THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yunnan Enterprises Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

雲南實業控股有限公司
YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0455)

(1) MAJOR AND CONNECTED TRANSACTION;
(2) APPLICATION FOR WHITEWASH WAIVER; AND
(3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

Financial adviser

taifook

TAIFOOK CAPITAL LIMITED

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

CIMB

CIMB-GK Securities (HK) Limited

A notice convening an extraordinary general meeting of the Company to be held at Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong at 3:00 p.m. on Monday, 10 December 2007 is set out on pages 156 to 157 of this circular. A letter from CIMB, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 40 of this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's principal place of business in Hong Kong, Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof if you so wish.

23 November 2007

CONTENTS

In this circular, the following expressions have the following meanings unless the context otherwise requires.

"associate(s)"	:	has the meaning ascribed to it under the Listing Rules
"Acquisition"	:	the acquisition of the Sale Share and the Sale Loan from the Vendor by the Company pursuant to the Acquisition Agreement
"Acquisition Agreement"	:	the conditional agreement dated 25 October 2007 entered into among the Vendor, the Company and South Hong in connection with the Acquisition
"Announcement"	:	the announcement of the Company dated 30 October 2007 in relation to the Acquisition, the Whitewash Waiver and the proposed increase in authorised share capital of the Company
"Board"	:	the board of Directors
"CIMB"	:	CIMB-GK Securities (HK) Limited, a licensed corporation to carry out Types 1, 4, and 6 regulated activities under the SFO
"Company"	:	Yunnan Enterprises Holdings Limited (Stock Code: 0455), a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the Stock Exchange
"Completion"	:	completion of the sale and purchase of the Sale Share and the assignment of the Sale Loan in accordance with the Acquisition Agreement
"Consideration Shares"	:	428,205,128 new Shares to be issued by the Company to the Vendor at the issue price of HK$0.39 per Share in satisfaction of the Transaction Consideration pursuant to the Acquisition Agreement upon Completion
"Director(s)"	:	the director(s) of the Company
"EGM"	:	the extraordinary general meeting of the Company to be convened on Monday, 10 December 2007 at 3:00 p.m. to consider and, if thought fit, approve the increase in the authorised share capital of the Company, the Whitewash Waiver, the Acquisition and the transactions contemplated thereunder

"Enlarged Group"	:	the Group immediately after Completion (including the Subject Group)
"Executive"	:	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"First Land Parcel"	:	the land of 16,372.08 square meters located at the Southwest of Gangwan Main Road, Yinkeng, Xiangzhou, Zhuhai, Guangdong Province, the PRC (Lot No. C0404009)
"Group"	:	The Company and its subsidiaries
"HK$"	:	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	:	The Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	:	the independent committee of the Board, comprising Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai, established for the purpose of advising the Independent Shareholders in relation to the Whitewash Wavier, the Acquisition Agreement and the transactions contemplated thereunder
"Independent Shareholders"	:	Shareholders other than Mr. Fang, the Vendor, South Hong and their respective associates and concert parties, and all parties involved in or interested in the Acquisition and the Whitewash Waiver
"Independent Third Parties"	:	person(s) or company(s) who/which is/are not connected with the directors, chief executive or substantial shareholders (as defined under the Listing Rules) of the Company and its subsidiaries, or any of their respective associates
"Land"	:	collectively, the First Land Parcel and the Second Land Parcel
"Latest Practicable Date"	:	20 November 2007, being the latest practicable date for ascertaining certain information for inclusion in this circular

"Loan Consideration"	:	HK$67,000,000, being the consideration payable by the Company for the assignment of the Sale Loan upon Completion
"Listing Committee"	:	the listing sub-committee of the Stock Exchange
"Listing Rules"	:	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Fang"	:	Mr. Fang Wen Quan, an executive Director who held the entire equity interest in the Vendor and was beneficially interested in approximately 9.35% of the total issued Shares as at the Latest Practicable Date
"PRC"	:	the People's Republic of China, which for the purpose of this circular excludes, Hong Kong, the Macau Special Administrative Region and Taiwan
"PRC Company"	:	珠海天恒房地產有限公司 (Zhuhai Tianheng Real Estate Company Limited#), a foreign owned enterprise established under the laws of the PRC with limited liability which is wholly-owned by the Subject Company as at the Latest Practicable Date
"Relevant Period"	:	the period from 1 May 2007 (being the date falling six months immediately prior to 30 October 2007, being the date of Announcement) up to and including the Latest Practicable Date
"RMB"	:	Renminbi, the lawful currency of the PRC
"Sale Loan"	:	the amount of the shareholder's loan owed by the Subject Company to the Vendor on the date of Completion in accordance with the Acquisition Agreement
"Sale Share"	:	1 ordinary share in the Subject Company owned by the Vendor, representing the entire issued share capital of the Subject Company
"Second Land Parcel"	:	the land of 8,765.91 square meters located at the Southwest of Gangwan Main Road, Yinkeng, Xiangzhou, Zhuhai, Guangdong Province, the PRC (Lot No. C0404007)

"SFO"	:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	:	the ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	:	holder(s) of the Shares
"Share Consideration"	:	being the consideration of HK$100,000,000 for the purchase of the Sales Shares
"South Hong"	:	South Hong Investment Limited, a company incorporated in Hong Kong with limited liability, which was beneficially owned as to approximately 92.28% by Hongta Tobacco (Group) Limited which is a state-owned enterprise in Yunnan Province, the PRC, as to approximately 3.43% by Mr. Fang and as to approximately 4.29% by an Independent Third Party. Mr. Li Suiming, Mr. Li Guanglin, Mr. Liu Huijiang, Mr. Ma Pizhi, Ms. Zhong Lifang and Mr. Fang are the directors of South Hong as at the Latest Practicable Date. Mr. Liu Wandong, Mr. Li Xinjun, Mr. Li Suiming, Mr. Li Tianfei, Mr. Zhou Shaonan, Mr. Li Guangdou, Mr. Zhang Guoliang, Mr. Xie Kunhuo, Mr. Li Haikun, Mr. Zhang Jun, and Mr. Guo Man are the directors of Hongta Tobacco (Group) Limited as at the Latest Practicable Date
"Stock Exchange"	:	The Stock Exchange of Hong Kong Limited
"Subject Company"	:	Tianda Properties Limited, a company incorporated in Hong Kong with limited liability which holds the entire equity interest in the PRC Company as at the Latest Practicable Date
"Subject Group"	:	the Subject Company and the PRC Company
"Suspension"	:	the suspension of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on Friday, 26 October 2007 up to 9:30 a.m. on Wednesday, 31 October 2007
"Takeovers Code"	:	the Hong Kong Code on Takeovers and Mergers

"Tianda Zhuhai"	:	天大地產（珠海）有限公司 (Tianda Properties (Zhuhai) Company Limited#), a wholly foreign owned enterprise established under the laws of the PRC with limited liability, which is wholly-owned by the Vendor
"Transaction Consideration"	:	HK$167,000,000, being the aggregate of the Share Consideration and the Loan Consideration
"Vendor"	:	Tianda Group Limited, a company incorporated in Hong Kong with limited liability which is wholly-owned by Mr. Fang. The Vendor was interested in approximately 9.35% of the total issued Shares and the entire interest in the Subject Company as at the Latest Practicable Date
"Whitewash Waiver"	:	a waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code from the obligation of the Vendor or its concert parties to make a mandatory general offer for all the issued Shares other than those already owned or agreed to be acquired by the Vendor and parties acting in concert with it
"%"	:	per cent.

\# *For English translations only*

For the purpose of illustration only, amounts denominated in RMB in this circular have been translated into HK$ at the rate of RMB0.965 = HK$1. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate at all.

雲南實業控股有限公司
YUNNAN ENTERPRISES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 0455)

Executive Directors:
Mr. Li Suiming *(Chairman)*
Mr. Ma Pizhi *(Managing Director)*
Mr. Li Guanglin
Mr. Fang Wen Quan
Mr. Liu Huijiang

Independent non-executive Directors:
Mr. Ho Wing Fun
Mr. Wu Wen Jing, Benjamin
Mr. Lam Yat Fai

Registered Office:
One Capital Place
P.O. Box 1787 GT
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business:
Suites 2405-2410, 24th Floor
CITIC Tower
No.1 Tim Mei Road
Central, Hong Kong

23 November 2007

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION; (2) APPLICATION FOR WHITEWASH WAIVER; AND (3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

On 30 October 2007, the Company announced that it entered into the Acquisition Agreement with, among others, the Vendor on 25 October 2007 for the purchase of the Sale Share and the Sale Loan for a consideration of HK$167 million. The Subject Company is an investment holding company which holds the entire equity interest in the PRC Company. The PRC Company will be engaged in the development of the Land for villa, residential and ancillary uses.

The Directors also propose to increase the Company's authorised share capital from HK$100,000,000 to HK$200,000,000 to be divided into 2,000,000,000 Shares, by the creation of additional 1,000,000,000 unissued Shares. The increase in authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

The purpose of this circular is to give you (i) further information on the Acquisition, the Whitewash Waiver and the proposed increase in authorised share capital of the Company; (ii) the notice of the EGM; (iii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Acquisition and the Whitewash Waiver; (iv) the advice of CIMB to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition and the Whitewash Waiver; and (v) other information as required under the Listing Rules and the Takeovers Code.

THE ACQUISITION AGREEMENT

1. Date

25 October 2007

2. Vendor

Tianda Group Limited, which is wholly-owned by Mr. Fang, an executive Director

3. Purchaser

The Company

4. Assets to be acquired

The Sale Share (being the entire equity interest in the Subject Company owned by the Vendor) and the Sale Loan (being the entire shareholder's loan owed by the Subject Company to the Vendor at Completion)

5. Consideration

The Transaction Consideration of HK$167 million, being the aggregate of the Share Consideration and the Loan Consideration, was arrived at after arm's length negotiations between the Vendor and the Company with reference to the market value of the Land as at 31 August 2007 and the aggregate balance of cash and bank of the Subject Group on the date of Completion.

The market value of the Land as at 31 August 2007 as valued by Vigers Appraisal and Consulting Limited, an independent professional property valuer, using the comparison method of valuation, was RMB110 million (or approximately HK$114 million) on the assumption that all land use rights of the Land have been obtained by the PRC Company. The Share Consideration of HK$100 million represents a discount of approximately 12.3% to the market value of the Land.

As at the Latest Practicable Date, the Subject Group had aggregate cash and bank balance of approximately HK$7 million and the loan owed to the Vendor of approximately HK$8 million. In accordance with the terms of the Acquisition Agreement, the Vendor shall advance further loan to the Subject Group to the extent that the Subject Group shall have aggregate cash and bank balance of not less than HK$67 million on the date of Completion. Accordingly, the Loan Consideration of HK$67 million will be equal to the aforesaid minimum aggregate cash and bank balance of the Subject Group on the date of Completion.

The Transaction Consideration shall be settled by the issue of 428,205,128 Consideration Shares by the Company to the Vendor upon Completion which represent approximately 84.48% of the existing issued share capital of the Company and approximately 45.79% of the enlarged issued share capital of the Company immediately after Completion (assuming that there is no change in its issued share capital from the Latest Practicable Date to Completion save for the issue of the Consideration Shares). There is no restriction for dealing with the Consideration Shares under the Acquisition Agreement.

The Consideration Shares will be issued at the price of HK$0.39 per Share which was determined with reference to, among others, the audited consolidated net assets value per Share as at 31 March 2007 and represents:

(a) a discount of approximately 61.00% to the closing price of the Shares of approximately HK$1.00 per Share as quoted on the Stock Exchange on 25 October 2007, being the last trading day prior to suspension of trading in the Shares on the Stock Exchange on 26 October 2007;

(b) a discount of approximately 60.29% to the average closing price of approximately HK$0.982 per Share for the last five consecutive trading days up to and including 25 October 2007 as quoted on the Stock Exchange;

(c) a discount of approximately 60.12% to the average closing price of approximately HK$0.978 per Share for the last ten consecutive trading days up to and including 25 October 2007 as quoted on the Stock Exchange;

(d) a discount of approximately 61% to the closing price of HK$1.00 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(e) a premium of approximately 11.43% over the audited consolidated net assets value per Share of HK$0.35 as disclosed in the Company's audited consolidated financial statements for the year ended 31 March 2007.

The Directors are of the view that the discount for the issue price of the Consideration Shares to the closing price of the Shares are fair and reasonable and in the interest of the Shareholders and the Company as a whole after taking into account, among others, (i) the premium of approximately 11.43% of the issue price per Consideration Share over the audited net assets value per Share as at 31 March 2007 and (ii) the historical audited financial results of the Group's existing businesses, in particular the substantial loss attributable to Shareholders of approximately HK$39.8 million for the year ended 31 March 2007.

6. Conditions precedent

The Completion shall be conditional on the following conditions precedent:

(a) the issue of the PRC legal opinion (the content and format of which shall be up to the satisfaction and acceptance by the Company) from the legal counsel engaged by the Company certifying that:–

(i) the PRC Company legally owns the First Land Parcel and the Second Land Parcel, and can assign and dispose of the First Land Parcel and the Second Land Parcel in compliance with PRC laws;

(ii) the PRC Company may develop and carry out the development and construction work on the First Land Parcel and the Second Land Parcel in accordance with the permission certificate on planning for construction in compliance with PRC laws;

(iii) the PRC Company holds valid qualified licenses for real estate development, and is qualified to develop and carry out construction work on the First Land Parcel and the Second Land Parcel in compliance with PRC laws;

(iv) the PRC Company is duly incorporated, registered, validly existing and operating its business without any liquidating liability in accordance with PRC laws, and the Subject Company is the sole shareholder of the PRC Company, and legally owns all of the equity interests in the PRC Company;

(v) Tianda Zhuhai has successfully completed the injection of the First Land Parcel and the Second Land Parcel into the PRC Company by way of shareholder's capital contribution; and

(vi) there is no existing or foreseeable litigation claim, arbitration and other dispute in connection with the First Land Parcel and the Second Land Parcel; and the PRC Company will not incur any cost or liability for compensation for any issues related to the building(s) used to be erected in relation to the First Land Parcel and the Second Land Parcel.

(b) the Company has completed due diligence investigation (including but not limited to in the respect of legal, financial and business; the surveyor appointed by the Company has provided an valuation report (the contents of which shall be up to the satisfaction of the Company) on the First Land Parcel and the Second Land Parcel) in the Subject Company and the PRC Company, and the Company considers that the results of the due diligence investigation are acceptable and completely satisfactory to the Company in all respect;

(c) the Vendor has been granted the Whitewash Waiver and the conditions of such waiver have been met;

(d) the passing of the ordinary resolutions at the EGM approving the issue and allotment of the Consideration Shares by the Company, the Whitewash Waiver, the transactions as contemplated under the Acquisition Agreement and related matters by the Independent Shareholders by way of poll;

(e) the grant of the listing of and permission to deal in the Consideration Shares by the Listing Committee of the Stock Exchange;

(f) the Company has not received any notice from the Stock Exchange of revocation of its listing status;

(g) the Vendor has not materially breached any of its warranties before Completion; and

(h) the Vendor shall advance further loan to the Subject Company to the extent that the Subject Group shall have aggregate cash and bank balance of not less than HK$67 million on the date of Completion.

As at the Latest Practicable Date, none of the above conditions has been fulfilled. Apart from the above condition (g), no other condition can be waived by the parties to the Acquisition Agreement. If any of the conditions precedent is not fully fulfilled (or waived as to (g) by the Company) on or before 31 March 2008 (or such other date as the Vendor and the Company may agree), the rights and obligations of the parties under the Acquisition Agreement shall lapse and be of no further effect, in which event the parties shall be released from all further obligations thereunder without any liability save as to any antecedent breach.

7. Completion

The Completion shall take place on the fifth business day after all conditions precedent to the Acquisition Agreement are fulfilled (or waived as appropriate) or on such other date as agreed by the Vendor and the Company in writing.

Upon the Completion, the Subject Company will become a wholly-owned subsidiary of the Company.

APPLICATION FOR LISTING OF THE CONSIDERATION SHARES

Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Consideration Shares. The Consideration Shares will rank pari passu in all respects with the Shares in issue at Completion.

SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structures of the Company as at the Latest Practicable Date and immediately after Completion (assuming there is no change in the issued share capital of the Company from the Latest Practicable Date to Completion save for the issue of the Consideration Shares) are set out as follows:

	As at the Latest Practicable Date		**Immediately after Completion**	
	Number of Shares	*% of total issued Shares*	*Number of Shares*	*% of total issued Shares*
Vendor	47,380,952	9.35	475,586,080	50.86
South Hong *(Note)*	262,442,930	51.78	262,442,930	28.07
Vendor and party acting in concert with it	309,823,882	61.13	738,029,010	78.93
Public	197,030,070	38.87	197,030,070	21.07
Total	506,853,952	100.0	935,059,080	100.0

Note: As at the Latest Practicable Date, South Hong was beneficially owned as to approximately 92.28% by Hongta Tobacco (Group) Limited which is a state-owned enterprise in Yunnan Province, the PRC, as to approximately 3.43% by Mr. Fang and as to approximately 4.29% by an Independent Third Party. Mr. Fang is also a director of South Hong.

RESTORATION OF PUBLIC FLOAT

As shown in the table under the section headed "Shareholding structure of the Company" above, immediately after Completion, the public float of the Company would drop from approximately 38.87% to approximately 21.07%. It is the intention of the Directors to maintain the listing of the Company on the Stock Exchange following Completion. Accordingly, South Hong has undertaken that it will place down the Shares held by it to certain placees who are Independent Third Parties to ensure not less than 25% of the Shares are held by members of the public and in compliance with the minimum public float requirement of the Listing Rules immediately after Completion.

WHITEWASH WAIVER

The shareholding interest of the Vendor in the Company will increase from approximately 9.35% as at the Latest Practicable Date to approximately 50.86% immediately after Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to Completion save for the issue of the Consideration Shares). Accordingly, the Acquisition will trigger a mandatory general offer required to be made by the Vendor under Rule 26 of the Takeovers Code for all the issued Shares not already owned or agreed to be acquired by the Vendor and persons acting in concert with it. Neither the Vendor, Mr. Fang nor any of their concert parties have acquired voting rights of the Company in the 6 months prior to the date of the Announcement and up to and including the Latest Practicable Date.

The Vendor has made an application to the Executive for the Whitewash Waiver in accordance with Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders taken by poll at the EGM in accordance with Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. Mr. Fang, the Vendor, South Hong and their respective associates and concert parties and all parties involved in or interested in the Acquisition and the Whitewash Waiver, which in aggregate represent approximately 61.13% of the total shareholding of the Company as at the Latest Practicable Date, will abstain from voting at the EGM in respect of the proposed resolutions approving the Acquisition and the Whitewash Waiver subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll. If the Whitewash Waiver is not granted by the Executive or if the conditions (if any) imposed thereon are not fulfilled, the Acquisition will not proceed. In any event, the requirement for the Vendor to make a mandatory general offer under Rule 26 of the Takeovers Code as a result of the Acquisition will not be triggered.

INFORMATION ON THE VENDOR, THE SUBJECT COMPANY AND THE PRC COMPANY

The Vendor

The Vendor and its subsidiaries are principally engaged in health businesses such as pharmaceuticals, medical health care and biotechnology, as well as investment and development of projects in areas such as property, mining and energy resources.

It is the intention of the Vendor to continue to carry on the business of the Company and to continue the employment of the employees of the Group. The Vendor has no intention to redeploy the fixed assets of the Group. The Vendor does not intend to introduce any changes to the business of the Group. The Vendor is optimistic about the prospect of the pharmaceutical business of the Group and consider that the increase of its equity interest in the Company is commercially justifiable.

