

# CHAIRMAN'S STATEMENT

Annual Report 2002



*On behalf of the Board of Directors of Yunnan Enterprises Holdings Limited (the "Company"), it is my pleasure to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2002.*

## RESULTS

For the year ended 31 March 2002, the Group recorded a turnover of HK\$10.5 million, which was 22% lower than that of the previous year. During the year under review, the Group achieved a net profit of HK\$4.86 million, representing a decrease of 41% over the previous year. Earnings per share for the year were HK1.06 cents. The Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2002.

## BUSINESS REVIEW

During the year under review, sluggish market conditions affected the Group's cigarette-related business. Sustained drop of the overall bank interest rates also led to the reduction of the Group's interest income. Although facing the challenge of decreasing revenue sources, the Group was able to effectively implement cost control measures through excellent financial budget management, and in turn maintain operating profits during the year under review.

In addition, the Group's investment in biotechnology business continued to bring lucrative returns to the Group during the reviewing year. Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering") recorded an encouraging turnover and profit growth for 2001. These were mainly attributable to its high product quality, an efficient national sales network and dynamic marketing activities. As such,

the market share of its product in the domestic market is progressively increasing. Likewise, the Group's newly acquired Yunnan Meng Sheng Pharmaceutical Co. Limited ("Meng Sheng Pharmaceutical") during the year under review has brought an immediate profit return to the Group in the current year, fully reflecting the development potential of this company. The basic construction work for Meng Sheng Pharmaceutical's new production base, located at the Kunming Economic and Technology Development Zone, has already been completed. Apart from coping with the increasing product demand, its GMP-compliant production workshops can also facilitate future sales trend of its product. Xinpeng Biotechnology Engineering and Meng Sheng Pharmaceutical, the two associate biotechnology companies of the Group, brought about a return of HK\$3.8 million profit (before tax) to the Group during the year, which was the main contributing force to the Group's profitability in the current year. This also complements the Group's strategic direction of developing its biotechnology business.

### NEW INVESTMENT IN THE BIOTECHNOLOGY BUSINESS

Encouraged by the favorable returns from these relative investments, the Group is determined to strengthen its biotechnology investment portfolio. In April 2002, the Group made a further investment with other parties to set up Shanghai Pine & Power Biomaterial Company Limited ("Pine & Power Biomaterial") for a 25% equity interest. Pine & Power Biomaterial is engaged in the research, manufacture and sale of medical biomaterials in China. Its major product, the Fibrin Glue series, is one of the most effective surgical hemostats and surgical sealants, and has tremendous potential in the domestic market. The Group is confident in the company's R&D capabilities as well as its product quality and specifications. With the advantage of locating at Shanghai's bio-pharmaceutical technological base, Zhangjiang Hi-Tech Park, coupled with the support of and promotion by the local government in bio-pharmaceutical technology development, Pine & Power Biomaterial is positioned with strong foundations for growth. The Group believes that Pine & Power Biomaterial will become a leader in the domestic biomaterial industry,

bringing significant economic and social benefits and generating favorable investment returns to the Group in the future.

### PROSPECTS

Despite the recent global economic slowdown, China still reported a gross domestic product growth of 7.3% in 2001. This shows that the international economic situation did not have a significant impact on China's economic growth. For 2002, China is aiming for a 7% growth in gross domestic product. It is expected that the government will continue to encourage domestic consumption in order to maintain the momentum of economic development. With progressive improvement of domestic living standards, people are becoming more conscious of personal health issues. As such, the Group believes that pharmaceutical business will be one of the fastest growing industries in China, and hence benefiting the Group's biotechnology investments. Furthermore, market changes attributable to China's entry into the World Trade Organization also bring new challenges to the entire domestic pharmaceutical market. In anticipation of such, the Group's associate biotechnology companies are already well equipped to meet these challenges and will pay close attention to arising opportunities to gain an advantageous position in China's huge pharmaceutical market.

Although economic decline has brought upon a drop in the cigarette-related business venture, the Group continued to maintain a positive and profitable performance during the year under review, by virtue of sharing the profit returns from its biotechnology investments made in previous years. Looking forward, the Group will seek out immense opportunities arising from the domestic pharmaceutical market and continue to expand its biotechnology business. As the new Chairman of the Group, I will endeavor to carry through the Group's development strategy in this direction. With the cooperation of the members of the Board, we will work to our best to ensure promising returns to the shareholders.

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### APPRECIATION

Finally, on behalf of the Board, I would like to express my sincere gratitude to all staff for their hard work and commitment during the past year, as well as to our shareholders for their continued support of the Group.

**Liu Wandong**

*Chairman*

Hong Kong, 18 July 2002