

REPORT OF THE DIRECTORS

Annual Report 2002

The directors present their annual report and the audited financial statements for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are the provision of agency services for the trading of cigarette and other related products, and the provision of management and consultancy services.

RESULTS

The results of the Group for the year ended 31 March 2002 are set out in the consolidated income statement on page 21.

MAJOR CUSTOMERS AND SUPPLIERS

The Group had only two customers, the larger of which is a wholly-owned subsidiary of a substantial shareholder of the Company's ultimate holding company. That customer accounted for 89% of the Group's turnover other than dividend income for the year ended 31 March 2002.

The Group had only one supplier for the year ended 31 March 2002.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in the supplier or customers mentioned in the preceding paragraphs.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the year are set out in note 10 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and outstanding warrants and share option of the Company during the year are set out in notes 19 and 20 to the financial statements, respectively.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Liu Wandong (Chairman)	(appointed on 29 May 2002)
Ma Pizhi (Managing Director)	
Cheng Hau Yan	
Dong Jianhua	
Li Hong	
Li Guanglin	(appointed on 29 May 2002)
Zi Guorui (former Chairman)	(resigned on 29 May 2002)
Chen Toliu	(resigned on 29 May 2002)

Independent non-executive directors:

Ho Wing Fun
Lee Ka Sze, Carmelo

In accordance with the Company's Articles of Association, Mr. Liu Wandong, Mr. Li Guanglin, Ms. Dong Jianhua and Mr. Li Hong shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 31 March 2002, none of the directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in Section 29 of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance"), and none of the directors, nor their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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Y u n n a n
E n t e r p r i s e s
H o l d i n g s
L i m i t e d

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year, the Group received total consultancy income of HK\$4,458,731 from a substantial shareholder of the Company's ultimate holding company and a wholly-owned subsidiary of that substantial shareholder. The transactions were carried out at cost plus a percentage profit mark-up.

During the year, the Group received agency fee income from a substantial shareholder of the Company's ultimate holding company amounting to HK\$131,040 arising from the import of goods with a value of HK\$8,736,000. The transactions were carried out at cost plus a percentage profit mark-up.

The independent non-executive directors have confirmed the transactions in relation to the agency fee income were entered into in accordance with the terms of the agreements of the underlying transactions, or arose in the ordinary and usual course of the Group's business and on terms no less favourable than terms available to or from independent third parties and were fair and reasonable so far as the shareholders of the Company are concerned. The independent non-executive directors have also confirmed that the aggregate amount of such transactions did not exceed the cap as approved by the independent shareholders at the Company's extraordinary general meeting held on 30 June 1998.

Save as disclosed above, no contract of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of shares held
South Hong Investment Limited	262,442,930
China National Tobacco Corporation Yunnan Branch	262,442,930 (Note)
Yuxi Hongta Tobacco (Group) Limited	262,442,930 (Note)
Yunnan International Trust and Investment Corporation	262,442,930 (Note)

Note: These shares refer to the 262,442,930 shares held by South Hong Investment Limited in which China National Tobacco Corporation Yunnan Branch, Yuxi Hongta Tobacco (Group) Limited and Yunnan International Trust and Investment Corporation, all being substantial shareholders of South Hong Investment Limited, are deemed to be interested.

Save as disclosed above, the Company has not been notified of any other parties with interests representing 10% or more of the issued share capital of the Company as at 31 March 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, in the Company or any other body corporate.

POST BALANCE SHEET EVENT

Details of significant post balance sheet events are set out in note 29 to the financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by this report. During the year, the audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the interim and annual financials of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Liu Wandong

Chairman

Hong Kong, 18 July 2002