As at the Latest Practicable Date, the original costs of the Subject Company and the PRC Company to the Vendor was approximately HK$36 million, comprising the Land at cost of HK$28 million and the shareholder's loan of approximately HK$8 million.

The Subject Company

As at the Latest Practicable Date, the Subject Company is wholly-owned by the Vendor. The Subject Company is an investment holding company established for holding the PRC Company.

The following summarises the audited results of the Subject Company for the period from 4 October 2006 (date of incorporation) to 30 June 2007 under the generally accepted accounting principles in Hong Kong:

	For the period ended 30 June 2007 *(HK$)*
Revenue	–
Loss of the period	(22,516)

The audited net assets value of the Subject Company (before deduction of its shareholder's loan of approximately HK$4.3 million) as at 30 June 2007 was approximately HK$4.3 million. As at the Latest Practicable Date, save for the interest in the PRC Company, the cash and bank balance and the shareholder's loan from the Vendor, the Subject Company has no other material assets and liabilities.

The PRC Company

The PRC Company was established in the PRC with limited liability in October 2006. The PRC Company will be principally engaged in the development of the Land and the sale of villa, residential and ancillary uses such as landscaped garden and carparks to be developed on the Land. The Land has a total site area of 25,137.99 square meters and is located at the Southwest of Gangwan Main Road, Yinkeng, Xiangzhu, Zhuhai, Guangdong Province, the PRC. Yinkeng is a sub-urban area in Zhuhai where the area will be established into low-density residential area. The immediate surrounding is dominated by woodlands and certain tourist attractions are nearby. It is expected that the total development costs of the Land will be approximately HK$100 million.

According to the shareholders' agreement between the Subject Company and Tianda Zhuhai, the Subject Company shall inject cash of RMB28.05 million into the PRC Company and Tianda Zhuhai shall inject the Land at a valuation of RMB27 million into the PRC Company, representing approximately 51% and 49% interests in the entire registered capital of the PRC Company after such injections in full respectively.

In November 2006, Tianda Zhuhai and the Subject Company entered into a share transfer agreement, pursuant to which Tianda Zhuhai agreed to transfer its entire interest in registered capital of the PRC Company to the Subject Company. Tianda Zhuhai confirmed that it would inject the Second Land Parcel into the PRC Company before completion of the aforesaid transfer of its entire interest in the registered capital of the PRC Company to the Subject Company. As at the Latest Practicable Date, the Subject Company has injected cash of approximately RMB8.07 million and Tianda Zhuhai has completed the injection of the First Land Parcel and the Second Land Parcel into the PRC Company. In particular, the PRC Company obtained the land use rights of the Second Land Parcel on 25 October 2007. As a result, the PRC Company owns the Land and became a wholly-owned subsidiary of the Subject Company. It is expected that the Subject Company will inject the remaining cash to the PRC Company in the first half of 2008.

The following summarises the audited results of the PRC Company for the period from 24 October 2006 (date of incorporation) to 31 August 2007 under the generally accepted accounting principles in Hong Kong:

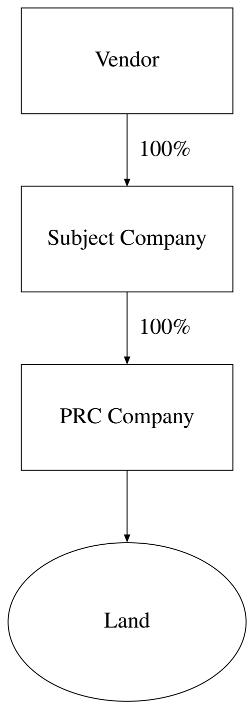
	For the period ended 31 August 2007 *(RMB)*
Revenue	–
Loss of the period	(239,439)

The audited net assets value of the PRC Company as at 31 August 2007 was approximately RMB21.6 million.

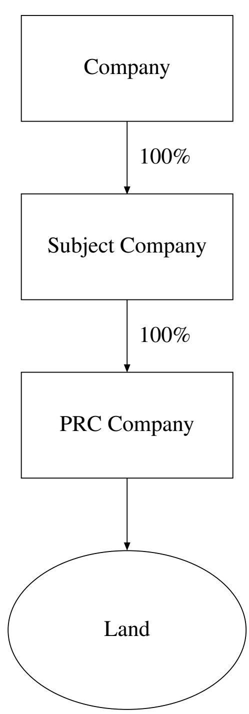
As at the Latest Practicable Date, save for cash and bank balance and the Land, the PRC Company has no other material assets and liabilities.

THE SHAREHOLDING STRUCTURE OF THE SUBJECT GROUP

As at the Latest Practicable Date:



Immediately after Completion:



INFORMATION ON THE GROUP

The Group is principally engaged in the sales of pharmaceutical products, property holding and investment holding.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As disclosed in the annual report for the year ended 31 March 2007, the Group recorded a substantial loss attributable to the equity holders of the Company of approximately HK$39.8 million mainly due to (1) the share of loss from its major associated company which involves in the business of biotechnology products owing to tough competition in the domestic pharmaceutical market and; (2) the impairment loss from an investee company which involves in the business of printing and sale of cigarette packaging packs and boxes owing to decreasing demand and falling market share. In addition, the Group's existing principal businesses have not produced a promising return to the Group so far. As a result, the Group is looking for new business opportunities with a view to broadening its income base and improving its financial performance.

The Directors consider that the Acquisition will enable the Group to participate in the property development in Zhuhai of the PRC, which has been growing owing to the persistent high economic growth and high demand for the properties in the PRC. According to the statistics from Zhuhai's government official website, during the first half of 2007, the local economy of Zhuhai experienced rapid development, casting a gross domestic products of approximately RMB39.9 billion, representing an increase of approximately 13.8% over the same period of last year and the per capita disposable income of urban residents of Zhuhai was approximately RMB10,000, posting a growth of approximately 10.1% over the same period of last year. The Directors believe that the economic and social development of Zhuhai will continue to prosper, promoting the long-term and healthy development of the local real estate market. As such, it is expected that the Group will benefit from the development of the Land and the sales of properties to be constructed on the Land.

The Directors are of the view that the terms of the Acquisition are on normal commercial terms, fair and reasonable and in the interest of the Group and the Shareholders as a whole.

The development of the Land will be financed by internal resources and/or bank borrowings of the Enlarged Group.

The total assets of the Group will be increased without any material impact on the total liabilities and earnings of the Group as a result of the Acquisition.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$100,000,000 being divided into 1,000,000,000 Shares of par value of HK$0.10 each. Of the total number of authorised Shares, 506,853,952 have been issued and fully paid and 428,205,128 will be issued as the Consideration Shares pursuant to the Acquisition Agreement upon Completion. In order to accommodate the future expansion and growth of the Group, the Directors propose to increase the Company's authorised share capital from HK$100,000,000 to HK$200,000,000 to be divided into 2,000,000,000 Shares, by the creation of additional 1,000,000,000 unissued Shares.

An ordinary resolution in respect of the proposed increase in the authorised share capital of the Company will be put to the Shareholders for their approval in the EGM by show of hands, subject to the Articles 69 and 70 of the articles of association of the Company.

IMPLICATION UNDER THE LISTING RULES AND TAKEOVERS CODE

As at the Latest Practicable Date, Mr. Fang, an executive Director, held the entire equity interest in the Vendor which in turn was interested in approximately 9.35% of the entire issued share capital of the Company. Accordingly, the Vendor is a connected person of the Company and the Acquisition will constitute a connected transaction for the Company under the Listing Rules. In addition, the Acquisition will constitute a major transaction for the Company under the Listing Rules. Pursuant to the Listing Rules, the Acquisition is therefore conditional upon the approval of the Independent Shareholders by poll at the EGM.

The Acquisition will trigger a mandatory general offer required to be made by the Vendor under Rule 26 of the Takeovers Code for all the issued Shares not already owned or agreed to be acquired by the Vendor and parties acting in concert with it. The Vendor has made an application to the Executive for the Whitewash Waiver in accordance with Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to the approval of the Independent Shareholders taken by poll at the EGM. The aggregate voting rights of the Vendor and parties acting in concert with it in the Company after Completion will exceed 50% of the issued share capital of the Company as enlarged by the Consideration Shares and accordingly, the Vendor and parties acting in concert with it may increase their shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

Mr. Fang, the Vendor, South Hong and their respective associates and concert parties, and all parties involved in or interested in the Acquisition and the Whitewash Waiver, which in aggregate controlled or were entitled to exercise control over the voting rights in respect of approximately 61.13% of the total issued Shares as at the Latest Practicable Date, will abstain from voting at the EGM in respect of the proposed resolutions approving the Acquisition and the Whitewash Waiver.

CIMB has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition and the Whitewash Waiver. Your attention is drawn to their letter of advice set out on pages 20 to 40 of this circular.

The Independent Board Committee, comprising all the independent non-executive Directors namely Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin, and Mr. Lam Yat Fai, has been established to advise the Independent Shareholders in respect of the terms of the Acquisition and the Whitewash Waiver. Your attention is also drawn to the letter of recommendation from the Independent Board Committee set out on page 19 of this circular.

EGM

A notice convening the EGM is set out on pages 156 to 157 of this circular. At the EGM, ordinary resolutions will be proposed to the Shareholders to consider and if thought fit, approve the increase in the authorised share capital of the Company and to the Independent Shareholders to consider and, if thought fit, approve the Acquisition (including the issue of the Consideration Shares) and the Whitewash Waiver, where votes of the Independent Shareholders will be taken on a poll.

The result of voting taken on a poll at the EGM will be announced by the Company in accordance with the Listing Rules.

Whether or not you are able to vote at the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's principal place of business in Hong Kong, Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

RECOMMENDATION

The Directors consider that the terms of the Acquisition (including the issue of the Consideration Shares) and the Whitewash Waiver are on normal commercial terms, fair and reasonable and are in the interests of the Shareholders and the Group as a whole and that the increase in the authorised share capital of the Company is also in the interest of the Company. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the proposed ordinary resolutions set out in the notice of the EGM to approve the Acquisition and the Whitewash Waiver and the Shareholders to vote in favour of the proposed increase in the authorised share capital of the Company.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board of
Yunnan Enterprises Holdings Limited
Li Suiming
Chairman

The following is the text of the letter of recommendation from the Independent Board Committee which has been prepared for the purpose of inclusion in this circular:

雲南實業控股有限公司
YUNNAN ENTERPRISES HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 0455)

23 November 2007

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION AND APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 23 November 2007 (the "Circular"), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise you on the terms of the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver. CIMB has been appointed as the independent financial adviser to advise you and us in this regard. Details of their advice, together with the principal factors and reasons they have taken into consideration in giving such advice, are set out on pages 20 to 40 of the Circular. Your attention is also drawn to the letter from the Board in the Circular and the additional information set out in the appendices thereto.

Having considered the terms of the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver and taking into account the independent advice of CIMB, in particular the principal factors, reasons and recommendation as set out in their letter on pages 20 to 40 of the Circular, we consider that (i) the terms of the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver are on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned; and (ii) the entering into of the Acquisition Agreement and the Whitewash Waiver are in the interests of the Group and the Independent Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

Yours faithfully,
Independent Board Committee
Ho Wing Fun **Wu Wen Jing, Benjamin** **Lam Yat Fai**
Independent non-executive Directors

The following is the text of a letter of advice from CIMB, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in connection with the Acquisition and the Whitewash Waiver.

CIMB

CIMB-GK Securities (HK) Limited

25/F., Central Tower
28 Queen's Road Central
Hong Kong

23 November 2007

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION
AND
APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Acquisition and the application for the Whitewash Waiver, details of which are set out in the Letter from the Board contained in the circular dated 23 November 2007 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 25 October 2007, the Company entered into the Acquisition Agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire the Sale Share and the Sale Loan for a consideration of HK$167 million. The Transaction Consideration will be settled by the issue of the Consideration Shares at the price of HK$0.39 per Share by the Company to the Vendor upon Completion. The Consideration Shares represent approximately 84.5% of the existing issued share capital of the Company and approximately 45.8% of the enlarged issued share capital of the Company immediately after Completion.

As the shareholding interest of the Vendor in the Company will increase from approximately 9.35% as at the Latest Practicable Date to approximately 50.86% immediately after Completion, pursuant to Rule 26 of the Takeovers Code, the Vendor and parties acting in concert with it will be obliged to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by them unless a waiver from strict compliance with the relevant rule has been obtained from the Executive. The Vendor and the parties acting in concert with it have made an application to the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, the grant of which, if successfully applied for, will be subject to approval by the Independent Shareholders on a vote taken by way of poll at the EGM. The granting of the Whitewash Waiver is a condition precedent to the Completion.

Given that Mr. Fang, an executive Director, holds the entire equity interest in the Vendor which in turn is interested in approximately 9.35% of the entire issued share capital of the Company, the Vendor is a connected person of the Company and the Acquisition will constitute a major and connected transaction for the Company under the Listing Rules and is also subject to approval by the Independent Shareholders on a vote taken by way of poll at the EGM.

The Board currently comprises five executive Directors and three independent non-executive Directors. The Independent Board Committee comprising Mr. Ho Wing Fun, Mr. Wu Wen Jing, Benjamin and Mr. Lam Yat Fai, all of whom are independent non-executive Directors and have no direct/indirect interest or involvement in the Acquisition, has been established to advise the Independent Shareholders on the terms of the Acquisition and the Whitewash Waiver.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide the Independent Board Committee and the Independent Shareholders with an independent opinion and recommendation as to whether the terms of the Acquisition and the Whitewash Waiver are fair and reasonable, on normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information and facts and any representations made to us or contained in the Circular were true, accurate and complete at the time they were made and continue to be so at the date of the Circular and during the period up to the date of the EGM. We have been advised by the Directors and/or the management of the Group that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

We consider we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs of the Group.

THE ACQUISITION

I. Background

(A) The Acquisition Agreement

On 25 October 2007, the Company entered into the Acquisition Agreement with the Vendor, pursuant to which the Company has conditionally agreed to acquire the Sale Share and the Sale Loan for a consideration of HK$167 million.

The Subject Company is an investment holding company which holds the entire equity interest in the PRC Company. The PRC Company will be engaged in the development of the Land for villa, residential and ancillary uses.

The Transaction Consideration will be settled by the issue of the Consideration Shares at the price of HK$0.39 per Share by the Company to the Vendor upon Completion. The Consideration Shares represent approximately 84.5% of the existing issued share capital of the Company and approximately 45.8% of the enlarged issued share capital of the Company immediately after Completion.

(B) The Group

As noted from the Letter from the Board, the Group is principally engaged in the sale of pharmaceutical products, property holding and investment holding.

The following table set out the audited consolidated financial information of the Group for each of the two years ended 31 March 2007 as extracted from the Group's annual report for the year ended 31 March 2007 ("2007 Annual Report"):

	Year ended 31-Mar-07	**Year ended 31-Mar-06**
	HK$'000	*HK$'000*
Turnover	19,970	15,208
Gross profit	11,590	9,644
(Gross profit margin)	*58.04%*	*63.41%*
Net (loss)/profit attributable to Shareholders	(39,811)	4,355

For the year ended 31 March 2007 ("FY07"), the Group recorded turnover of approximately HK$20.0 million, representing an increase of approximately 31.3% as compared with that of year ended 31 March 2006 ("FY06"). While gross profit for FY07 has increased, gross profit margin has declined from approximately 63.4% to 58.0%. Profit attributable to shareholders has decreased substantially from FY06 to FY07, which is principally attributable to impairment loss on investment in an investee company.

We note from the 2007 Annual Report that, as at 31 March 2007, the Group had total assets of approximately HK$202.4 million, which principally comprised approximately HK$66.1 million of bank deposit, approximately HK$42.5 million of interests in associates and approximately HK$32.8 million of investment in an investee company. As advised by the Directors, investments in companies engaged in the printing and sale of cigarette packaging packs and boxes accounted for a significant amount of the aggregate balance of the interests in associates and investment in an investee company of approximately HK$75.3 million.

(C) The Subject Company and the PRC Company

(i) The Subject Company

The Subject Company is an investment holding company established for holding the PRC Company and is wholly-owned by the Vendor. Since the date of its incorporation on 4 October 2006, the Subject Company has not commenced any operations other than investing in the PRC Company and has only incurred insignificant amount of administrative expenses.

The audited net asset value of the Subject Company (before deduction of its shareholder's loan of approximately HK$4.3 million) as at 30 June 2007 was approximately HK$4.3 million. As at the Latest Practicable Date, save for the interest in the PRC Company, the cash and bank balance and shareholders' loan from the Vendor, the Subject Company has no other material assets and liabilities.

(ii) The PRC Company

The PRC Company was established in the PRC with limited liability in October 2006. The PRC Company will be principally engaged in the development of the Land and the sale of villa, residential and ancillary uses such as landscaped garden and carparks to be developed on the Land. The Land, comprising the First Land Parcel and the Second Land Parcel, has a total site area of approximately 25,138 square meters and is located at the Southwest of Gangwan Main Road, Yinkeng, Xiangzhu, Zhuhai, Guangdong Province, the PRC. Yinkeng is a sub-urban area in Zhuhai and the area is mainly for low-density residential purpose.

According to the shareholders' agreement between the Subject Company and Tianda Zhuhai, the Subject Company shall inject cash of RMB28.05 million into the PRC Company and Tianda Zhuhai shall inject the Land at a valuation of RMB27 million into the PRC Company, representing approximately 51% and 49% interest in the entire registered capital of the PRC Company after such injections in full respectively. As noted from the Letter from the Board, in November 2006, Tianda Zhuhai and the Subject Company entered into a share transfer agreement, pursuant to which Tianda Zhuhai agreed to transfer its entire interest in registered capital of the PRC Company to the Subject Company. Tianda Zhuhai confirmed that it would inject the Second Land Parcel into the PRC Company before completion of the aforesaid transfer of its entire interest in the registered capital of the PRC Company to the Subject Company. As at the Latest Practicable Date, the Subject Company has injected cash of approximately RMB8.07 million and Tianda Zhuhai has completed the injection of the First Land Parcel and the Second Land Parcel into the PRC Company. In particular, the PRC Company obtained the land use rights of the Second Land Parcel on 25 October 2007. As a result, the PRC Company owns the Land and became a wholly-owned subsidiary of the Subject Company. It is expected that the Subject Company will inject the remaining cash to the PRC Company in the first half of 2008.

As at the Latest Practicable Date, save for cash and bank balance and the Land, the PRC Company has no other assets and liabilities.

(D) Development Plan of the Land

We have discussed with the Directors in respect of the potential development plan of the Land. As advised by the Directors, given the Land's tranquil environment with full sea view, as well as the economic conditions and up-rising property market trend in Zhuhai, the Company currently intends to develop a residential property project with 56 blocks of 3-storey villa with carport underneath and 2 blocks of 10 to 11-storey residential apartments with approximately 24 underground car parking spaces underneath. The total gross floor area of the residential property project is expected to be approximately 25,100 square metres. Each villa and residential apartment of the proposed development to be built on the Land is expected to enjoy full sea view.

Based on the currently available information, the Company estimated that the total cost for development of the project will be approximately HK$100 million and the design and construction of the project will be completed in around 18 months. As advised by the Directors, assuming that the Land can be vacated in early 2008 and the construction works can be commenced in first quarter of 2008, it is estimated that the Group will start the pre-sale of properties built on the Land by the end of the third quarter of 2008 and hand over the properties to the then buyers by the second quarter of 2009. As stated in the Letter from the Board, the development of the Land will be financed by internal resources and/or bank borrowings of the Group and the Subject Group.

