

Chairman's Statement



On behalf of the board of directors (the "Directors") of Yunnan Enterprises Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 March 2001.

FINANCIAL PERFORMANCE

For the year ended 31 March 2001, the Group reported encouraging growth in its results. Net profit for the year under review amounted to HK\$8.26 million, representing an increase of approximately 991% from the previous financial year. As a result, basic earnings per share were HK 1.80 cents compared with HK 0.19 cent for the previous year. The strong performance was attributable to the profit share generating from the newly-acquired associated company during the year which recorded satisfactory results for the year under review, as well as successful cost control measures implemented by the Group to achieve higher efficiencies.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2001.

BUSINESS REVIEW

The existing core businesses of the Group include the trading of cigarette-related products, provision of management and consultancy services and investment in a cigarette packaging and printing joint venture in China. During the year under review, these core businesses maintained their normal activities and continued to generate solid income bases for the Group. Turnover for the Group amounted to HK\$13.4 million for the year, with the comparative figure for the last financial year being HK\$13.9 million.

This year also marked an important milestone in the Group's exploration of new business opportunities in the field of biotechnology. During the year under review, the Group acquired a 48% equity interest in Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering") which concentrates on the research, development, manufacture and sale of biotechnology products in China. Xinpeng Biotechnology Engineering recorded satisfactory growth in turnover and operating results in 2000 which, in turn, contributed an immediate profit (after tax) of HK\$1.39 million for the Group during the year under review. Additionally, the production facilities of Xinpeng Biotechnology Engineering successfully attained Good Manufacturing Practice ("GMP") certification from the State Drug Administration in early 2001 which will greatly enhance the future sales of its medicines. The acquisition of Xinpeng Biotechnology Engineering therefore represents a positive investment decision for the Group and also reaffirms the Group's strategy to venture into the biotechnology business.

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NEW INVESTMENT IN THE BIOTECHNOLOGY BUSINESS

To complement the Group's determination to further expand into the biotechnology business, the Group acquired a 49% equity interest in Yunnan Meng Sheng Pharmaceutical Co., Ltd. ("Meng Sheng Pharmaceutical") and also injected further capital into Meng Sheng Pharmaceutical in May 2001. Meng Sheng Pharmaceutical was established in Yunnan Province, China and is engaged in the research, manufacture and sale of biotechnology products in China. Yunnan has high recognition for its medicine manufacturing industry in the nation. The products developed by Meng Sheng Pharmaceutical have their own intellectual properties and have huge market potential. With the solid foundations established through the successful performance and contribution from Xinpeng Biotechnology Engineering as well as Yunnan's reputation (where Meng Sheng Pharmaceutical is based) as the traditional manufacturing base in China with an abundance of pharmaceutical resources, the Group believes that the investment in Meng Sheng Pharmaceutical will further strengthen the Group's investment portfolio in the biotechnology business and bring fruitful returns to the Group in the future.

PROSPECTS

China is forecasted to maintain economic growth at an average of 7% per annum over the next five years. Moreover, China's impending entry to the World Trade Organization ("WTO") will provide a further boost to its economic development. As such, the Group continues to be confident in the Mainland's economic future. The continued growth of the Mainland economy will bring about positive effects to the Group's existing core businesses relating to cigarettes and the provision of management and consultancy services. At the same time, the domestic demand for bio-pharmaceutical products is also expected to grow rapidly in view of the increasingly ageing population, the improvement in living standards and the increasing awareness of healthcare in China. The Group will therefore endeavor to capitalize on the strong foundations of Xinpeng

Biotechnology Engineering and Meng Sheng Pharmaceutical to capture the emerging opportunities arising from the biotechnology business in generating lucrative returns for shareholders.

Looking ahead, the Group will further develop its biotechnology business with the stable backup of its existing core businesses. Furthermore, the Group will continue to identify new investment opportunities aiming to enhance its profitability in the long term. Our parent company in Yunnan Province has been fully supportive of the Group's exploration of its business portfolio in previous years. The planned development of the western region (including Yunnan) by the central Government will offer tremendous investment opportunities for the Group, bringing the Group promising growth potential in the future. The Directors are both confident and optimistic of the prospects of the Group.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our sincere thanks for the continuous support of our shareholders. I would also like to extend my gratitude to the members of the Board for their leadership and to all staff for their hard work and commitment during the year.

Zi Guorui

Chairman

Hong Kong, 18 July 2001