

*On behalf of the Board of
Directors of Yunnan Enterprises
Holdings Limited (the "Company"),
I hereby present to shareholders
the annual report of the Company
and its subsidiaries (the "Group")
for the year ended 31 March
2003.*

BUSINESS REVIEW

During the year under review, the decrease in dividend income together with the fact that the Group did not have consultancy income caused the drop in the Group's turnover. At the same time, the Group continued to control costs in an effective manner with the administrative expenses decreased when compared with the previous year. Moreover, the Group's two associated companies engaging in biotechnology business continued to bring in a profit contribution to the Group during the year under review. Yunnan Meng Sheng Pharmaceutical Co. Limited ("Meng Sheng Pharmaceutical") has been successfully awarded GMP certification by the State Drug Administration during the year under review. This will greatly enhance the future sales of its medicines. Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering") has also carried out the researches and development of anti-cancer drug - Chuiluosu during the year under review which is encouraging in respect of its product diversification. Regarding Xinpeng Biotechnology Engineering, the entity was also affected by the intensifying competition in the domestic pharmaceutical market which led to the decline in its turnover and profit. This in turn results in the decrease of the Group's share of results of the associates during the year under review. On the other hand, the continued decline in the property market brought about a deficit of HK\$3.5 million on revaluation of the Group's investment property in the current year which was charged to the income statement. This in turn affected the Group's results during the year under review. For the year ended 31 March 2003, the Group recorded a net loss of HK\$4.53 million after including the revaluation deficit.

CHAIRMAN'S STATEMENT

ACQUISITION OF FURTHER INTERESTS IN THE INVESTEE COMPANY AND THE ASSOCIATE

Despite recording a net loss during the year under review, the Group is confident in the business foundation and development prospect of its investee company and the associates, including Yuxi Globe Color Printing Carton Co., Ltd. ("Yuxi Globe"), Meng Sheng Pharmaceutical and Xinpeng Biotechnology Engineering. The Group therefore determined to acquire additional interests in the relevant entities. Firstly, the Group has successfully completed the acquisition of an additional 6% interest in Meng Sheng Pharmaceutical recently. The interest of the Group in Meng Sheng Pharmaceutical has increased to 55% with the entity then becomes a non wholly-owned subsidiary of the Company. Secondly, the Group has agreed to acquire conditionally an additional 6.25% interest in Yuxi Globe at a total consideration of HK\$19.9 million in June 2003. Upon completion of that acquisition, the Group's interest in Yuxi Globe would be increased to 18.75%. Such acquisitions indicate that the Group is optimistic of the prospects of the relevant entities. The increase in interests would enhance the Group's investment returns from the relevant entities in the future.

PROSPECTS

Through their established solid foundations, comprehensive sales network, GMP-compliant production workshops and the capabilities in developing new products, the Group believes that Xinpeng Biotechnology Engineering & Meng Sheng

Pharmaceutical are well-equipped to meet the tough challenges in the domestic pharmaceutical market. These entities engaging in biotechnology business will therefore be able to attain more advantageous position in the market. Also, Yuxi Globe is a well-established entity in China which has ninth consecutive year of profitability and paid considerable amounts of dividends to the investors over the past years. On the other hand, the Group will continue to reduce operating expenses in a stringent manner. Looking ahead, the Group's financial results in the future will be able to benefit more from the acquisition of additional interests in Meng Sheng Pharmaceutical and Yuxi Globe. With the continued decline in operating expenses, I am optimistic of the Group's future development and performance. The Group will also actively seek to exploring new investment opportunities in order to strengthen the Group's investment portfolio for bringing better returns to the shareholders.

APPRECIATION

Finally, I take this opportunity to express my gratitude for the support of our shareholders, members of the Board and all the staff of the Group during the year.

Liu Wangdong

Chairman

Hong Kong, 18 July 2003