II. Reasons for entering into the Acquisition

In arriving at our opinion regarding reasons for entering into the Acquisition, we have considered the following principal factors and reasons:

(A) Results of the Group's existing business

The audited consolidated financial information of the Group for each of the four years ended 31 March 2007 is summarized in Table 1 below.

Table 1 – Audited consolidated financial information of the Group for each of the four years ended 31 March 2007

	Year ended 31-Mar-07	**Year ended 31-Mar-06**	**Year ended 31-Mar-05**	**Year ended 31-Mar-04**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	19,970	15,208	10,113	5,766
Gross profit	11,590	9,644	6,504	3,946
(Gross profit margin)	*58.04%*	*63.41%*	*64.31%*	*68.44%*
(Loss)/profit from operating divisions before operating impairment loss of and revaluation investment properties	(135)	710	(1,146)	(4,410)
Net (loss)/profit attributable to Shareholders	(39,811)	4,355	(627)	(5,739)

As illustrated in Table 1 above, although turnover of the Group has been increasing for the past four financial years from approximately HK$6 million in 2004 to approximately HK$20 million in 2007, gross profit margin has been declining. Except for FY06, the Group has been loss-making for the past four financial years. We also note that the Group's profit for FY06 generated from its operations only amounted to approximately HK$0.7 million and the net profit mainly arisen from revaluation of investment properties of approximately HK$4.6 million and share of profit of associates of approximately HK$1.8 million.

(B) Overview of Zhuhai and prospect of Zhuhai property market

Zhuhai is a beautiful and modern seaside city. The coastline of Zhuhai is 731 kilometres long, with 146 neighbouring islands scattered off the coast of Zhuhai in the South China Sea. Therefore, it is known as “the city of hundred islands”. Zhuhai is situated in the southwest of the Pearl River Delta. The area also includes Hong Kong and Macau. They are developing together with Guangdong Province, and the Pearl River Delta has now become one of the richest areas in the PRC in terms of gross domestic product per capita. Zhuhai and Hong Kong play different roles in promoting the Pearl River Delta region’s economic development. The cooperation between the two airports (the Zhuhai Airport and the Hong Kong International Airport), the soon-to-be-built Hong Kong-Zhuhai-Macau Bridge and other infrastructure projects in Zhuhai will further accelerate the development of the western Pearl River Delta.

Zhuhai is famous for its hundred-plus islands and one of the first Special Economic Zones in China. Zhuhai has been empowered with the local legislation by the National People’s Congress. It governs three administrative districts: Xiangzhou, Doumen and Jinwan and five economic functional zones; Zhuhai National New and High Technology Industrial Development Zone, Zhuhai Free Trade Zone, Wanshan Ocean Development and Exemplary Zone, Hengqin Economy & Technology Development Zone as well as Zhuhai Harbor Industry Zone.

Zhuhai has received countless awards in recognition of its environmental standards and achievements, which included “Top 40 Cities for Travelling in China” by the State Tourist Administration in 1991; “National Garden City” and “Outstanding Chinese Tourism City” by the State Ministry of Construction in 1995 and 1999 respectively. Zhuhai has also won the titles of “Cleanest City in China” in 1993, “National Model Environmental Protection City Award” in 1997, as awarded by the State Environmental Protection Administration of China. In 1998, Zhuhai was honored as “The International Award for Most Improved Living Environment” by the United Nations.

According to the statistics published by the Zhuhai government, during the first half of 2007, the local economy of Zhuhai experienced rapid development casting a GDP of RMB39.9 billion, an increase of approximately 13.8% over the corresponding period in 2006, and the per capita disposable income of urban residents of Zhuhai was approximately RMB10,000, posting a growth of approximately 10.1% over the same period of 2006. In addition, according to the statistics published by the Zhuhai government, we also note that the investment in fixed assets in Zhuhai for 2006 has reached approximately RMB25.5 billion, representing an increase of approximately 16.7% over that of 2005.

With the strong growth of the Zhuhai economy, coupled with the desirable living environment, the real estate industry has become one of the pillar industries of Zhuhai. Zhuhai's residential market saw a growing involvement of Mainland and foreign developers. According to the Zhuhai government, the investment in construction in Zhuhai for 2006 has reached approximately RMB18.0 billion, representing an increase of approximately 12.6% over that of 2005. In addition, as of August 2007, there was 6.21 million square meters of residential space under construction in Zhuhai.

According to the statistics published by the Macau government, Macau's real GDP registered a remarkable growth rate of 31.9% year on year in the second quarter of 2007. Fixed capital formation and non-resident expenditure grew by 44.4% year on year and 37.1% year on year to Macau Pataca (MOP) 8.8 billion and MOP 24.1 billion, respectively, the biggest amounts ever recorded. For the first quarter in 2007, Macau's real GDP increased by 28.9%. Non-resident expenditure saw a strong 37.1% year on year growth during the quarter. As it is anticipated that there will be another round of economic facelift after the opening of the Venetian Macao and the expansion plan for the new Pac On Pier in Taipa, bringing the total number of berths from eight to nineteen, which the construction expected to be completed in 2009, it is expected that the Zhuhai property market will benefit from the booming economy of its neighbouring region.

Our View

Based on our analysis, the Group's existing principal businesses has not delivered a satisfactory return to the Group. As a result, the Group is looking for new business opportunities, including business sectors that are not in the ordinary course of business of the Group, with a view to broadening its income base and improving its financial performance.

The booming gaming industry in Macau, coupled with the cooperation between the airports, the soon-to-be-built Hong Kong-Zhuhai-Macau Bridge and other infrastructure projects in the region will further accelerate the development of the western Pearl River Delta. With the continuous growth in the Zhuhai economy, the outlook of the Zhuhai property market remains positive. Accordingly, while the Acquisition is not in the ordinary course of business of the Group, we concur with the Directors' view that the Group will benefit from the development of the Land and the sale of properties to be constructed on the Land, and are of the view that the Acquisition, though not in the ordinary and usual course of business of the Company, is in the interest of the Company and the Independent Shareholders as a whole.

III. Transaction Consideration

Pursuant to the Acquisition Agreement, the Transaction Consideration is HK$167 million, which comprises the Loan Consideration of HK$67 million and the Share Consideration of HK$100 million.

We note from the Letter from the Board that pursuant to the terms of the Acquisition Agreement, the Vendor shall advance further loan to the Subject Group to the extent that the Subject Group shall have aggregate cash and bank balance of not less than HK$67 million on the date of Completion (the "Vendor's Advance"). As noted in the Letter from the Board, as at the Latest Practicable Date, save for the interest in the PRC Company, the cash and bank balance and shareholders' loan from the Vendor, the Subject Company has no other material assets and liabilities. Excluding the interest in the PRC Company (which will be discussed below) from the Subject Company, the principal assets and principal liability of the Subject Company immediately upon Completion will be cash and bank balance of not less than HK$67 million, and the shareholders' loan as a result of the Vendor's Advance, respectively.

As noted from the Letter from the Board, as at the Latest Practicable Date, save for the Land, and cash and bank balance of approximately RMB7 million, which forms part of the Vendor's Advance, the PRC Company has no other assets and liabilities. Accordingly, in assessing the fairness of the Share Consideration, we have compared the Share Consideration with the value of the Land. As noted in Appendix VI to the Circular, the market value of the Land as at 31 August 2007 as valued by Vigers Appraisal and Consulting Limited ("Vigers"), an independent professional property valuer, using the comparison method of valuation, was RMB110 million (or approximately HK$114 million) on the assumption that the land use rights of the Land have been obtained by the PRC Company. We note that the land use rights of the First Land Parcel and the Second Land Parcel are vested in the name of the PRC Company on 7 December 2006 and 25 October 2007 respectively. Based on the valuation of the Land as valued by Vigers, the Share Consideration of HK$100 million represents a discount of approximately 12.3% to the valuation of the Land.

Based on our discussion with Vigers, we understand that the comparison method of valuation, which involves comparison of prices realized on actual sales or offerings of comparable properties made, is one of the most commonly used valuation method in the valuation of the market value of land. In the valuation of the Land, Vigers has taken into account recent sales of similar land parcels in Zhuhai and the current market prices of comparable residential properties in Zhuhai.

Given that (i) the Loan Consideration will be no more than the amount of the Vendor's Advance; (ii) the valuation of the Land as valued by Vigers exceeds the Share Consideration of HK$100 million; and (iii) the Subject Group has no other major assets or liabilities, we are of the view that the Transaction Consideration is on normal commercial terms, and is fair and reasonable so far as the Independent Shareholders are concerned.

IV. Issue Price of the Consideration Shares

Pursuant to the terms of the Acquisition Agreement, the Transaction Consideration will be settled by the issue of the Consideration Shares. The issue price of the Consideration Shares (the "Issue Price") of HK$0.39 per Share represents:

(a) a discount of approximately 61.00% to the closing price of the Shares of approximately HK$1.00 per Share (the "Last Trading Price") as quoted on the Stock Exchange on 25 October 2007, being the last trading day prior to suspension of trading in the Shares pending the issue of the Announcement (the "Last Trading Day");

(b) a discount of approximately 60.29% to the average closing price of approximately HK$0.982 per Share for the last five consecutive trading days up to and including the Last Trading Day as quoted on the Stock Exchange;

(c) a discount of approximately 60.12% to the average closing price of approximately HK$0.978 per Share for the last ten consecutive trading days up to and including the Last Trading Day as quoted on the Stock Exchange;

(d) a discount of approximately 61.00% to the closing price of the Shares of approximately HK$1.00 per Share as quoted on the Stock Exchange on the Latest Practicable Date as quoted on the Stock Exchange; and

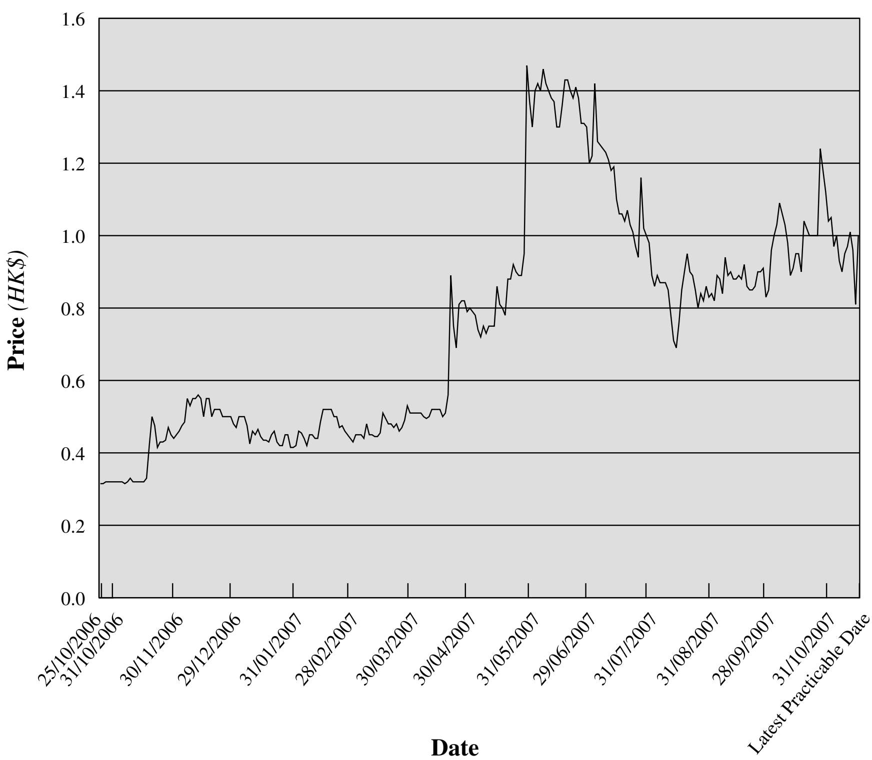
(e) a premium of approximately 11.43% over the audited consolidated net asset value per Share of HK$0.35 as disclosed in the Company's audited financial statements for the year ended 31 March 2007.

In assessing the fairness and reasonableness of the Issue Price, we have considered the following principal factors and reasons:

(A) Historical market price and liquidity of the Shares

We have reviewed the movements in trading prices of the Shares during the period from 25 October 2006 to 25 October 2007, representing the one year period immediately preceding the Last Trading Day and up to the Latest Practicable Date (the "Review Period").

Price of the Shares



Source: Bloomberg

During the Review Period, the closing price of the Shares ranged from the lowest of HK$0.315 per Share (recorded on 25 October 2006, 26 October 2006 and 7 November 2006) to the highest of HK$1.47 per Share (recorded on 1 June 2007). The average closing price of the Shares for the Review Period is approximately HK$0.732.

The price movement of the Shares was generally stable at around the average price of approximately HK$0.456 from the beginning of the Review Period to 23 April 2007 (the "Steady Period"). However, there was a sudden surge in the trading prices of the Shares from 24 April 2007, and reach its 52-weeks high of HK$1.47 on 1 June 2007. Since then, the Share price dropped gradually and traded mostly in the range of HK$0.80 to HK$1.00 since August 2007.

We note that the Company had not made any public announcement from 24 April 2007 to 1 June 2007, except for the announcements which stated that the Company was not aware of any reason for such price movement. Therefore, we consider that the increase in the Share price during the period may be due to market speculation.

We have also reviewed the historical trading volume of the Shares during the Review Period. The average daily trading volume of the Shares, the percentages of daily trading volume of the Shares as compared to the total number of issued Shares and the Shares held by the public during the Review Period are shown in Table 2 below.

Table 2 – Historical average daily trading volume of the Shares

Month	**Average daily trading volume**	**% of average daily trading volume to the total number of issued Shares** *(Note 1)*	**% of average daily trading volume to the total number of issued Shares held by the public** *(Note 2)*
2006			
Oct-06 *(Note 3)*	108,000	0.02%	0.05%
Nov-06	941,045	0.19%	0.48%
Dec-06	880,684	0.17%	0.45%
2007			
Jan-07	196,045	0.04%	0.10%
Feb-07	39,243	0.01%	0.02%
Mar-07	451,127	0.09%	0.23%
Apr-07	6,040,000	1.19%	3.07%
May-07	3,910,190	0.77%	1.98%
Jun-07	6,537,940	1.29%	3.32%
Jul-07	1,220,286	0.24%	0.62%
Aug-07	632,435	0.12%	0.32%
Sep-07	566,211	0.11%	0.29%
1-Oct-07 and up to the Last Trading Day	1,082,457	0.21%	0.55%
31-Oct-07 and up to the Latest Practicable Date *(Note 5)*	1,717,467	0.34%	0.87%

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. Based on 506,853,952 Shares in issue as at the Last Trading Day.

2. Based on 197,030,070 Shares held by the public Shareholders as at the Last Trading Day.

3. For the period from 25 October 2006 to 31 October 2006 only.

4. No trading in the Shares on 26 October 2006, 31 October 2006 to 2 November 2006, 15 November 2006 to 16 November 2006, 27 November 2006, 8 January 2007, 18 January 2007, 6 February 2007, 12 February 2007, 14 February 2007, 18 April 2007, and 10 August 2007.

5. For the period from 31 October 2007, the trading day immediately upon resumption of trading of the Shares, to the Latest Practicable Date only.

Table 2 demonstrates that during the Review Period, the average daily trading volume of the Shares was in the range of approximately 0.01% to 1.29% as to the total number of issued Shares as at the Last Trading Day and approximately 0.02% to 3.32% as to the total number of the Shares held in public hands as at the Last Trading Day.

Trading of the Shares was suspended from 26 October 2007 to 30 October 2007 pending on the release of the Announcement. The average daily trading volume of the Shares from 31 October 2007, the trading date immediately after the date of the Announcement, up to the Latest Practicable Date was 1,717,467 Shares, representing approximately 0.34% of the total number of issued Shares as at the Latest Practicable Date, and approximately 0.87% to the total number of the Shares held by the public Shareholders as at the Latest Practicable Date.

During the 259 trading days in the Review Period, 14 days had no trading in the Shares, representing approximately 5% of the total trading days of the Shares in the Review Period. The above statistics proved that the trading of the Shares was inactive.

Having considered that (i) the trading prices of the Shares fluctuated greatly during the since late April 2007 without any conclusive reasons or correlation with the fundamentals of the Company and Hong Kong stock market; (ii) the price of the Shares were traded at a high price despite the fact that the Company was suffering from losses in three of the past four financial years; and (iii) the trading volume of the Shares was low, we believe the surge in share price of the Company since late April 2007 may likely be due to market speculation. Therefore, we consider that it is inappropriate to compare the Issue Price purely with the recent historical trading prices of the Shares.

In light of the above, we consider that the price performance of the Share during the Steady Period would be a more appropriate basis for assessing the fairness of the Issue Price. We note that the closing price of the Shares were between HK$0.315 to HK$0.56 with an average of approximately HK$0.453 within the Steady Period, before the Share price experienced a sudden and unexplainable rally since 24 April 2007. The Issue Price represents (i) a premium of approximately 23.8% over the lowest closing price of the Shares during the Steady Period; (ii) a discount of approximately 14.5% to the average closing price per Share during the Steady Period; and (iii) a discount of approximately 30.4% to the highest closing price per Share during the Steady Period.

(B) Price-earning ratio analysis

In addition to the historical share price analysis, price-earning ratio is also a common valuation method to value a company with recurrent income. However, as the Company has recorded losses in three of the past four financial years, including FY07, price-earning ratio analysis is not applicable in this case.

(C) Net asset value analysis

In considering the reasonableness of the Issue Price, we have also made reference to the premium of the Issue Price over the consolidated net asset value of the Company ("NAV"). According to the 2007 Annual Report, the NAV per Share for the year ended 31 March 2007 was approximately HK$0.35 per Share. Given that the Issue Price represents a premium of approximately 11.43% over the NAV per Share as at 31 March 2007 of HK$0.35 per Share, there will be no dilution effect on the Independent Shareholders in respect of NAV per Share upon Completion.

(D) Comparison of the Issue Price with comparable companies listed on the Stock Exchange

The Group is principally engaged in the sale of pharmaceutical products, and its assets mainly comprises investments in companies engaged in the printing and sale of cigarette packaging packs and boxes, and investment properties. Having considered the Group's trading activities and its assets composition, we are not able to identify any similar company listed on the Stock Exchange to make a meaningful comparison.

(E) Comparison of the Issue Price with comparable transactions

In view of the lack of comparable companies, for the sole purpose of providing additional information for reference, we have, on a best effort basis, conducted a search of companies listed on the Stock Exchange that have made acquisitions which were financed wholly or partly by issuing consideration shares of more than 20% of their respective share capital during the period from 1 September 2007 to the Last Practicable Date (the "Comparable Transactions"). Before setting out the details of the eight Comparable Transactions announced by eight companies listed on the Stock Exchange (the "Selected Companies"), which are all the companies we have identified based on the above criteria, we would like to emphasise that the price an investor is willing to pay for the shares of a particular company is affected by, among other factors, the industry, business or operational performance and future prospects of that particular company and therefore the comparison below is for pure reference only.

