,000 representing an increase of 146% as compared to the corresponding period in last year. The increase in revenue was attributable to that sales of the Group's pharmaceutical products which continued to maintain its increasing trend during the period under review. Moreover, the fair value of the Group's investment property at 30 September 2007 was valued as HK\$19,600,000, resulting a gain arising from change in fair value of the investment property of HK\$2,200,000 which was recognized in the income statement. During the period under review, the Group continued to share profits of the two associated companies in China amounting to approximately HK\$508,000 (a share of profits of associated companies amounting to HK\$251,000 for the corresponding period in last year). Finally, the Group recorded a profit attributable to shareholders of the Company of approximately HK\$3,631,000 for the six months ended 30 September 2007 and basic earnings of HK0.72 cent per share, compared to a loss attributable to shareholders of the Company of HK\$9,482,000 and basic loss of HK1.87 cents per share for the corresponding period in 2006.

### 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 approximately Rmb16,589,000 during the period under review which represented an increase of 133% 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. 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. And with effective cost control measures, Xinpeng Biotechnology Engineering then recorded a loss of Rmb55,000 during the period under review (compared to a loss of Rmb968,000 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 Rmb2,087,000 during the period under review. Finally, the Group was entitled to share a profits of associated companies amounting to HK\$508,000 during the period under review.

## **Outlook**

On 25 October 2007, the Company entered into an acquisition agreement to acquire the entire issued share capital of Tianda Properties Limited which holds the entire equity interest in Zhuhai Tianheng Real Estate Company Limited (“Tianheng”). Tianheng is principally engaging in the development of land and sale of villa, residential and ancillary uses such as landscaped garden and carparks in Zhuhai.

In view of the prosperous economic and social development of Zuhai which promotes the long-term and healthy development of local real estate market, it is expected that the Group will benefit from the development of the land and the sales of properties to be constructed on the land.

## **Liquidity and financial resources**

The Group continued to sustain a liquidity position. As at 30 September 2007, the Group had cash and bank balances of approximately HK\$74,729,000. Approximately 43% and 47% 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 2007.

## **Employment and remuneration policy**

As at 30 September 2007, the Group employed approximately 90 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 2007, 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 2007 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 24 August 2007 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 2007, 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 2007, 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"). South Hong was beneficially owned as to approximately 92.28% by Hongta Tobacco (Group) Limited which is a state-owned enterprise in Yunnan Province, the PRC, as to approximately 3.43% by Mr. Fang Wen Quan and as to approximately 4.29% by an independent third party. Mr. Fang Wen Quan is also a director of 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 2007, 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 2007.

## **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 2007.

## **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 2007.

By order of the Board

**Ma Pizhi**

*Managing director*

Hong Kong, 19 December 2007

## **REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

### **TO THE BOARD OF DIRECTORS OF YUNNAN ENTERPRISES HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

#### **INTRODUCTION**

We have reviewed the interim financial information set out on pages 1 to 12 which comprises the condensed consolidated balance sheet of Yunnan Enterprises Holdings Limited as of 30 September 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

#### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

#### **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 19 December 2007