

CHAIRMAN'S STATEMENT

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 2004.

RESULTS

For the year ended 31 March 2004, turnover of the Group amounted to HK\$5.77 million, an increase of 68% from the previous year. During the year under review, the Group recorded a net loss of HK\$5.74 million, compared to a net loss of HK\$4.53 million for the previous financial year. Loss per share for the current year was 1.181 cents with loss per share for the previous year being 0.985 cents.

DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2004.

BUSINESS REVIEW

During the year under review, the Group completed the acquisition of additional 6% interest in Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical"). The interest of the Group in Meng Sheng Pharmaceutical was increased to 55% and this entity then became a non wholly-owned subsidiary of the Company. During the year under review, the Group was able to benefit from the sustained growth in sales revenues of Meng Sheng Pharmaceutical. As at 31 March 2004, the Group's total investment in Meng Sheng Pharmaceutical amounted to approximately Rmb21 million which signifies the Group's outlook on the future development potential of this entity. On the other hand, the Group also completed the acquisition of an additional 6.25% equity interest in Yuxi Globe

Color Printing Carton Co., Limited ("Yuxi Globe") during the year under review. The aggregate consideration for this acquisition was HK\$19.9 million and the Group's equity interest in Yuxi Globe was increased to 18.75%. The Group's share of dividend from Yuxi Globe would be increased following the acquisition of an additional 6.25% equity interest in Yuxi Globe.

The associated company Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering"), in which the Group held 48% equity interest, recorded losses during the year under review which was caused by the drop of its product prices. As a result, the Group has to share the relevant losses attributable to that associated company during the year under review. Under such tough operating environment, Xinpeng Biotechnology Engineering is actively developing new products with good potential for coping with the fierce competition in the domestic pharmaceutical market. Amongst those is Chuiluosu, an anti-cancer drug, on which Xinpeng Biotechnology Engineering had already commenced the research jointly at the end of 2002. During the year under review, the relevant research & development work for Chuiluosu continued to carry out smoothly. The management expects that Chuiluosu could act as a catalyst for the operating results of Xinpeng Biotechnology Engineering. On the other hand, Yunnan Xingning Color Material Printing Co., Limited ("Yunnan Xingning"), the Group's newly-acquired associated company during the year under review, has brought an immediate profit return to the Group in the current year. This fully reflects the development potential of this company as well as the extent of support from this company's major shareholder (which is Yunnan Hongta Group Co., Ltd.) to its printing business.

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PROSPECTS

Since the Group's acquisition of 49% interest in Meng Sheng Pharmaceutical in August 2001 till the acquisition of further 6% interest in the entity during the year under review, Meng Sheng Pharmaceutical has been maintaining stable operating performance throughout that period and brought about sustained profit contribution to the Group. Its production base consists of advanced production facilities and GMP-compliant production workshops, which could act as catalysts for its increasing sales trend. The Group believes that the pharmaceutical business will bring about favorable returns to the Group in the future. On the other hand, the Group believes that with its strong business foundations as well as its experienced management team, Xinpeng Biotechnology Engineering would be able to cope with the tough challenges prevailing in the domestic pharmaceutical market. Furthermore, the Group's investee company and the newly-acquired associated company (Yuxi Globe & Yunnan Xingning respectively), which are engaging in printing and sale of cigarette packaging packs and boxes in China, will generate fruitful returns to the Group in the future under the full support of Yunnan Hongta Group Co., Ltd. By virtue of the net loss incurred during the year under review, the Group will keep on to reduce operating expenses in stringent manner to improve the results 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.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

Liu Wandong

Chairman

Hong Kong, 16 July 2004