Details of Comparable Transactions are summarized in Table 3 below:

Table 3 – Summary of Comparable Transactions

Date of announcement	Stock Code	Name of the Selected Companies	Principal business	Type of transaction	Market capitialisation on the corresponding announcement date of the Comparable Transactions *(Note 1)* *HK$' million*	(Discount)/premium of the issue price of the consideration shares to the closing price of the shares on the corresponding last trading day prior to the date of the announcement of the Comparable Transactions *(%)*	% of the consideration issue to the existing issued share capital of the Selected Companies *(%)*	% of the consideration issue to the enlarged issued share capital of the Selected Companies *(%)*	Resulting in a change of largest shareholder
9-Nov-07	582	Greenfield Chemical Holdings Limited	Manufactures and distributes liquid coatings, powder coatings, and solvents.	Major transaction	1,500.00	(58.30)	40.00	28.60	No
18-Oct-07	8198	Wafer Systems Limited	Provide network infrastructure solutions including network infrastructure, network management services and network software.	Very Substantial Acquisition	490.48	(48.48)	24.17	19.47	No
17-Oct-07	674	United Power Investment Limited	Restaurant operations, property investment, wedding services, entertainment operations, retail operations and hotel operations.	Major and connected transaction	890.71	2.12	25.90	20.57	No
11-Oct-07	761	Peking Apparel International Group Limited	Design, manufacture and sale of leather garments, fur coats, microfibre coats; trading of tanned leather and fur pelts.	Very Substantial Acquisition	619.46	(63.19)	38.90	28.00	No
10-Oct-07	1159	Karce International Holdings Co. Ltd.	Manufacture of and trading in electronic products, conductive silicon rubber keypads, printed circuit boards and telecommunication products.	Very Substantial Acquisition	293.95	(38.90)	38.90	28.00	Yes

Date of announcement	Stock Code	Name of the Selected Companies	Principal business	Type of transaction	Market capitialisation on the corresponding announcement date of the Comparable Transactions *(Note 1)* *HK$' million*	(Discount)/ premium of the issue price of the consideration shares to the closing price of the shares on the corresponding last trading day prior to the date of the announcement of the Comparable Transactions *(%)*	% of the consideration issue to the existing issued share capital of the Selected Companies *(%)*	% of the consideration issue to the enlarged issued share capital of the Selected Companies *(%)*	Resulting in a change of largest shareholder
21-Sep-07	8153	China Chief Cable TV Group Limited	Provision of pre-mastering and mastering services which involve the process of editing, authoring and digitisation of audiovisual data, and production of stampers.	Major transaction	654.5	(81.18)	40.52	28.84	Yes
18-Sep-07	1060	Shanghai Allied Cement Limited	Manufacturing, distribution and trading of building materials (including cement, ceramics tiles and marble) and related products in the infrastructure development and property industry.	Major transaction	3,136.40	(76.74)	82.26	45.13	Yes
11-Sep-07	112	Chi Cheung Investment Company Limited	Property development and investment.	Very Substantial Acquisition	1,002.75	(10.10)	52.12	34.26	No
		Maximum				2.12			
		Minimum				(81.18)			
		Average Issue Price Premium *(Note 2)*				N/A			
		Average Issue Price Discount				(53.84)			
	455	The Acquisition			506.85	(61.00)	84.48	45.79	Yes

Source: Bloomberg, www.hkex.com.hk (the "Stock Exchange's Website"), the announcement of the Selected Companies.

Note:

(1) Market capitalisation as quoted on Bloomberg as at the corresponding announcement date of the Comparable Transactions.

(2) Given that, among the Comparable Transactions, consideration shares were issued at premium in only one case, average figure in respect of issue price premium is not applicable.

As shown in Table 3, the consideration shares of the Selected Companies were issued at issue prices ranging from a discount of approximately 81.18% to a premium of approximately 2.12%, with an "Average Issue Price Discount" of approximately 53.10%, to the respective closing prices of the shares on the corresponding last trading day prior to the date of the relevant announcements of the Comparable Transactions. While we note that the discount of the Issue Price to the Last Trading Price falls within the range to that of the Comparable Transactions, we would like to reiterate that the price an investor is willing to pay for the shares of a particular company is affected by, among other factors, the industry, business or operational performance and future prospects of that particular company. Accordingly, we do not consider a direct comparison between the Issue Price with the issue prices of the Comparable Transactions appropriate and the information set out above is provided as additional information for reference purpose only.

Our View

After taking into consideration the above analysis, in particular,

– although the Issue Price represents a discount of approximately 61.0% to the closing price on the Last Trading Day, we consider that given the unexplained surge in the price of the Shares during the Review Period, which is likely to be due to market speculation, it is inappropriate to compare the Issue Price purely with the recent historical trading prices of the Shares;

– the Issue Price represents a premium of approximately 23.8% over the lowest closing price of the Shares during the Steady Period, and discount of approximately 13.9% and 30.4% to the average closing price and the highest closing price of the Shares during the Steady Period, respectively;

– the trading liquidity of the Shares during the Review Period is thin;

– the Issue Price represents a premium of approximately 11.4% over the NAV per Share of HK$0.35 as at 31 March 2007; and

– there will be no dilution effect on the Independent Shareholders in respect of NAV per Share upon Completion,

we are of the view that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

V. Financial Effect

(A) Net asset value

As noted from Appendix IV of the Circular, upon Completion, the unaudited pro forma net asset value of the Enlarged Group will be increased from approximately HK$194.1 million as at 31 March 2007 to approximately HK$374.8 million. No goodwill is expected to be recorded in respect of the Acquisition.

(B) Earnings

As referred to in the Letter from the Board, given that no goodwill will be recorded and the Acquisition will be fully settled by equity, it is expected the Enlarged Group will not incur material impairment loss or interest expenses as a result of the Acquisition. Accordingly, there will be no material adverse impact on the earnings of the Enlarged Group immediately upon the Completion.

(C) Working capital

The Transaction Consideration will be fully settled by the issue of Consideration Shares. Taking into account the Vendor's Advance, the cash and bank balance of the Enlarged Group will be increased from approximately HK$66.1 million as at 31 March 2007 to approximately HK$133.1 million upon Completion. Therefore, the Acquisition will have no adverse effect on the working capital of the Company. It is expected that the Company would have sufficient working capital for the development of the proposed property project on the Land.

VI. Dilution Effect

Upon Completion, shareholding interest of the existing public shareholders will be diluted from approximately 38.9% to approximately 21.1%. Given that the Issue Price represents a premium over the NAV per Share as at 31 March 2007, the NAV per Share will be increased from approximately HK$0.35 to approximately HK$0.38 upon Completion (based on the total number of 935,059,080 Shares immediately upon Completion).

Taking into account the above and the potential contribution of the proposed property project on the Land to the Company, we are of the view that the dilution effect is justifiable.

THE WHITEWASH WAIVER

Introduction

Upon Completion, the shareholding interest of the Vendor in the Company will increase from approximately 9.35% as at the Latest Practicable Date to approximately 50.86% immediately after Completion. Pursuant to Rule 26 of the Takeovers Code, the Vendor and parties acting in concert with it will be obliged to make an unconditional mandatory general offer for all the Shares not already owned or agreed to be acquired by them unless a waiver from strict compliance with the relevant rule has been obtained from the Executive. The Vendor and the parties acting in concert with it have made an application to the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, the grant of which, if successfully applied for, will be subject to approval by the Independent Shareholders on a vote taken by way of poll at the EGM. The granting of the Whitewash Waiver is a condition precedent to the Completion.

We note from the Letter from the Board that, save for the entering into of the Acquisition Agreement, neither the Vendor nor any of its concert parties has acquired any Share during the period commencing on the date falling six months prior to the date of the Acquisition Agreement and up to the Latest Practicable Date.

The Whitewash Waiver is a condition to the Subscription Agreement

Completion is subject to the Whitewash Waiver being approved by the Independent Shareholders and granted by the Executive. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Acquisition Agreement will lapse and the Acquisition will not proceed.

Our View

Given the benefits of the Acquisition to the Group as mentioned in the early part of this letter, and the terms of the Acquisition Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Acquisition, is in the interests of the Company and the Shareholders as a whole.

Nevertheless, Shareholders should note that the Vendor's interest in the Company would exceed 50% of the enlarged issued share capital of the Company upon Completion. Accordingly, if the Whitewash Waiver is approved by the Independent Shareholders and granted by the Executive, the Vendor and parties acting in concert with it may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

RECOMMENDATION

Having considered the above, we consider the terms of the Acquisition and the Whitewash Waiver are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise (i) the Independent Board Committee to recommend the Independent Shareholders, and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the Whitewash Waiver.

Independent Shareholders should note that Completion is conditional upon the satisfaction of a number of conditions, including conditions that cannot be waived by the parties to the Acquisition Agreement. In the event that such conditions are not fulfilled, Completion will not take place and the Acquisition will not proceed accordingly.

Yours faithfully,
For and on behalf of
CIMB-GK Securities (HK) Limited

Alex Lau
Executive Vice President

Heidi Cheng
Senior Vice President

1. FINANCIAL SUMMARY

The following is a summary of the consolidated income statement of the Group for the three years ended 31 March 2007 and the consolidated balance sheets as at 31 March 2005, 2006 and 2007 as extracted from the published annual reports of the Company for the two years ended 31 March 2007. The consolidated financial statements of the Group for each of the year ended 31 March 2005, 2006 and 2007 were unqualified.

CONSOLIDATED INCOME STATEMENT

	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
Continuing operations			
Revenue	10,112,805	15,207,865	19,970,014
Cost of sales	(3,609,184)	(5,563,868)	(8,379,793)
Gross profit	6,503,621	9,643,997	11,590,221
Other income	1,424,879	2,291,479	2,637,417
Distribution costs	(423,585)	(371,582)	(654,754)
Administrative expenses	(8,651,191)	(10,854,275)	(13,707,521)
Impairment loss on investment in an investee company	–	–	(22,480,000)
Gain arising from change in fair value of an investment property	800,000	4,600,000	1,800,000
Finance costs	(43,147)	–	–
Share of results of associates	441,592	1,805,102	(16,196,039)
Amortisation of goodwill arising on acquisition of an associate	(89,905)	–	–
(Loss) profit before tax	(37,736)	7,114,721	(37,010,676)
Income tax expense	(45,263)	(52,328)	(56,480)
(Loss) profit for the year from continuing operations	–	7,062,393	(37,067,156)
Discontinued operations			
Loss for the year from discontinued operations	–	(579,047)	–
(Loss) profit for the year	(82,999)	6,483,346	(37,067,156)
(Loss) profit attributable to:			
Equity holders of the Company	(627,067)	4,355,300	(39,811,376)
Minority interests	544,068	2,128,046	2,744,220
	(82,999)	6,483,346	(37,067,156)
	HK cent	*HK cent*	*HK cent*
Basic (loss) earnings per share			
From continuing and discontinued operations	(0.124)	0.86	(7.86)
From continuing operations	–	0.97	(7.86)

No dividend had been paid by the Group and no extraordinary or exceptional items was recorded for each of the year ended 31 March 2005, 2006 and 2007.

CONSOLIDATED BALANCE SHEET

	2005	**2006**	**2007**
	HK$	*HK$*	*HK$*
NON-CURRENT ASSETS			
Investment property	11,000,000	15,600,000	17,400,000
Property, plant and equipment	21,764,202	20,898,469	24,755,418
Prepaid lease payments	3,538,545	3,532,837	3,640,439
Goodwill	5,011,207	5,107,576	5,250,359
Intangible assets	1,471,692	1,413,178	–
Interests in associates	52,639,388	56,850,656	42,472,664
Investment in an investee company	55,205,141	55,205,141	32,725,141
Loan to an investee company	715,055	–	–
Deposit paid for the acquisition of plant and equipment	–	746,154	–
	151,345,230	159,354,011	126,244,021
CURRENT ASSETS			
Inventories	1,743,038	2,267,663	1,742,685
Loan to ultimate holding company	–	–	350,000
Loan to an investee company	–	728,806	49,583
Trade and other receivables	6,059,881	7,530,258	7,657,579
Prepaid lease payments	78,648	78,648	79,570
Tax recoverable	–	188,445	84,747
Securities linked deposit	3,017,282	–	–
Bank deposits	43,662,111	43,151,728	57,596,225
Bank balances and cash	14,464,636	20,318,641	8,545,892
	69,025,596	74,264,189	76,106,281
CURRENT LIABILITIES			
Trade and other payables	2,565,081	3,668,969	4,183,300
Government grants – current portion	–	211,538	400,135
Deposit received	1,226,415	961,538	303,515
Amount due to an associate	773,014	787,880	809,904
Tax payable	–	6,789	6,633
	4,564,510	5,636,714	5,703,487
NET CURRENT ASSETS	64,461,086	68,627,475	70,402,794
Total assets less current liabilities	215,806,316	227,981,486	196,646,815
NON-CURRENT LIABILITY			
Government grants – non-current portion	–	1,903,847	2,536,882
	215,806,316	226,077,639	194,109,933
CAPITAL AND RESERVES			
Share capital	50,685,395	50,685,395	50,685,395
Reserves	152,341,991	161,666,397	126,169,803
Equity attributable to equity holders of the Company	203,027,386	212,351,792	176,855,198
Minority interests	12,778,930	13,725,847	17,254,735
	215,806,316	226,077,639	194,109,933

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

Set out below are the consolidated income statement of the Group for the two years ended 31 March 2007, the consolidated balance sheets of the Group as at 31 March 2006 and 2007, the consolidated statement of changes in equity of the Group for the two years ended 31 March 2007, the consolidated cash flow statement of the Group for the two years ended 31 March 2007, together with the accompanying notes as extracted from the annual report of the Company for the year ended 31 March 2007:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2007

	NOTES	2007 HK$	2006 HK$
Continuing operations			
Revenue	6	19,970,014	15,207,865
Cost of sales		(8,379,793)	(5,563,868)
Gross profit		11,590,221	9,643,997
Other income	7	2,637,417	2,291,479
Distribution costs		(654,754)	(371,582)
Administrative expenses		(13,707,521)	(10,854,275)
Impairment loss on investment in an investee company	19	(22,480,000)	–
Gain arising from change in fair value of an investment property	13	1,800,000	4,600,000
Share of results of associates		(16,196,039)	1,805,102
(Loss) profit before tax	8	(37,010,676)	7,114,721
Income tax expense	10	(56,480)	(52,328)
(Loss) profit for the year from continuing operations		(37,067,156)	7,062,393
Discontinued operations			
Loss for the year from discontinued operations	11	–	(579,047)
(Loss) profit for the year		(37,067,156)	6,483,346
(Loss) profit attributable to:			
Equity holders of the Company		(39,811,376)	4,355,300
Minority interests		2,744,220	2,128,046
		(37,067,156)	6,483,346
		HK cent	*HK cent*
Basic (loss) earnings per share	12		
From continuing and discontinued operations		(7.86)	0.86
From continuing operations		(7.86)	0.97

No dividend had been paid by the Group and no extraordinary or exceptional items was recorded for each of the year ended 31 March 2006 and 2007.

CONSOLIDATED BALANCE SHEET
At 31 March 2007

		2007	2006
	NOTES	*HK$*	*HK$*
NON-CURRENT ASSETS			
Investment property	*13*	17,400,000	15,600,000
Property, plant and equipment	*14*	24,755,418	20,898,469
Prepaid lease payments	*15*	3,640,439	3,532,837
Goodwill	*16*	5,250,359	5,107,576
Intangible assets	*17*	–	1,413,178
Interests in associates	*18*	42,472,664	56,850,656
Investment in an investee company	*19*	32,725,141	55,205,141
Deposit paid for the acquisition of plant and equipment		–	746,154
		126,244,021	159,354,011
CURRENT ASSETS			
Inventories	*20*	1,742,685	2,267,663
Loan to ultimate holding company	*21*	350,000	–
Loan to an investee company	*22*	49,583	728,806
Trade and other receivables	*23*	7,657,579	7,530,258
Prepaid lease payments	*15*	79,570	78,648
Tax recoverable		84,747	188,445
Bank deposits	*24*	57,596,225	43,151,728
Bank balances and cash	*24*	8,545,892	20,318,641
		76,106,281	74,264,189
CURRENT LIABILITIES			
Trade and other payables	*25*	4,183,300	3,668,969
Government grants – current portion	*26*	400,135	211,538
Deposit received	*27*	303,515	961,538
Amount due to an associate	*28*	809,904	787,880
Tax payable		6,633	6,789
		5,703,487	5,636,714
NET CURRENT ASSETS		70,402,794	68,627,475
Total assets less current liabilities		196,646,815	227,981,486
NON-CURRENT LIABILITY			
Government grants – non-current portion	*26*	2,536,882	1,903,847
		194,109,933	226,077,639
CAPITAL AND RESERVES			
Share capital	*29*	50,685,395	50,685,395
Reserves		126,169,803	161,666,397
Equity attributable to equity holders of the Company		176,855,198	212,351,792
Minority interests		17,254,735	13,725,847
		194,109,933	226,077,639

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2007

	Attributable to equity holders of the Company										
	Share capital *HK$*	Share premium *HK$*	Capital redemption reserve *HK$*	Goodwill reserve *HK$*	Special reserve *HK$* *Note (i)*	Statutory reserves *HK$* *Note (ii)*	Exchange reserve *HK$*	Accumulated losses *HK$*	Total *HK$*	Minority interests *HK$*	Total *HK$*
At 1 April 2005	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	3,959,428	1,412,683	(47,488,231)	206,302,047	12,778,930	219,080,977
Exchange difference arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	1,713,733	–	1,713,733	245,185	1,958,918
Profit for the year	–	–	–	–	–	–	–	4,355,300	4,355,300	2,128,046	6,483,346
Total recognised income for the year	–	–	–	–	–	–	1,713,733	4,355,300	6,069,033	2,373,231	8,442,264
Utilisation of statutory reserves	–	–	–	–	–	(19,288)	–	–	(19,288)	–	(19,288)
Transfer to reserves	–	–	–	–	–	759,551	–	(759,551)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	–	(1,426,314)	(1,426,314)
At 31 March 2006 and 1 April 2006	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	4,699,691	3,126,416	(43,892,482)	212,351,792	13,725,847	226,077,639
Exchange difference arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	4,324,435	–	4,324,435	784,668	5,109,103
Loss for the year	–	–	–	–	–	–	–	(39,811,376)	(39,811,376)	2,744,220	(37,067,156)
Total recognised income and expenses for the year	–	–	–	–	–	–	4,324,435	(39,811,376)	(35,486,941)	3,528,888	(31,958,053)
Utilisation of statutory reserves	–	–	–	–	–	(9,653)	–	–	(9,653)	–	(9,653)
Transfer to reserves	–	–	–	–	–	942,752	–	(942,752)	–	–	–
At 31 March 2007	50,685,395	202,203,225	8,000	(7,938,469)	3,460,016	5,632,790	7,450,851	(84,646,610)	176,855,198	17,254,735	194,109,933

Notes:

(i) The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of a subsidiary acquired by the Company pursuant to a corporate reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1992.

