

Introduction to the Parent Company

Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta") was established in 1995 after a business transform from Yuxi Cigarette Factory, which was founded in 1956. Since then, it has developed into a diversified business group, taking tobacco production as its core business. The Group is currently involved in energy, transportation, light industry, chemistry, medicine, mechanical engineering, construction materials, tourism, hi-tech, finance and a number of other industries through equity investment or controlling shareholdings.

Through a series of business reforms, the Group was able to grow and expand its capabilities. It is the leader in the tobacco industry in China and has become a trans-industry, trans-regional conglomerate. The Group's cigarette manufacturing process has realized high efficiency, continuity and automation, while the management process is networked. Products such as "Hongtashan", "Yuxi", "Ashima", "Hongmei" have gained honours both on a provincial and ministerial level for their quality. In addition, "Hongtashan" received the gold prize in the National Quality Awards, and was recognized as a leading brand name in China by the National Industry and Commerce Bureau of the PRC. According to a report released by the Beijing Trademark Asset Evaluation Office, the "Hongtashan" brand name topped the most valued trademark list in China for the sixth consecutive year, with a value of RMB43.9 billion. The Group's projects have achieved outstanding recognition with the following awards: "Economic Efficient Enterprise" from the Yunnan Provincial Government and the State Tobacco Monopoly Bureau for several years, the "State First Class Enterprise" award in 1991, "National Excellent Enterprise Management (Gold)" in 1993 and ISO9002 certification in July 1999.



In order to adapt to market changes and consumer needs, the Group has further adjusted its product structure, strengthened its marketing efforts and developed more refined products. Currently, the tar content in all the Group's brands of cigarette products is below 15 mg, achieving the tar-reduction standard issued by the State Tobacco Monopoly Bureau two years ahead of schedule. Moreover, in order to cope with international competition after China enters the World Trade Organization ("WTO"), the Group has strengthened its efforts in technological innovation and invested RMB300 million in building a technology center, which has been designated as a national level technology center. Currently, the center employs more than 100 staff, including professional personnel with doctoral and master degrees, with seven subordinated research institutes engaging in the fields of raw materials, physiological biochemistry, product development, process research and tobacco chemistry. The centre has multi-functional pilot production lines that can emulate mass production working conditions, and conduct high-precision tobacco analysis and instruments inspection. All these establish a solid foundation for more advanced research and development of products, and improve the technological level of the Group in the tobacco business and its international competitiveness.

Despite the sluggish cigarette market conditions in 2000, the Group was able to sell 2,030,000 cases of cigarettes, achieving profit taxes of RMB16.1 billion. The performance of non-tobacco businesses has also been successful, with investment capital reaching RMB12.8 billion for 74 projects, of which 48 projects are now in operation. With total turnover reached RMB7.0 billion, the group activities have made significant contributions to the economy and the community.