(ii) The statutory reserves represent the appropriation of certain percentages of profit after taxation of the subsidiaries established in the Mainland of the People's Republic of China (the "PRC") as recommended by the directors of those subsidiaries as reported under the PRC statutory financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	2007	2006
	HK$	*HK$*
OPERATING ACTIVITIES		
(Loss) profit for the year	(37,067,156)	6,483,346
Adjustments for:		
Amortisation of intangible assets	59,099	86,373
Amortisation of prepaid lease payments	77,467	75,269
Depreciation of property, plant and equipment	2,883,119	2,122,243
Gain arising from change in fair value of an investment property	(1,800,000)	(4,600,000)
Government grants deducted against research and development costs	(491,997)	–
Government grants released to income	(145,284)	–
Impairment loss on intangible assets	1,426,224	–
Impairment loss on investment in an investee company	22,480,000	–
Impairment loss on loan to an investee company	717,255	–
Income tax expense	56,480	52,328
Interest income from bank deposits	(2,428,094)	(2,009,437)
Loss on disposal of an associate	–	266,381
Loss on write off/disposals of property, plant and equipment	35,140	3,393
Share of results of associates	16,196,039	(1,805,102)
Write-down of inventories	104,497	–
Operating cash flows before movements in working capital	2,102,789	674,794
Decrease (increase) in inventories	538,822	(491,105)
Decrease (increase) in trade and other receivables	265,656	(1,496,312)
Increase in trade and other payables	313,208	1,022,989
Decrease in deposit received	(708,202)	(288,462)
Cash generated from (used in) operations	2,512,273	(578,096)
PRC income tax refund (paid)	51,846	(233,984)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	2,564,119	(812,080)

	2007 *HK$*	2006 *HK$*
INVESTING ACTIVITIES		
(Increase) decrease in bank deposits	(14,444,497)	519,454
Purchases of property, plant and equipment	(5,119,094)	(1,612,202)
Advance to ultimate holding company	(350,000)	–
Interest received	2,428,094	2,009,437
Dividend received from an associate	706,699	323,642
Proceeds from redemption of securities linked deposits	–	3,017,282
Proceeds from disposal of an associate	–	1,362,981
Proceeds from disposal of property, plant and equipment	–	5,952
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(16,778,798)	5,626,546
FINANCING ACTIVITIES		
Increase in government grants	1,329,722	2,115,385
Dividend paid to a minority shareholder of a subsidiary	–	(1,330,160)
NET CASH GENERATED FROM FINANCING ACTIVITIES	1,329,722	785,225
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,884,957)	5,599,691
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	20,318,641	14,464,636
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,112,208	254,314
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	8,545,892	20,318,641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2007

1. General

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited. Its ultimate holding company and parent company is South Hong Investment Limited, a private limited company incorporated in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed on page 4 of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of the Group are sales of pharmaceutical products, property holding and investment holdings.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC) – INT 12	Service Concession Arrangements[7]

[1] *Effective for annual periods beginning on or after 1 January 2007*

[2] *Effective for annual periods beginning on or after 1 January 2009*

[3] *Effective for annual periods beginning on or after 1 May 2006*

[4] *Effective for annual periods beginning on or after 1 June 2006*

[5] *Effective for annual periods beginning on or after 1 November 2006*

[6] *Effective for annual periods beginning on or after 1 March 2007*

[7] *Effective for annual periods beginning on or after 1 January 2008*

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for the investment property, which is measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Previously capitalised goodwill arising on acquisition of a subsidiary after 1 April 2001 is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of acquisition is recognised as goodwill. From 1 April 2005 such goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the accumulated losses at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gain or loss arising from change in the fair value of investment property is included in profit or loss for the period in which they arise.

Property, plant and equipment

Property, plant and equipment, other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	3% – 9%
Plant and machinery	5% – 10%
Leasehold improvements	10% – $33\frac{1}{3}$%
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	10% – 20%

Construction in progress represents plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment losses. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as owned assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial asset. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loan to ultimate holding company/an investee company, trade and other receivables, bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial asset

The investment in an investee company is accounted for as available-for-sale financial asset and is measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and amount due to an associate are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Retirement benefit costs

Payments to defined contribution retirement benefit plan and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contribution.

4. Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 March 2007, the carrying amount of goodwill was HK$5,250,359. Details of the recoverable amount calculation are disclosed in note 16.

Impairment on investment in an investee company

Determining whether investment in an investee company is impaired requires an estimation of its recoverable amount. The recoverable amount calculation requires the Group to estimate the future dividend income expected to receive from the investment and a suitable discount rate in order to calculate the present value. Impairment loss of HK$22,480,000 was charged to the consolidated income statement in the year ended 31 March 2007 and the carrying amount of the investment in an investee company was HK$32,725,141 as at 31 March 2007. Details of impairment assessment are disclosed in note 19.

5. Financial instruments

5a. Financial risk management objectives and policies

The Group's major financial instruments include investment in an investee company, trade and other receivables, bank deposits and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

Certain bank deposits and bank balances of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2007 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

A significant portion of the Group's trade receivables was due from several major customers. The Group has established credit control policies limiting the amount of credits to be granted to customers. Management also closely monitored the recoverability of trade receivables and would take effective measures to ensure timely collection of outstanding balances when needed.

5b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

6. Segment information

(a) Business segments

Revenue represents the net amounts received and receivable for goods sold by the Group, property rental income and dividend income from investments during the year.

For management purposes, the Group is currently organised into three (2006: five) operating divisions – sales of pharmaceutical products, property rental and investment holding for dividend income. On 1 April 2006, the Group discontinued the business segments in respect of the provision of agency services and consultancy services, as there were no operations in these business segments over the past few years. The discontinuance has no material effect on the current year's results and financial position of the Group. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended 31 March 2007

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products	Property rental	Investment holding	Others	Total	Agency services	Consultancy services	Total	Consolidated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
REVENUE									
– EXTERNAL	17,644,534	530,707	1,794,773	–	19,970,014	–	–	–	19,970,014
SEGMENT RESULTS	2,224,402	888,523	(22,073,414)	–	(18,960,489)	–	–	–	(18,960,489)
Other income	145,284	–	–	2,492,133	2,637,417	–	–	–	2,637,417
Unallocated corporate expenses					(4,491,565)				(4,491,565)
Share of results of associates	(17,148,852)	–	–	952,813	(16,196,039)	–	–	–	(16,196,039)
Loss before tax					(37,010,676)				(37,010,676)
Income tax expense					(56,480)				(56,480)
Loss for the year					(37,067,156)				(37,067,156)

BALANCE SHEET

At 31 March 2007

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products	Property rental	Investment holding	Others	Total	Agency services	Consultancy services	Total	Consolidated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
ASSETS									
Segment assets	49,214,516	17,809,682	35,737,024	–	102,761,222	–	–	–	102,761,222
Interests in associates	30,491,927	–	–	11,980,737	42,472,664	–	–	–	42,472,664
Unallocated corporate assets					57,116,416				57,116,416
Consolidated total assets					202,350,302				202,350,302
LIABILITIES									
Segment liabilities	6,481,163	182,828	33,000	–	6,696,991	–	–	–	6,696,991
Unallocated corporate liabilities					1,543,378				1,543,378
Consolidated total liabilities					8,240,369				8,240,369

OTHER INFORMATION

Year ended 31 March 2007

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products	Property rental	Investment holding	Others	Total	Agency services	Consultancy services	Total	Consolidated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Capital additions	4,464,273	958,410	438,265	4,300	5,865,248	–	–	–	5,865,248
Gain arising from change in fair value of an investment property	–	(1,800,000)	–	–	(1,800,000)	–	–	–	(1,800,000)
Depreciation of property, plant and equipment	2,475,450	293,536	109,254	4,879	2,883,119	–	–	–	2,883,119
Amortisation of intangible assets	59,099	–	–	–	59,099	–	–	–	59,099
Amortisation of prepaid lease payments	77,467	–	–	–	77,467	–	–	–	77,467
Impairment loss on intangible assets	1,426,224	–	–	–	1,426,224	–	–	–	1,426,224
Impairment loss on investment in an investee company	–	–	22,480,000	–	22,480,000	–	–	–	22,480,000
Impairment loss on loan to an investee company	–	–	717,255	–	717,255	–	–	–	717,255
Loss on write off of property, plant and equipment	32,278	–	–	2,862	35,140	–	–	–	35,140
Write-down of inventories	104,497	–	–	–	104,497	–	–	–	104,497

Year ended 31 March 2006

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products *HK$*	Property rental *HK$*	Investment holding *HK$*	Others *HK$*	Total *HK$*	Agency services *HK$*	Consultancy services *HK$*	Total *HK$*	Consolidated *HK$* (restated)
REVENUE – EXTERNAL	13,241,280	459,151	1,507,434	–	15,207,865	–	–	–	15,207,865
SEGMENT RESULTS	2,872,546	3,837,381	643,484	–	7,353,411	(472,372)	(106,675)	(579,047)	6,774,364
Other income					2,291,479			–	2,291,479
Unallocated corporate expenses					(4,335,271)			–	(4,335,271)
Share of results of associates	982,083	–	–	823,019	1,805,102	–	–	–	1,805,102
Profit before tax					7,114,721			(579,047)	6,535,674
Income tax expense					(52,328)			–	(52,328)
Profit for the year					7,062,393			(579,047)	6,483,346

BALANCE SHEET

At 31 March 2006

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products *HK$*	Property rental *HK$*	Investment holding *HK$*	Others *HK$*	Total *HK$*	Agency services *HK$*	Consultancy services *HK$*	Total *HK$*	Consolidated *HK$*
ASSETS									
Segment assets	43,679,207	16,013,400	57,778,644	–	117,471,251	2,861	13,239,247	13,242,108	130,713,359
Interests in associates	45,722,047	–	–	11,128,609	56,850,656	–	–	–	56,850,656
Unallocated corporate assets					46,054,185			–	46,054,185
Consolidated total assets					220,376,092			13,242,108	233,618,200
LIABILITIES									
Segment liabilities	5,793,830	136,254	33,000	–	5,963,084	9,000	32,844	41,844	6,004,928
Unallocated corporate liabilities					1,535,633			–	1,535,633
Consolidated total liabilities					7,498,717			41,844	7,540,561

OTHER INFORMATION

Year ended 31 March 2006

	Continuing operations					Discontinued operations			
	Sales of pharmaceutical products	Property rental	Investment holding	Others	Total	Agency services	Consultancy services	Total	Consolidated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Capital additions	866,048	–	–	–	866,048	–	–	–	866,048
Gain arising from change in fair value of an investment property	–	(4,600,000)	–	–	(4,600,000)	–	–	–	(4,600,000)
Depreciation of property, plant and equipment	1,720,413	54,616	9,351	332,587	2,116,967	–	5,276	5,276	2,122,243
Amortisation of intangible assets	86,373	–	–	–	86,373	–	–	–	86,373
Amortisation of prepaid lease payments	75,269	–	–	–	75,269	–	–	–	75,269
Loss on disposals of property, plant and equipment	3,393	–	–	–	3,393	–	–	–	3,393

(b) Geographical segments

The Group's activity of property holding for rental income is located in Hong Kong while sales of pharmaceutical products, provision of agency services and consultancy services and investment holding for dividend income are located in the PRC. The Group's revenue, segment results, segment assets and capital additions of each operating division are derived from the respective geographical areas.

7. Other income

	2007	**2006**
	HK$	*HK$*
Interest income from bank deposits	2,428,094	2,009,437
Government grants released to income	145,284	–
Others	64,039	282,042
	2,637,417	2,291,479

8. (Loss) profit before tax

	2007	2006
	HK$	*HK$*
(Loss) profit before tax has been arrived at after charging:		
Staff costs, including directors' emoluments		
Salaries and other benefits	3,877,422	4,735,497
Retirement benefits scheme contributions	146,000	162,348
Total staff costs	4,023,422	4,897,845
Amortisation of intangible assets (included in cost of sales)	59,099	86,373
Amortisation of prepaid lease payments	77,467	75,269
Auditors' remuneration	620,458	577,620
Cost of inventories recognised as expense	6,789,973	5,477,495
Depreciation of property, plant and equipment	2,883,119	2,122,243
Impairment loss on intangible assets (included in cost of sales)	1,426,224	–
Impairment loss on loan to an investee company (included in administrative expenses)	717,255	–
Loss on disposal of an associate	–	266,381
Loss on write off/disposals of property, plant and equipment	35,140	3,393
Net foreign exchange losses	–	24,779
Research and development costs	1,057,261	235,976
Less: Government grants received	(491,997)	–
Net research and development costs	565,264	235,976
Share of tax of an associate (included in share of results of associates)	49,007	–
Write-down of inventories (included in cost of sales)	104,497	–
and after crediting:		
Dividend income from investment in an investee company	1,794,773	1,507,434
Gross rental income from an investment property less negligible outgoings	530,707	459,151
Net foreign exchange gain	63,059	–

9. Directors' and employees' emoluments

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2006: eleven) directors are as follows:

For the year ended 31 March 2007

		Other emoluments		
	Fees	Salaries and other benefits	Contributions to retirement benefit scheme	Total emoluments
	HK$	*HK$*	*HK$*	*HK$*
Li Suiming	60,000	–	–	60,000
Ma Pizhi	60,000	426,630	–	486,630
Li Guanglin	60,000	–	–	60,000
Fang Wen Quan	60,000	–	–	60,000
Liu Huijiang	60,000	–	–	60,000
Ho Wing Fun	60,000	–	–	60,000
Wu Wen Jing, Benjamin	60,000	–	–	60,000
Lam Yat Fai	60,000	–	–	60,000
	480,000	426,630	–	906,630

For the year ended 31 March 2006

		Other emoluments		
	Fees	Salaries and other benefits	Contributions to retirement benefit scheme	Total emoluments
	HK$	*HK$*	*HK$*	*HK$*
Li Suiming	60,000	–	–	60,000
Ma Pizhi	60,000	423,970	–	483,970
Cheng Hau Yan	60,000	1,635,575	53,984	1,749,559
Dong Jianhua	60,000	–	–	60,000
Li Guanglin	60,000	–	–	60,000
Li Hong	60,000	–	–	60,000
Fang Wen Quan	60,000	–	–	60,000
Liu Huijiang	–	–	–	–
Ho Wing Fun	60,000	–	–	60,000
Wu Wen Jing, Benjamin	60,000	–	–	60,000
Lam Yat Fai	60,000	–	–	60,000
	600,000	2,059,545	53,984	2,713,529

No directors waived any emoluments in the years ended 31 March 2007 and 2006.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2006: two) was a director of the Company whose emolument is included in the disclosures in note (a) above. The emoluments of the remaining four (2006: three) individuals were as follows:

	2007	**2006**
	HK$	*HK$*
Salaries and other benefits	1,327,982	1,051,200
Contributions to retirement benefits scheme	57,940	51,480
	1,385,922	1,102,680

The aggregate emoluments of each of the highest paid four (2006: three) individuals during both years presented are not more than HK$1,000,000.

10. Income tax expense

	2007	**2006**
	HK$	*HK$*
The income tax expense comprises:		
Current tax		
PRC enterprise income tax	56,480	52,328

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for both years presented.

Taxation arising in the PRC is calculated at the rates prevailing in the relevant jurisdiction. Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiaries is exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The PRC income tax for this subsidiary was 50% exempted in both years.

On 16 March 2007, the Enterprise Income Tax Law of the PRC (the "New Law") was approved by the National People's Congress and promulgated by Order No. 63 of the President of the PRC. The New Law will be effective on 1 January 2008 and will apply to the Group's PRC subsidiaries.

Details of deferred taxation are set out in note 30.

The income tax expense for the year can be reconciled to the (loss) profit before tax per the income statement as follows:

	2007	**2006**
	HK$	*HK$*
(Loss) profit before tax		
Continuing operations	(37,010,676)	7,114,721
Discontinued operations	–	(579,047)
	(37,010,676)	6,535,674
Tax at domestic rates applicable to profits in the country concerned	(6,534,649)	1,116,936
Tax effect of share of results of associates	2,834,307	(315,893)
Tax effect of expenses that are not deductible for tax purpose	4,094,500	21,947
Tax effect of income that is not taxable for tax purpose	(664,136)	(563,069)
Tax effect of tax losses not recognised	1,724,305	1,288,527
Tax effect of deferred tax assets not recognised	–	51,112
Utilisation of tax losses previously not recognised	(55,396)	(45,604)
Utilisation of deferred tax assets previously not recognised	(427,711)	(824,484)
Effect of tax exemptions granted to a PRC subsidiary	(914,740)	(677,144)
Income tax expense for the year	56,480	52,328

11. Discontinued operations

On 1 April 2006, the Group discontinued the business segments for the provision of agency services and consultancy services, as there were no operations in these business segments over the past few years.

The results of the business segments for provision of agency services and consultancy services are as follows:

	2007	2006
	HK$	*HK$*
Administrative expenses	–	(579,047)
Loss for the year	–	(579,047)

During the year ended 31 March 2007, the business segments for the provision of agency services and consultancy services have no material contributions to the Group's cash flows. During the year ended 31 March 2006, the business segments for the provision of agency services and consultancy services incurred HK$579,047 in respect of the Group's net operating cash flows.

12. Basic (loss) earnings per share

From continuing and discontinued operations

The calculation of the basic (loss) earnings per share attributable to the equity holders of the Company is based on the following data:

	2007	2006
	HK$	*HK$*
(Loss) earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share	(39,811,376)	4,355,300
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earning per share	506,853,952	506,853,952

For continuing operations

The calculation of the basic (loss) earnings per share from continuing operations attributable to the equity holders of the Company is based on the following data:

	2007	2006
	HK$	*HK$*
(Loss) earnings		
(Loss) profit for the year attributable to equity holders of the Company	(39,811,376)	4,355,300
Add: loss for the year from discontinued operations	–	579,047
(Loss) earnings for the purpose of basic (loss) earnings per share from continuing operations	(39,811,376)	4,934,347
Number of shares		
Number of ordinary shares for the purpose of basic (loss) earning per share	506,853,952	506,853,952

No diluted (loss) earning per share is presented as there were no potential ordinary shares outstanding for both years presented.

13. Investment property

	HK$
Fair value	
At 1 April 2005	11,000,000
Increase in fair value recognised in the income statement	4,600,000
At 31 March 2006	15,600,000
Increase in fair value recognised in the income statement	1,800,000
At 31 March 2007	17,400,000

Investment property of the Group are property interests held under long term lease in Hong Kong for the purposes of earning rentals and are measured using the fair value model.

The fair value of the Group's investment property at 31 March 2007 have been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected with the Group. LCH (Asia-Pacific) Surveyors Limited has among its staff members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Valuation Standards on Properties of Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

14. Property, plant and equipment

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
COST							
At 1 April 2005	14,251,345	6,772,335	1,463,680	1,677,341	2,364,091	–	26,528,792
Exchange realignment	274,121	136,047	–	10,905	23,212	–	444,285
Additions	8,602	622,724	–	36,671	–	198,051	866,048
Disposals	–	–	–	(19,048)	(26,538)	–	(45,586)
At 31 March 2006	14,534,068	7,531,106	1,463,680	1,705,869	2,360,765	198,051	27,793,539
Exchange realignment	761,740	245,776	–	99,389	62,814	–	1,169,719
Additions	–	1,164,802	2,480,456	1,875,500	–	344,490	5,865,248
Written off	–	–	(1,119,580)	(70,929)	(1,265,029)	–	(2,455,538)
Transfer	–	542,541	–	–	–	(542,541)	–
At 31 March 2007	15,295,808	9,484,225	2,824,556	3,609,829	1,158,550	–	32,372,968
DEPRECIATION AND AMORTISATION							
At 1 April 2005	663,115	715,614	920,227	1,012,237	1,453,397	–	4,764,590
Exchange realignment	12,519	19,632	–	6,629	5,698	–	44,478
Provided for the year	893,919	660,027	315,804	140,977	111,516	–	2,122,243
Eliminated on disposals	–	–	–	(15,143)	(21,098)	–	(36,241)
At 31 March 2006	1,569,553	1,395,273	1,236,031	1,144,700	1,549,513	–	6,895,070
Exchange realignment	17,647	186,341	–	32,277	23,494	–	259,759
Provided for the year	915,015	784,565	829,026	243,540	110,973	–	2,883,119
Eliminated on write off	–	–	(1,119,363)	(36,006)	(1,265,029)	–	(2,420,398)
At 31 March 2007	2,502,215	2,366,179	945,694	1,384,511	418,951	–	7,617,550
CARRYING VALUES							
At 31 March 2007	12,793,593	7,118,046	1,878,862	2,225,318	739,599	–	24,755,418
At 31 March 2006	12,964,515	6,135,833	227,649	561,169	811,252	198,051	20,898,469

The buildings, which are situated on leasehold interest on land held under medium-term leases are located in the PRC.

15. Prepaid lease payments

	2007	**2006**
	HK$	*HK$*
Prepaid lease payments for medium-term leasehold land in the PRC:		
Included in current asset	79,570	78,648
Included in non-current asset	3,640,439	3,532,837
	3,720,009	3,611,485

16. Goodwill

	HK$
COST	
At 1 April 2005	5,011,207
Exchange realignment	96,369
At 31 March 2006	5,107,576
Exchange realignment	142,783
At 31 March 2007	5,250,359

For the purposes of impairment testing, the goodwill has been allocated to an individual cash generating unit (the "CGU") in the sales of pharmaceutical products segment. During the year ended 31 March 2007, management of the Group determines that there are no impairment of the CGU containing goodwill.

The recoverable amount of the CGU have been determined based on a value in use calculation. The value in use calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of approximately 9.5%. Cash flow projections during the budget period for the CGU are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

17. Intangible assets

	Production rights
	HK$
COST	
At 1 April 2005	1,646,226
Exchange realignment	31,658
At 31 March 2006	1,677,884
Exchange realignment	87,563
At 31 March 2007	1,765,447
AMORTISATION AND IMPAIRMENT	
At 1 April 2005	174,534
Exchange realignment	3,799
Provided for the year	86,373
At 31 March 2006	264,706
Exchange realignment	15,418
Provided for the year	59,099
Impairment loss recognised in the consolidated income statement	1,426,224
At 31 March 2007	1,765,447
CARRYING VALUES	
At 31 March 2007	–
At 31 March 2006	1,413,178

Production rights are amortised on a straight-line basis over its estimated useful life of 20 years.

During the year ended 31 March 2007, management of the Group performed a review of the recoverable amounts of the production rights and determined that the carrying values were fully impaired as manufacture of relevant pharmaceutical products ceased during the year in view of market situation. No future cash flows are expected to be derived from the production rights.

18. Interests in associates

	2007	2006
	HK$	*HK$*
Cost of unlisted investment in associates	52,246,744	52,246,744
Share of post-acquisition (loss) profits, net of dividends received	(13,320,361)	3,582,377
Exchange realignment	3,546,281	1,021,535
	42,472,664	56,850,656

As at 31 March 2007, the Group had interests in the following associates:

Name of associate	Form of business structure	Place of establishment and operation	Attributable interest in registered capital held by the Group	Principal activity
			%	
深圳新鵬生物工程有限公司	Incorporated	PRC	48	Research, development, manufacture and sale of biotechnology products
雲南華寧興寧彩印有限公司	Incorporated	PRC	25	Printing and sale of cigarette packaging packs and boxes

Included in the cost of investment in associate is goodwill of HK$1,807,131 (2006: HK$1,717,501) arising on acquisitions of associates in prior years. The amount of goodwill is set out below:

	HK$
COST	
At 1 April 2004 and 31 March 2005	1,798,077
Elimination of accumulated amortisation upon the application of HKFRS 3	(112,381)
Exchange realignment	31,805
At 31 March 2006	1,717,501
Exchange realignment	89,630
At 31 March 2007	1,807,131
AMORTISATION	
At 1 April 2005	112,381
Elimination of accumulated amortisation upon the application of HKFRS 3	(112,381)
At 31 March 2006 and 31 March 2007	–
CARRYING VALUES	
At 31 March 2007	1,807,131
At 31 March 2006	1,717,501

The following details have been extracted from the unaudited management accounts of the Group's associates.

Results for the year ended 31 March

	深圳新鵬生物工程有限公司		上海松力生物技術有限公司	雲南華寧興寧彩印有限公司		Total	
	2007	2006	1.4.2005 to 31.10.2005 (date of disposal)	2007	2006	2007	2006
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Turnover	19,469,823	21,248,054	6,134,651	20,830,376	23,094,393	40,300,199	50,477,098
Depreciation	2,695,771	2,877,790	213,366	718,836	740,767	3,414,607	3,831,923
(Loss) profit for the year	(35,726,776)	912,894	2,175,576	3,811,250	3,292,076	(31,915,526)	6,380,546
(Loss) profit for the year attributable to the Group	(17,148,852)	438,189	543,894	952,813	823,019	(16,196,039)	1,805,102

Financial position as at 31 March

	深圳新鵬生物工程有限公司		雲南華寧興寧彩印有限公司		Total	
	2007	2006	2007	2006	2007	2006
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Non-current assets	49,424,299	70,345,428	21,684,946	14,579,190	71,109,245	84,924,618
Current assets	25,789,001	40,573,289	24,499,879	25,744,822	50,288,880	66,318,111
Current liabilities	(7,794,484)	(12,438,369)	(5,490,403)	(2,679,579)	(13,284,887)	(15,117,948)
Non-current liabilities	(818,440)	(205,031)	–	–	(818,440)	(205,031)
Minority interests	(3,075,529)	(3,021,053)	–	–	(3,075,529)	(3,021,053)
Net assets	63,524,847	95,254,264	40,694,422	37,644,433	104,219,269	132,898,697
Net assets attributable to the Group	30,491,927	45,722,047	10,173,606	9,411,108	40,665,533	55,133,155

During the year ended 31 March 2006, the Group disposed its interest in 上海松力生物技術有限公司 at a total consideration of HK$1,362,981 and a loss on disposal of HK$266,381 was recognised in the consolidation income statement in that year.

深圳新鵬生物工程有限公司, a major associate of the Group, incurred substantial operating losses in the current year. As a result, impairment losses of HK$28.7 million on certain of its operating assets have been made in the current year, of which HK$13.8 million was attributable to the Group.

19. Investment in an investee company

The investment in an investee company at 31 March 2007 is accounted for as an available-for-sale investment which represents the Group's 18.75% equity interest in the registered capital of 玉溪環球彩印紙盒有限公司 (Yuxi Globe Colour Printing Carton Co., Ltd.) ("Yuxi Globe"), an unlisted company registered in the PRC engaged in the business of printing and sale of cigarette packaging packs and boxes. This investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

During the year ended 31 March 2007, management of the Group performed a review of the recoverable amount of the investment in Yuxi Globe and recognised an impairment loss of HK$22,480,000 in the consolidated income statement as a consequence of decreasing demand and falling market share.

The recoverable amount of the investment in Yuxi Globe has been determined based on expected dividend income covering a nineteen-year period which is the estimated project life of the investment, using a discount rate of 7.35%.

20. Inventories

	2007	**2006**
	HK$	*HK$*
Raw materials	1,009,207	990,016
Work in progress	294,275	473,421
Finished goods	439,203	804,226
	1,742,685	2,267,663

21. Loan to ultimate holding company

The loan to ultimate holding company is unsecured, non-interest bearing and repayable within one year from the balance sheet date.

22. Loan to an investee company

The loan to the investee company is unsecured, non-interest bearing and repayable on demand. Included in the carrying amount of loan to an investee company as at 31 March 2007 is accumulated impairment losses of HK$717,255 (2006: nil).

23. Trade and other receivables

The Group allows an average credit period of 60 days to its trade customers.

The following is an analysis of the Group's trade and other receivables at the balance sheet date:

	2007	**2006**
	HK$	*HK$*
Trade receivables aged		
Within 60 days	3,309,135	1,770,745
61 – 90 days	7,133	–
Over 90 days	18,212	19,712
	3,334,480	1,790,457
Dividends receivable	2,501,472	1,831,076
Other receivables	1,821,627	3,908,725
	7,657,579	7,530,258

24. Bank deposits, bank balances and cash

Bank deposits, comprise short-term fixed deposits, and bank balances and carry interests at prevailing market interest rates ranging from 1% to 5.2%.

Included in the bank deposits, bank balances and cash as at 31 March 2007 were amounts in Renminbi of HK$27,874,931 (2006: HK$19,740,271) which are not freely convertible into other currencies.

Bank deposits and bank balances of approximately HK$36,350,000 (2006: HK$43,152,000) are denominated in US dollars, which is different from the functional currency of the relevant group entity.

25. Trade and other payables

The following is an analysis of the Group's trade and other payables at the balance sheet date:

	2007	**2006**
	HK$	*HK$*
Trade payables aged		
Within 60 days	786,362	632,951
61 – 90 days	250,466	56,938
Over 90 days	249,600	327,374
	1,286,428	1,017,263
Other payables	2,896,872	2,651,706
	4,183,300	3,668,969

26. Government grants

(a) Government grants for expanding production facilities for a pharmaceutical product

In 2006 and 2007, the Group received government grants of approximately HK$1,538,000 (RMB1,600,000) and HK$1,330,000 (RMB1,350,000), which were designated for the cost of acquisition of certain plant and equipment for the production of a pharmaceutical product. The grants were deferred and are released to income on a straight-line basis over the expected useful lives of the related assets. During the year ended 31 March 2007, the Group released government grants of HK$145,284 to income for the relevant assets. No government grants was released to income for the year ended 31 March 2006 as the relevant assets were not yet in use. The carrying amount of the government grants as at 31 March 2007 was approximately HK$2,835,000 (RMB2,803,000), of which HK$298,000 will be released to income within one year from the balance sheet date and is therefore shown as current.

(b) Government grants for the research and development of pharmaceutical products

In 2006, the Group received a government grant of approximately HK$577,000 (RMB600,000). The grant was given to the Group as subsidy for expenditure on research and development of pharmaceutical products. No specific conditions to comply and other contingencies were attached to such grant, and management of the Group intends to apply the government grant to the research and development of a new pharmaceutical product ("new product"). During the year ended 31 March 2007, amounts of HK$491,997 have been deducted in reporting research and development costs incurred for the period on the new product. The carrying amount of the government grants as at 31 March 2007 was approximately HK$102,000 (RMB100,000) which will be released to income within one year from the balance sheet date and is therefore shown as current.

27. Deposit received

The amount represents deposit received from a customer. The amount is unsecured, non-interest bearing and repayable upon the expiry of the relevant sales contract.

28. Amount due to an associate

The amount is unsecured, non-interest bearing and repayable on demand.

29. Share capital

	Number of shares		Amount	
	2007	**2006**	**2007**	**2006**
			HK$	*HK$*
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	1,000,000,000	1,000,000,000	100,000,000	100,000,000
Issued and fully paid:				
At beginning and end of the year	506,853,952	506,853,952	50,685,395	50,685,395

30. Deferred taxation

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Tax losses	Total
	HK$	*HK$*	*HK$*
At 1 April 2005	23,362	(23,362)	–
(Credit) charge to income statement	(2,848)	2,848	–
At 31 March 2006 and 1 April 2006	20,514	(20,514)	–
Charge (credit) to income statement	5,377	(5,377)	–
At 31 March 2007	25,891	(25,891)	–

At the balance sheet date, the Group had unused tax losses of approximately HK$106,425,000 (2006: HK$96,858,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses of approximately HK$148,000 (2006: HK$117,000). No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$106,277,000 (2006: HK$96,741,000) due to the unpredictability of future profit streams. All these losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK$1,420,000 (2006: HK$3,864,000). No deferred tax asset has been recognised in relation to such deductible temporary differences, as it is not probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilised.

31. Retirement benefits scheme

The Group operates two defined contribution schemes which are registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after year 2000 are required to join the MPF Scheme.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary.

For members of the MPF Scheme, the Group contributes certain percentage of relevant payroll costs to the Scheme, which contribution is matched by the employee.

Where there are employees who leave the scheme prior to the contributions vesting, the contributions payable by the Group are reduced by the amount of forfeited contributions. There is no forfeited contribution for both years.

The total cost charged to income of HK$68,871 (2006: HK$108,764) represents contributions paid to the scheme by the Group in respect of the current year.

The employees of Yunnan Yunyu Economic & Technology Consulting Co., Limited (雲南雲玉經濟技術咨詢有限公司) are members of state-managed retirement benefit schemes operated by the PRC government. This subsidiary is required to contribute 27.5% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. This subsidiary is exempted for making contributions to the retirement benefit schemes in both years presented.

The employees of Meng Sheng Pharmaceutical (雲南盟生藥業有限公司) are members of state-managed retirement benefit schemes operated by the PRC government. This subsidiary is required to contribute 24% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions. For the year ended 31 March 2007, the total cost charged to income statement of HK$77,129 (2006: HK$53,584) represents contributions paid to the state-managed retirement benefit schemes by the Group in respect of the current year.

32. Operating lease commitments

The Group as lessee

Minimum lease payment paid under operating leases in respect of office premises during the year amounted to HK$3,048,764 (2006: HK$1,442,226).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007	**2006**
	HK$	*HK$*
Within one year	3,230,000	3,230,000
In the second to fifth year inclusive	2,467,000	5,697,000
	5,697,000	8,927,000

Operating lease payments represent rentals payable by the Group for office premises. Leases are negotiated for an average term of 3 years and rentals are fixed for an average term of 3 years.

The Group as lessor

Property rental income earned during the year was HK$530,707 (2006: HK$459,151). The property is expected to generate rental yields of 3.1% (2006: 2.9%) on an ongoing basis. The premise held has committed tenant for the next 35 months.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments which fall due as follows:

	2007	**2006**
	HK$	*HK$*
Within one year	859,000	459,000
In the second to third year inclusive	1,646,000	–
	2,505,000	459,000

33. Capital commitments

At the balance sheet date, the Group had the following capital commitments:

	2007	2006
	HK$	*HK$*
Commitments for acquisition of property, plant and equipment – contracted for but not provided in the financial statements	–	1,400,000

34. Related party transactions

(a) Transactions with related parties

	2007	2006
	HK$	*HK$*
Loan advanced to ultimate holding company	350,000	–
Management fee income received from Tianda Group Limited*	–	180,000

* *Tianda Group Limited is a substantial shareholder of the Company.*

(b) Compensation of key management personnel

The remunerations of directors and other members of key management during the year are as follows:

	2007	2006
	HK$	*HK$*
Short-term benefits	1,206,565	2,864,729
Post-employment benefits	31,200	82,784
	1,237,765	2,947,513

The remunerations of directors and key executives were determined by reference to the performance of individuals and market trends.

35. Particulars of subsidiaries

Details of the principal subsidiaries of the Company at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued ordinary share capital/registered capital held by the company %	the subsidiary %	Principal activity
Heroway Limited	British Virgin Islands/PRC	US$1	100	–	Investment holding
Yunnan Meng Sheng Pharmaceutical Co., Limited* ("Meng Sheng Pharmaceutical")	PRC	RMB36,000,000	–	55	Research, development, manufacture and sale of biotechnology products
Yunnan Nominees Limited	Hong Kong	HK$2	100	–	Investment holding
Yunyu Bio – Pharmaceutical Company Limited	British Virgin Islands/PRC	US$1	–	100	Investment holding
Yunyu Holdings Limited	Hong Kong	HK$2	100	–	Investment holding
Yunyu International Limited	Hong Kong	HK$2	100	–	Investment holding
Yunyu Trading Development Limited	Hong Kong	HK$5,000,000	100	–	Investment holding and property holding

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only those subsidiaries which principally affect the results or assets and liabilities of the Group.

None of the subsidiaries had issued any debt securities at the balance sheet date or at any time during the year.

* *Company incorporated as cooperative joint venture enterprise.*

3. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 March 2007, being the date of which the latest audited financial statements of the Group were made up.

4. FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

With strong research and development foundation, the non-wholly owned subsidiary of the Company, Yunnan Meng Sheng Pharmaceutical Co., Limited will continue to explore and develop other new products. Diversified product portfolio and modern production facilities enable the entity to cope with the intense competition in the domestic pharmaceutical market effectively. The Group therefore is still optimistic on the performance of the pharmaceutical business in the future. Moreover, the Group aims to improve the operating results of the Group's two associated companies, Shenzhen Xinpeng Biotechnology Engineering Company Limited and Yunnan Xingning Color Material Printing Co., Limited, by research and development of new medicine and increase under their existing experienced management team. The Group will also commit to maintain its effective cost control measures.

In view of the prosperous economic and social development of Zuhai which promotes the long-term and healthy development of local real estate market, it is expected that the Subject Group will benefit from the development of the Land and the sales of properties to be constructed on the Land.

5. INDEBTEDNESS

As at the close of business on 30 September 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, apart from intra-group liabilities, the Enlarged Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

6. WORKING CAPITAL

After taking into account the internally generated funds of the Enlarged Group, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular.

1. ACCOUNTANTS' REPORT ON THE SUBJECT GROUP

The following is the text of a report prepared for the purpose of inclusion in this circular received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants.

Deloitte.
德勤

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太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

23 November 2007

The Directors
Yunnan Enterprises Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Tianda Properties Limited (the "Subject Company") for the period from 4 October 2006 (date of incorporation) to 30 June 2007 (the "Relevant Period") for inclusion in the circular of Yunnan Enterprises Holdings Limited (the "Company") dated 23 November 2007 (the "Circular") issued in connection with the proposed acquisition of the entire issued share capital of and shareholder's loan owed by the Subject Company.

The Subject Company was incorporated under the Hong Kong Companies Ordinance as a limited liability company on 4 October 2006. The principal activity of the Subject Company is investment holding. As at 30 June 2007, the Subject Company holds 19.64% equity interest in Zhuhai Tianheng Real Estate Company Limited 珠海天恒房地產有限公司 (the "PRC Company"), an unlisted company registered in the People's Republic of China (the "PRC") engaged in property development in the PRC.

The Financial Information of the Subject Company for the Relevant Period set out in this report has been prepared from the audited financial statements of the Subject Company (the "Underlying Financial Statements") prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), for the purpose of preparing our report for inclusion in the Circular. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Financial Information of the Subject Company for the Relevant Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Underlying Financial Statements are the responsibility of the sole director of the Subject Company who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Subject Company as at 30 June 2007 and of the result and cash flows of the Subject Company for the Relevant Period.

I. INCOME STATEMENT

For the period from 4 October 2006 (date of incorporation) to 30 June 2007

	NOTE	*HK$*
Revenue		–
Bank interest income		3,134
Administrative expenses		(25,650)
Loss for the period attributable to equity holder of the Subject Company	7	(22,516)

II. BALANCE SHEET

At 30 June 2007

	NOTES	*HK$*
NON-CURRENT ASSET		
Investment in an investee company	*9*	4,245,000
CURRENT ASSET		
Bank balance		57,584
CURRENT LIABILITIES		
Other payables		10,200
Amount due to ultimate holding company	*10*	4,314,899
		4,325,099
NET CURRENT LIABILITY		(4,267,515)
		(22,515)
CAPITAL AND DEFICIT		
Share capital	*11*	1
Accumulated loss		(22,516)
Deficiency attributable to equity holder of the Subject Company		(22,515)

III. STATEMENT OF CHANGES IN EQUITY

For the period from 4 October 2006 (date of incorporation) to 30 June 2007

	Share capital	**Accumulated loss**	**Total**
	HK$	*HK$*	*HK$*
Share issued on 6 October 2006	1	–	1
Loss and total recognised expenses for the period	–	(22,516)	(22,516)
At 30 June 2007	1	(22,516)	(22,515)

IV. CASH FLOW STATEMENT

For the period from 4 October 2006 (date of incorporation) to 30 June 2007

	HK$
OPERATING ACTIVITIES	
Loss for the period	(22,516)
Adjustment for bank interest income	(3,134)
Operating cash flows before movements in working capital	(25,650)
Increase in other payables	10,200
NET CASH USED IN OPERATING ACTIVITIES	(15,450)
INVESTING ACTIVITIES	
Acquisition of investment in an investee company	(4,245,000)
Interest received	3,134
NET CASH USED IN INVESTING ACTIVITIES	(4,241,866)
FINANCING ACTIVITIES	
Advance from ultimate holding company	4,314,899
Proceed from issue of share	1
CASH GENERATED FROM FINANCING ACTIVITIES	4,314,900
NET INCREASE IN CASH AND CASH EQUIVALENTS AND BALANCE AT 30 JUNE 2007, represented by bank balance	57,584

V. NOTES TO THE FINANCIAL INFORMATION

1. General

The Subject Company is a private limited company incorporated in Hong Kong. Its ultimate holding company and parent company is Tianda Group Limited ("Tianda"), a private limited company incorporated in Hong Kong. The addresses of the registered office and principal place of business of The Subject Company are Suites 2401-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong.

The Financial Information is presented in Hong Kong dollars, whereby Renminbi is the functional currency of the Subject Company.

The Subject Company acts as an investment holding company during the Relevant Period.

2. Basis of preparation of Financial Information

The Financial Information has been prepared on a going concern basis because Tianda has agreed to provide adequate funds to enable the Subject Company to meet in full its financial obligations as they fall due for the foreseeable future.

3. Application of new and revised Hong Kong Financial Reporting Standards

The Subject Company has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective. The director of the Subject Company anticipates that the application of these standards, amendment or interpretations will have no material impact on the result and the financial position of the Subject Company.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC) – INT 12	Service Concession Arrangements[5]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[6]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

1 *Effective for annual periods beginning on or after 1 January 2007*

2 *Effective for annual periods beginning on or after 1 January 2009*

3 *Effective for annual periods beginning on or after 1 November 2006*

4 *Effective for annual periods beginning on or after 1 March 2007*

5 *Effective for annual periods beginning on or after 1 January 2008*

6 *Effective for annual periods beginning on or after 1 July 2008*

4. Significant accounting policies

The Financial Information has been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Subject Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Subject Company's financial assets are classified into loans and receivables and available-for-sale financial asset. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivable including bank balance are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial asset

Available-for-sale financial asset is a non-derivative that is either designated or not classified as financial asset at fair value through profit or loss, loan and receivable or held-to-maturity investment. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

For available-for-sale equity investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, it is measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Subject Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Subject Company after deducting all of its liabilities.

The Subject Company's financial liabilities including other payables and amount due to ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments issued by the Subject Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Subject Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Relevant Period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Subject Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss.

5. Financial instruments

5a. Financial risk management objective and policy

The Subject Company's major financial instruments include investment in an investee company and amount due to ultimate holding company. Details of these financial instruments are disclosed in respective notes. The management manages and monitors the risk exposure associated with these financial instruments to ensure appropriate measure is implemented on a timely and effective manner.

Liquidity risk

The Subject Company had net current liability and net liability of HK$4,267,515 and HK$22,515 respectively as at 30 June 2007. Therefore the Subject Company is exposed to liquidity risk. The management manages this exposure by obtaining sufficient financial support from its ultimate holding company.

5b. Fair value

The fair value of financial asset and financial liability are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The director considers that the carrying amounts of financial asset and financial liability recorded at amortised cost in the Financial Information approximate their fair values.

6. Director's emolument

The sole director did not receive any fees or emoluments in respect of his service to the Subject Company during the Relevant Period.

7. Loss for the period

	HK$
Loss for the period has been arrived at after charging:	
Auditor's remuneration	–
Staff costs	–

Note: Auditor's remuneration and staff costs of the Subject Company are borne by Tianda.

8. Taxation

No provision for Hong Kong profits tax has been made as the Subject Company has no assessable profit during the Relevant Period.

The income tax expense for the Relevant Period can be reconciled to the loss for the period in the income statement as follows:

	HK$
Loss for the period	(22,516)
Tax at Hong Kong Profits Tax rate of 17.5%	(3,940)
Tax effect of income not taxable for tax purpose	(549)
Tax effect of expenses not deductible for tax purpose	4,489
Income tax expense for the Relevant Period	–

No provision for deferred taxation has been recognised in the Financial Information.

9. Investment in an investee company

The investment in an investee company is accounted for as an available-for-sale investment which represents the Subject Company's 19.64% equity interest in the registered capital of the PRC Company, an unlisted company registered in the Mainland of the PRC engaged in property development in the PRC. This investment is measured at cost less impairment at balance sheet date because the range of reasonable fair value estimates is so significant that the director of the Subject Company is of the opinion that the fair value cannot be measured reliably.

During the Relevant Period, the sole director of The Subject Company performed a review of the recoverable amount of the investment in the PRC Company and determined that no impairment loss was identified as at 30 June 2007.

10. Amount due to Ultimate Holding Company

The amount is unsecured, non-interest bearing and repayable on demand.

11. Share capital

	Number of shares	**Amount**
		HK$
Ordinary shares of HK$1 each		
Authorised:		
At 4 October 2006 (date of incorporation) and at 30 June 2007	10,000	10,000
Issued and fully paid:		
At 4 October 2006 (date of incorporation)	–	–
Issued at par on 6 October 2006 (note) and at 30 June 2007	1	1

Note: On 6 October 2006, 1 share of HK$1 was issued at par to the subscriber to provide the initial capital to the Subject Company.

12. Related party transactions

On 24 October 2006, the Subject Company and Tianda Properties (Zhuhai) Company Limited 天大地產（珠海）有限公司(“Tianda Zhuhai”), a fellow subsidiary, jointly established the PRC Company as an unlisted company registered in the PRC as set out in note 9.

On 8 November 2006, the Subject Company entered into a shares transfer agreement with Tianda Zhuhai. Pursuant to the shares transfer agreement, Tianda Zhuhai would transfer its 80.36% equity interest in the registered capital of PRC Company to the Subject Company (the “Share Transfer”). The Share Transfer has not been completed as at 30 June 2007 and pending for the completion of certain legal procedures required by the relevant government authority. As at 30 June 2007, the PRC Company was owned as to 80.36% by Tianda Zhuhai and as to 19.64% by the the Subject Company based on their respective verified capital contributions.

Details of balance with related party has been set out in the balance sheet on page 92 and in note 10.

VI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Subject Company have been prepared subsequent to 30 June 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE SUBJECT GROUP

Business review

From 4 October 2006 (date of incorporation) to 30 June 2007

The Subject Company was incorporated as a limited liability company in Hong Kong on 4 October 2006 and is an investment holding company established for holding the entire equity interest in the PRC Company. The PRC Company will be principally engaged in the development of the Land and the sale of villa, residential and ancillary uses such as landscaped garden and car parks to be developed on the Land.

The Subject Company has not commenced any operation in the period from 4 October 2006 (date of its incorporation) to 30 June 2007 other than investing in the PRC Company amounting to approximately RMB4.3 million as at 30 June 2007 and has only incurred insignificant amount of administrative expenses. The Subject company has subsequently increased its cost of investment in the PRC Company to approximately RMB8.07 million as at the Latest Practicable Date.

Material acquisitions and disposals

During the period from 4 October 2006 to 30 June 2007, save for and except that the Subject Company had injected cash of approximately HK$4.2 million into the PRC Company as capital contribution and except for this payment, the Subject Company did not have any material acquisitions and disposals.

Liquidity and financial resources

The funding for the operations of the Subject Company was provided by the Vendor by way of shareholder's loan, the holding company of the Subject Company.

Foreign currency exposure

Major transactions of the Subject Company were denominated in Hong Kong dollar. Therefore, the exposure of the Subject Company to foreign currency fluctuation was minimal.

Borrowings

Except for the shareholder's loan of HK$4.3 million due to Vendor, the Subject Company did not have any borrowings during the period from 4 October 2006 to 30 June 2007.

Future investment and sources of funding

The total development cost of the Land held by the PRC Company will be approximately HK$100 million which will be financed by internal resources and/or bank borrowings of the Enlarged Group.

Employees

The Subject Company had 2 employees as at 30 June 2007. The Subject Company remunerates its employees based on market terms, and the qualifications and experience of the employees concerned.

Charge on assets

The Subject Company did not have any charge on its assets as at 30 June 2007.

Contingent liabilities

The Subject Company did not have any contingent liabilities as at 30 June 2007.

Future plans and prospects

The Directors believe that the economic and social development of Zhuhai will continue to prosper, promoting the long-term and healthy development of the local real estate market. As such, it is expected that the Subject Group will benefit from the development of the Land and the sale of properties to be constructed on the Land.

1. ACCOUNTANTS' REPORT ON THE PRC COMPANY

The following is the text of a report prepared for the purpose of inclusion in this circular received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants.

Deloitte.
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35/F One Pacific Place
88 Queensway
Hong Kong

23 November 2007

The Directors
Yunnan Enterprises Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Zhuhai Tianheng Real Estate Company Limited 珠海天恒房地產有限公司 (the "PRC Company") for the period from 24 October 2006 (date of establishment) to 31 August 2007 (the "Relevant Period") for inclusion in the circular of Yunnan Enterprises Holdings Limited (the "Company") dated 23 November 2007 (the "Circular") issued in connection with the proposed acquisition of the entire issued share capital of and shareholder's loan owed by Tianda Properties Limited (the "Subject Company").

The PRC Company was jointly established by the Subject Company and Tianda Properties (Zhuhai) Company Limited 天大地產(珠海)有限公司 ("Tianda Zhuhai") in the People's Republic of China (the "PRC") as a Sino-foreign Joint Venture Company on 24 October 2006. The PRC Company is principally engaged in property development in the PRC.

The statutory financial statements of the PRC Company for the period from 24 October 2006 (date of establishment) to 31 December 2006 were prepared in accordance with the PRC relevant accounting principles and financial regulations and audited by Zhuhai Yonganda Certified Public Accountants registered in the PRC.

The Financial Information of the PRC Company for the Relevant Period set out in this report has been prepared from the audited financial statements and unaudited management accounts of the PRC Company (the "Underlying Financial Statements") prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). For the purpose of preparing our report for inclusion in the Circular, we have audited the Underlying Financial Statements for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Financial Information of the PRC Company for the Relevant Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Underlying Financial Statements are the responsibility of the directors of the PRC Company who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the PRC Company as at 31 August 2007 and of the result and cash flows of the PRC Company for the Relevant Period.

FINANCIAL INFORMATION

I. INCOME STATEMENT

For the period from 24 October 2006 (date of establishment) to 31 August 2007

	NOTE	*RMB*
Revenue		–
Bank interest income		10,549
Administrative expenses		(249,988)
Loss for the period attributable to equity holders of the PRC Company	*6*	(239,439)

II. BALANCE SHEET

At 31 August 2007

	NOTES	*RMB*
CURRENT ASSETS		
Properties held for future development	*8*	18,127,986
Other receivables		3,225
Bank balances and cash		3,531,007
Total assets		21,662,218
CAPITAL AND DEFICIT		
Paid-in capital	*9*	21,901,657
Accumulated loss		(239,439)
Equity attributable to equity holders of the PRC Company		21,662,218

III. STATEMENT OF CHANGES IN EQUITY

For the period from 24 October 2006 (date of establishment) to 31 August 2007

	Paid-in capital	**Accumulated loss**	**Total**
	RMB	*RMB*	*RMB*
Capital contributions on 31 October 2006 by way of			
– cash	4,301,671	–	4,301,671
– properties held for future development	17,599,986	–	17,599,986
Loss and total recognised expenses for the period	–	(239,439)	(239,439)
At 31 August 2007	21,901,657	(239,439)	21,662,218

IV. CASH FLOW STATEMENT

For the period from 24 October 2006 (date of establishment) to 31 August 2007

	RMB
OPERATING ACTIVITIES	
Loss for the period	(239,439)
Adjustment for bank interest income	(10,549)
Operating cash flows before movements in working capital	(249,988)
Increase in other receivables	(3,225)
CASH USED IN OPERATING ACTIVITIES	(253,213)
INVESTING ACTIVITIES	
Additions to properties held for future development	(528,000)
Interest received	10,549
NET CASH USED IN INVESTING ACTIVITIES	(517,451)
CASH GENERATED FROM FINANCING ACTIVITY	
Capital contribution	4,301,671
NET INCREASE IN CASH AND CASH EQUIVALENTS AND BALANCE AT 31 AUGUST 2007, represented by bank balances and cash	3,531,007

V. NOTES TO THE FINANCIAL INFORMATION

1. General

The PRC Company is established as a Sino-foreign Joint Venture Company in the PRC. Its ultimate holding company is Tianda Group Limited ("Tianda"), a private limited company incorporated in Hong Kong. The address of the registered office and principal place of business of the PRC Company is 82 Anlian Road, Liantang Industrial Park, Qianshan, Zhuhai City, Guangdong Province, PRC.

The Financial Information is presented in Renminbi, which is the same as the functional currency of the PRC Company.

The PRC Company is engaged in property development in the PRC during the Relevant Period.

2. Application of new and revised Hong Kong Financial Reporting Standards

The PRC Company has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective. The directors of the PRC Company anticipates that the application of these standards, amendment or interpretations will have no material impact on the result and the financial position of the PRC Company.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[3]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[4]
HK(IFRIC) – INT 12	Service Concession Arrangements[5]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[6]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5]

[1] *Effective for annual periods beginning on or after 1 January 2007*

[2] *Effective for annual periods beginning on or after 1 January 2009*

[3] *Effective for annual periods beginning on or after 1 November 2006*

[4] *Effective for annual periods beginning on or after 1 March 2007*

[5] *Effective for annual periods beginning on or after 1 January 2008*

[6] *Effective for annual periods beginning on or after 1 July 2008*

3. Significant accounting policies

The Financial Information has been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. The principal accounting policies adopted are as follows:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Financial instruments

Financial assets are recognised on the balance sheet when the PRC Company becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition.

Financial assets

The PRC Company's financial assets comprise loans and receivables. The accounting policy adopted in respect of loans and receivables is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including other receivables and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Equity instruments

Equity instruments issued by the PRC Company are classified according to the substance of the contractual arrangements entered into and the definitions of an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the PRC Company after deducting all of its liabilities.

Equity instruments issued by the PRC Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the PRC Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the Relevant Period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The PRC Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss.

Properties held for future development

Properties held for future development is stated at the lower of cost and net realisable value. Net reliable value represents the estimated selling price less costs to be incurred in development and selling of the properties.

4. Financial instruments

4a. Financial risk management objective and policy

The PRC Company's major financial instruments include other receivables. The management manages and monitors the risk exposure associated with these financial instruments to ensure appropriate measure is implemented on a timely and effective manner.

4b. Fair value

The fair value of financial assets are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets recorded at amortised cost in the Financial Information approximate their fair values.

5. Directors' emolument

The directors did not receive any fees or emoluments in respect of their service to the PRC Company in respect of the Relevant Period.

6. Loss for the period

	RMB
Loss for the period has been arrived at after charging:	
Auditor's remuneration	–
Staff costs	–

Note: Auditor's remuneration and staff costs of the PRC Company were borne by Tianda.

7. Taxation

No provision for PRC enterprise income tax has been made as the PRC Company has no assessable profit for the Relevant Period.

The nil provision for the Relevant Period can be reconciled to the loss for the period in the income statement as follows:

	RMB
Loss for the period	(239,439)
Tax at the domestic income tax rate of 15%	(35,916)
Tax effect of expenses not deductible for tax purpose	35,916
Income tax expense for the Relevant Period	–

The PRC Company is entitled to preferential income tax rate of 15% as resident in Zhuhai Special Economic Zone. No provision for deferred taxation has been recognised.

8. Properties held for future development

Properties held for future development represents a land situated in Zhuhai City in the PRC pending for development and is held under long-term leases. The PRC Company is in the process of obtaining relevant approvals to commence development.

Properties held for future development is stated at cost. At 31 August 2007, the directors of the PRC Company has reviewed the carrying amount of the properties held for future development with reference to a valuation report issued by a firm of independent professional valuers. In the opinion of the directors, the fair value of the properties held for future development was not less than its carrying amount at the balance sheet date and the carrying amount of the properties is expected to be recovered for more than one year after the balance sheet date.

9. Paid-in capital

	Registered	**Paid-in**
	RMB	*RMB*
At date of establishment	55,000,000	–
Capital injection on 31 October 2006 *(Note)*	–	21,901,657
At 31 August 2007	55,000,000	21,901,657

Note: RMB21,901,657 paid-in capital was injected by the shareholders in accordance with the articles of association of the PRC Company. The amount of paid-in capital had been verified by Zhuhai Yuewa Andy Certified Public Accountant. The shareholders are committed to invest a further amount of approximately RMB33,100,000 as paid-in capital in accordance with the articles of association of the PRC Company. Tianda Zhuhai had injected the second land parcel into the PRC Company subsequent to 31 August 2007.

VI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the PRC Company have been prepared subsequent to 31 August 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PRC COMPANY

Business review

From 24 October 2006 (date of incorporation) to 31 August 2007

The PRC Company is an enterprise established under the laws of the PRC with limited liability. The PRC Company will be principally engaged in the development of the Land and the sale of villa, residential and ancillary uses such as landscaped garden and car parks to be developed on the Land.

The PRC Company has not commenced any operation in the period from 24 October 2006 (date of its incorporation) to 31 August 2007 other than the injection of the First Land Parcel by way of capital contribution.

Material acquisitions and disposals

During the period from 24 October 2006 to 31 August 2007, save for the injection of the First Land Parcel by way of capital contribution, the Subject Company did not have any material acquisitions and disposals. As at 31 August 2007, the land-use rights premium in respect of the Land had been fully paid according to the relevant State-owned land-use rights grant contracts.

Liquidity and financial resources

The funding for the operations of the PRC Company was from shareholder's contribution.

Foreign currency exposure

Major transactions of the PRC Company were denominated in RMB. Therefore, the exposure of the PRC Company to foreign currency fluctuation was minimal.

Borrowings

During the period from 24 October 2006 to 31 August 2007, the PRC Company had no borrowing.

Future investment and sources of funding

The total development cost of the Land held by the PRC Company will be approximately HK$100 million which will be financed by internal resources and/or bank borrowings of the Enlarged Group.

Employees

The PRC Company had 3 employees as at the Latest Practicable Date. The PRC Company remunerates its employees based on market terms, and the qualifications and experience of the employees concerned.

Charge on assets

The PRC Company did not have any charge on its assets as at 31 August 2007.

Contingent liabilities

The PRC Company did not have any contingent liabilities as at 31 August 2007.

Future plans and prospects

The Directors believe that the economic and social development of Zhuhai will continue to prosper, promoting the long-term and healthy development of the local real estate market. As such, it is expected that the PRC Company will benefit from the development of the Land and the sale of properties to be constructed on the Land.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) Introduction

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effect of (i) the acquisition of the entire issued share capital of the Subject Company and shareholder's loan owed by the Subject Company to Tianda Group Limited, a substantial shareholder of the Company as at 31 March 2007 (the "Assets Acquisition"); and (ii) the proposed issue and allotment of new shares of the Company to Tianda Group Limited as consideration for the Assets Acquisition (the "Subscription").

The unaudited pro forma statement of assets and liabilities of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to the Circular, the accountants' report on the Subject Company as set out in Appendix II to the Circular, the accountants' report on the PRC Company as set out in Appendix III to the Circular and other financial information included elsewhere in this Circular.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Assets Acquisition and the Subscription as if they had taken place on 31 March 2007.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared based upon (i) the audited consolidated balance sheet of the Group at 31 March 2007, which has been extracted from the annual report of the Group for the year ended 31 March 2007 as set out in Appendix I to the Circular; (ii) the balance sheet of the Subject Company as at 30 June 2007, which has been extracted from the accountants' report on the Subject Company for the period from 4 October 2006 (date of incorporation) to 30 June 2007 as set out in Appendix II to the Circular; and (iii) the balance sheet of the PRC Company as at 31 August 2007, which has been extracted from the accountants' report on the PRC Company for the period from 24 October 2006 (date of establishment) to 31 August 2007 as set out in Appendix III to the circular and was translated to Hong Kong dollar at prevailing translation rate, after making pro forma adjustments relating to the Assets Acquisition and the Subscription that are (i) directly attributable to the transactions; and (ii) factually supportable as if the Assets Acquisition and the Subscription have been completed on 31 March 2007.

The unaudited pro forma financial information of the Enlarged Group is prepared by the Directors of the Company for illustrative purpose only and, because of its nature, it may not give a true picture of the financial position of the Enlarged Group following completion of the Assets Acquisition and the Subscription.

(B) Unaudited pro forma statement of assets and liabilities of the enlarged group

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the proposed Acquisition.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the Completion. As it is prepared for illustration purpose only, it does not purport to represent what the financial position of the Enlarged Group will be on Completion.

	The Group as at 31 March 2007 *HK$*	The Subject Company as at 30 June 2007 *HK$* *(Note a)*	The PRC Company as at 31 August 2007 *HK$* *(Note b)*	Total *HK$*	Pro forma adjustments *HK$*	*Notes*	Pro forma Enlarged Group *HK$*
NON-CURRENT ASSETS							
Investment property	17,400,000	–	–	17,400,000	–		17,400,000
Property, plant and equipment	24,755,418	–	–	24,755,418	–		24,755,418
Prepaid lease payments	3,640,439	–	–	3,640,439	–		3,640,439
Goodwill	5,250,359	–	–	5,250,359	–		5,250,359
Interests in associates	42,472,664	–	–	42,472,664	–		42,472,664
Investment in investee companies	32,725,141	4,245,000	–	36,970,141	(4,245,000)	*(c)*	32,725,141
	126,244,021	4,245,000	–	130,489,021	(4,245,000)		126,244,021
CURRENT ASSETS							
Inventories	1,742,685	–	–	1,742,685	–		1,742,685
Properties held for future development	–	–	18,729,986	18,729,986	94,922,933	*(c) & (d)*	113,652,919
Loan to ultimate holding company	350,000	–	–	350,000	(350,000)	*(e)*	–
Loan to a shareholder	–	–	–	–	350,000	*(e)*	350,000
Loan to an investee company	49,583	–	–	49,583	–		49,583
Trade and other receivables	7,657,579	–	3,332	7,660,911	–		7,660,911
Prepaid lease payments	79,570	–	–	79,570	–		79,570
Tax recoverable	84,747	–	–	84,747	–		84,747
Bank deposits	57,596,225	–	–	57,596,225	–		57,596,225
Bank balances and cash	8,545,892	57,584	3,648,266	12,251,742	63,294,150	*(c)*	75,545,892
	76,106,281	57,584	22,381,584	98,545,449	158,217,083		256,762,532
CURRENT LIABILITIES							
Trade and other payables	4,183,300	10,200	–	4,193,500	–		4,193,500
Government grants – current portion	400,135	–	–	400,135	–		400,135
Deposit received	303,515	–	–	303,515	–		303,515
Amount due to ultimate holding company	–	4,314,899	–	4,314,899	(4,314,899)	*(c) & (d)*	–
Amount due to an associate	809,904	–	–	809,904	–		809,904
Tax payable	6,633	–	–	6,633	–		6,633
	5,703,487	4,325,099	–	10,028,586	(4,314,899)		5,713,687
NET CURRENT ASSETS (LIABILITIES)	70,402,794	(4,267,515)	22,381,584	88,516,863	162,531,982		251,048,845
TOTAL ASSETS LESS CURRENT LIABILITIES	196,646,815	(22,515)	22,381,584	219,005,884	158,286,982		377,292,866
NON-CURRENT LIABILITY							
Government grants – non-current portion	2,536,882	–	–	2,536,882	–		2,536,882
NET ASSETS (LIABILITIES)	194,109,933	(22,515)	22,381,584	216,469,002	158,286,982		374,755,984

(C) Notes to the unaudited pro forma statement of assets and liabilities of the enlarged group

a) The balances are extracted from the audited financial information of the Subject Company as at 30 June 2007 as set out in Appendix II to the Circular.

b) The balances are extracted from the audited financial information of the PRC Company as at 31 August 2007 as set out in Appendix III to the Circular and was translated to Hong Kong dollar at translation rate of RMB 1.00 = HKD 1.03.

Pursuant to the Acquisition Agreement, the Group will acquire the entire issued share capital of the Subject Company (the "Sale Share") and shareholder's loan (the "Sale Loan") owed by the Subject Company to the Vendor, a substantial shareholder of the Company (the "Assets Acquisition") at an aggregate consideration of approximately HK$167 million, which will be satisfied by the issue and allotment of 428,205,128 new shares at par value of HK$0.10 each in the capital of the Company at an issue price of HK$0.39 per share, credited as fully paid to the Vendor at completion.

The transaction will be accounted for as assets acquisition.

The pro forma adjustments reflect the following:

c) The adjustment is to assume that Tianda Properties (Zhuhai) Company Limited 天大地產(珠海)有限公司 ("Tianda Zhuhai"), which is a shareholder of the PRC Company and also a fellow subsidiary of the Subject Company, had injected the Second Land Parcel of HK$9,660,513 into the PRC Company in the form of shareholder's contribution as at 31 March 2007 (the "Assets Contribution").

The adjustments also included (i) the injection of bank balances and cash of HK$63,294,150 and the Sale Loan of HK$63,294,150 by Tianda Zhuhai; and (ii) the elimination of the Subject Company's investment cost of HK$4,245,000 in the PRC Company on consolidation.

d) The adjustment is to illustrate the effect of the Assets Acquisition as if the Assets Acquisition has taken place on 31 March 2007 after the completion of the Share Transfer and Assets Contribution.

An adjustment of HK$85,262,420 has been debited to the properties held for future development based on valuation of the Land as at 31 August 2007 carried out by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer not connected to the Group. The adjustment assumed that the fair value of the Land at 31 March 2007 was the same as that as at 31 August 2007.

An amount of HK$67,609,049 was charged to the amount due to ultimate holding company as the Sale Loan would be assigned by the Vendor to the Group pursuant to the Assets Acquisition.

e) The adjustment represents the reclassification of the loan due to South Hong Investment Limited, the ultimate holding company of the Company as at 31 March 2007 as well as immediately before the completion of the Assets Acquisition, as loan to a shareholder since the Vendor would have become the ultimate holding company of the Enlarged Group after the completion of the Assets Acquisition.

2. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from Deloitte Touche Tohmatsu, Certified public Accountants, Hong Kong for the sole purpose of inclusion in this circular.

Deloitte.
德勤

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88 Queensway
Hong Kong

Accountants' report on unaudited pro forma financial information

To the Directors of Yunnan Enterprises Holdings Limited

We report on the unaudited pro forma financial information of Yunnan Enterprises Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), Tianda Properties Limited (the "Subject Company") and Zhuhai Tianheng Real Estate Company Limited 珠海天恒房地產有限公司 (the "PRC Company") (together with the Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how (i) the major acquisition whereby the Group proposed to acquire the entire issued share capital of the Subject Company and shareholder's loan owed by the Subject Company to Tianda Group Limited, a substantial shareholder of the Company as at 31 March 2007 (the "Assets Acquisition"); and (ii) the proposed issue and allotment of new shares of the Company to Tianda Group Limited as consideration for the Assets Acquisition (the "Subscription") might have affected the financial information presented, for inclusion in Appendix IV of the circular dated 23 November 2007 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on page 120 to the Circular.

Respective responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Enlarged Group as at 31 March 2007 or at any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 November 2007

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this circular received from Vigers Appraisal and Consulting Limited, an independent professional valuer, in connection with the valuations of the property interests of the properties held by the Group as at 31st August 2007.

Vigers Appraisal and Consulting Limited
International Assets Appraisal Consultants

10th Floor
The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong
www.Vigers.com

VIGERS
威格斯

23rd November 2007

The Board of Directors
Yunnan Enterprises Holdings Limited
Suite 2405-2410, 24/F
CITIC Tower
No. 1 Tim Mei Avenue
Central
Hong Kong

Dear Sirs,

In accordance with your instruction for us to value the property interests held by "Yunnan Enterprises Holdings Limited" (referred to as "the Company") and its subsidiaries (hereinafter together referred to as "the Group"), we confirm that we have inspected the properties, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of values of the property interests of the properties as at 31st August 2007 (the "Valuation Date").

Basis of Valuation

Our valuations are our opinion of market values of the property interests of the properties in concern which is defined as intended to mean "*the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller on an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*". Our valuations have been prepared in accordance with "The HKIS Valuation Standards on Properties (First Edition 2005)" published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance as well as Chapter 5 and Practicable Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

Property Categorisation

In the course of our valuations, we have categorized the property interests of the properties in concern into the following three groups.

Group I

The property interest of the property in concern is held by the Group for owner-occupation purpose in the People's Republic of China (the "PRC"). Due to the lack of suitable market comparables, the property interest of the property held by the Group have been valued on the basis of depreciated replacement cost ("DRC") whereby "*DRC is based on an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization*". Value of the property interest of the property derived from the basis of DRC is subject to adequate potential profitability of the business in concern.

Group II

Property in Group II is completed property in Hong Kong Special Administration Region ("Hong Kong") for investment purpose. Comparisons based on transactions on actual sales of comparable properties have been made. Comparable properties with similar character, location, sizes and so on are analyzed and carefully weighed against all respective advantages and disadvantages of the property in order to arrive at a fair comparison of value.

Group III

In respect of the property interest of the property in Group III which is the property leased by the Group in Hong Kong, we are of the opinion that the property interest of the property in concern has no commercial value due to the prohibition against assignment or sub-letting or otherwise due to lack of substantial profit rent and/or the short term nature of the property interest thereof.

Title Investigation

In respect of the property located in the PRC, we have been given extracted copies of relevant title documents for the property in concern but we have not checked title to the property interest of the property nor scrutinized the original title documents. We have relied on the advice given by the Group and its legal advisors on the laws of the PRC, "Beijing Zhongzi Law Office" (hereinafter referred to as the "PRC Legal Advisors") regarding title to the property interest of the property located in the PRC. For the purpose of our valuation, we have taken into account the legal opinion of the PRC Legal Advisors. While we have exercised our professional judgement in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

With respect to the properties located in Hong Kong, we have conducted land searches at the Land Registry but we have not searched the original documents to ascertain ownership nor to verify any lease amendments which may not appear on the copies handed to us. All documents have been used for reference purpose and all dimensions, measurements and areas are therefore approximations.

Valuation Assumptions

Our valuations have been made on the assumption that the property interests of the properties can be sold in the prevailing market in existing state without the effect of any deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which may serve to affect the values of the property interests of the properties. In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the property interests of the properties, and no allowance is made for the property interests of the properties to be sold to a single party and/or as a portfolio or portfolios.

In valuing the property interests of the properties, we have assumed that the owners of the property interests have free and uninterrupted rights to use and assign the properties during the whole of the respective unexpired terms granted subject to the payment of usual land-use fees or Government Rents.

No investigation has been carried out to determine the suitability of the ground conditions or the services for any property development erected or to be erected on the properties in concern. Our valuations have been carried out on the assumption that these aspects are satisfactory. We have also assumed that all necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests of the properties being valued for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests of the properties are free from any encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the values of the property interests of the properties in concern.

We have not carried out detailed on-site measurement to verify the correctness of the site and floor areas in respect of the properties in concern but we have assumed that the site and floor areas shown on the documents handed to us are correct.

Other special assumptions for each of the property interests of the property have been stated in the footnotes of the valuation certificate for the respective property, if any.

Valuation Consideration

We have inspected the properties included in the attached valuation certificates. During the course of our inspections, we did not note any serious defect. However, no structural survey nor test on any of the services has been made and we are therefore unable to report as to whether the properties in concern are free from rot, infestation or other structural or non-structural defect.

Having examined all relevant documents, we have relied to a considerable extent on the information given by the Group, particularly in respect of planning approvals, statutory notices, easements, tenure, land-use rights, site areas, floor areas, occupancy status and in the identification of the properties in concern.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificates are based on the information contained in the documents provided to us by the Group and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Group that no material facts have been omitted from the information so given.

Remarks

We declare hereby that we are independent to the Group and we are not interested directly or indirectly in any shares in any member of the Group. We do not have any right or option whether legally enforceable or not to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

According to the information provided by the Company, the potential tax liabilities which would arise on the disposal of property interests of the property in Group I are PRC sales tax and its additional items including urban construction tax and additional education fee (a total of 5.565% of sales revenue), PRC land appreciation tax (30% of the net appreciation amount) and PRC corporate income tax (15 - 33%), and the property in Group II in Hong Kong is stamp duty and 17.5% profit tax. According to our established practice, in the course of our valuations, we have neither verified nor taken into account such tax liabilities. The likelihood of such liability crystalising is low as we have been advised by the Company that the Company currently has no intention on the disposal of property interests of the property set out in this report.

Unless otherwise stated, all monetary amounts stated herein are in the currency of Hong Kong Dollars ("HK$"), the lawful currency of Hong Kong. The exchange rate used in our valuation for the conversion of Renminbi ("RMB"), the lawful currency of the PRC, is HK$1.00 to RMB0.98 which is prevailing as of the Valuation Date.

We enclose herewith our Summary of Values and Valuation Certificates.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL AND CONSULTING LIMITED
David W. I. CHEUNG
MRICS MHKIS RPS(GP) CREA MCIArb
Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 23 years' valuation experience on properties in Hong Kong and the PRC, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises.

SUMMARY OF VALUES

No.	Property Address	Capital Value in Existing State as at 31st August 2007	Interest attributable to the Group	Capital Values attributable to the Group as at 31st August 2007
Group I – Property Interest Held by the Group in the PRC for Owner-occupation Purpose				
1.	An Industrial Complex located at Lot 19-4, National Class Kunming Economic and Technological Development Zone, Kunming, Yunnan Province, The PRC	RMB18,900,000 (or equivalent to HK$19,285,714)	55%	RMB10,395,000 (or equivalent to HK$10,607,143)
	Sub-total	HK$19,285,714		HK$10,607,143
Group II – Property Interest Held by the Group in Hong Kong for Investment Purpose				
2.	3rd Floor, Alliance Building, Nos. 130-136 Connaught Road Central, Sheung Wan, Hong Kong	HK$19,600,000	100%	HK$19,600,000
	Sub-total	HK$19,600,000		HK$19,600,000
Group III – Property Interest Leased by the Group in Hong Kong				
3.	Suites 2405-2410, 24/F, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong			No commercial value
	Sub-total			No commercial value
	GRAND TOTAL	HK$38,885,714		HK$30,207,143

VALUATION CERTIFICATE

Group I – Property Interest Held by the Group in the PRC for Owner-occupation Purpose

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st August 2007
1.	An Industrial Complex located at Lot 19-4, National Class Kunming Economic and Technological Development Zone, Kunming, Yunnan Province, The PRC	The property comprises an industrial complex accommodating six blocks of 1 to 2-storey building erected on a piece of roughly flatted land completed in or about 2005. The property has a site area of approximately 16,397.952 square meters (176,506 square feet) and a total gross floor area of approximately 8,113.96 square metres (87,338 square feet) with breakdown tabulated as follows.	The property is owner-occupied for industrial use.	RMB18,900,000 *(or equivalent to HK$19,285,714)* *(55% interest attributable to the Group: RMB10,395,000 (or equivalent to HK$10,607,143))*

Block	Approximate Gross Floor Area *(square metres)*	*(square feet)*
1	3,036.00	32,679
3	1,954.00	21,033
4	706.00	7,599
6	265.96	2,863
7	847.00	9,117
8	1,305.00	14,047
Total	8,113.96	87,338

The property is held under land-use rights to be expired on 29th August 2051 for industrial use.

Note:

1. Pursuant to Certificate of State-owned Land-use of The People's Republic of China (Document No.: Kun Guo Yung (2004) Zi No. 00450) issued by Kunming Land & Resource Bureau in August 2004, the land-use rights of the property located at Lot 19-4 in National Class Kunming Economic and Technological Development Zone having a site area of approximately 16,397.952 square metres (176,506 square feet) is vested in the name of "Yunnan Meng Sheng Pharmaceutical Co., Limited" for a term to be expired on 29th August 2051 for industrial use.

2. Pursuant to six Certificates of Building Ownership of The People's Republic of China (Document Nos.: Kun Ming Shi Fang Quan Zheng Nos. 200544024, 200544025, 200544026, 200544032, 200544046 and 200544047) issued by Kunming Housing Administration Bureau all dated 9th October 2005, the building portion of the property having a total gross floor area of approximately 8,113.96 square metres (87,338 square feet) is vested in the name of "Yunnan Meng Sheng Pharmaceutical Co., Limited" for non-domestic use.

3. A summary of major certificates as of the Valuation Date is shown as follows:

i.	Certificate of State-owned Land-use of The People's Republic of China	Yes
ii.	Certificate of Building Ownership of The People's Republic of China	Yes

4. Yunnan Meng Sheng Pharmaceutical Co., Limited is a cooperative joint venture enterprise in which the Company has 55% indirect equity interest.

5. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:

   i. Yunnan Meng Sheng Pharmaceutical Co., Limited has the right to occupy and use the land parcel located at Lot 19-4 in National Class Kunming Economic and Technological Development Zone in accordance with the laws, and has the right to transfer, lease, mortgage or by other legal means dispose of the land-use rights. The said land-use rights are not subject to mortgage or other third party encumbrances.

   ii. Yunnan Meng Sheng Pharmaceutical Co., Limited has obtained and owned all rights of six buildings (Certificate of Building Ownership Nos.: Kun Ming Shi Fang Quan Zheng Nos. 200544024, 200544025, 200544026, 200544032, 200544046 and 200544047) in accordance with the laws, and has the right to occupy, use, transfer, lease, mortgage or by other legal means dispose of the said buildings. The buildings in concern are not subject to mortgage or other third party encumbrances.

Group II – Property Interest Held by the Group in Hong Kong for Investment Purpose

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st August 2007
2.	3rd Floor, Alliance Building, Nos. 130-136 Connaught Road Central, Sheung Wan, Hong Kong All those 9/195th parts or pieces of ground known and registered in the Land Registry as The Remaining Portions of Marine Lot Nos. 354, 355, 356, 358, 359 & 360 and The Remaining Portion of Section A of Marine Lot No. 357	The property comprises the 3rd floor office unit in a 25-storey commercial building completed in or about 1975. The property has a saleable area of approximately 536.87 square metres (5,779 square feet). Marine Lot Nos. 354, 355, 356, 357, 358, 359 & 360 are held under Government Lease for the terms of 999 years commencing on 7th October 1902, 8th October 1902, 17th October 1900, 4th May 1901, 17th October 1900, 31st January 1901 and 17th July 1900 respectively with aggregate Government Rent payable of HK$258 per annum for Marine Lot Nos. 354, 355, 356, 358, 359 & 360 as well as HK$22 per annum for The Remaining Portion of Section A of Marine Lot No. 357.	Pursuant to a tenancy agreement entered into between "Yunyu Trading Development Limited" (formerly known as "Hansom Piling and Construction Company Limited") as lessor and "Harvest Well Holdings Limited" as lessee, the property is let for a term of three years commencing on 1st March 2007 and expiring on 28th February 2010 (both days inclusive) at a monthly rent of HK$71,556 exclusive of Rates, utility charges, management fees, air-conditioning charges and other out-goings but inclusive of Government Rent.	HK$19,600,000 *(100% interest attributable to the Group: HK$19,600,000)*

Note:

1. The current registered owner of the property is "Hansom Piling and Construction Company Limited", a wholly-owned subsidiary of the Company, vide Memorial No. UB5182146 dated 22nd January 1992.

2. The property is not subject to mortgage or other material encumbrances.

3. The property lies on an area zoned "Commercial / Residential" under Sai Ying Pun and Sheung Wan Outline Zoning Plan (No. S/H3/21) dated 17th March 2006.

Group III – Property Interests Leased by the Group in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st August 2007
3.	Suites 2405-2410, 24/F, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong All those certain parts or parcels of ground known and registered in the Land Registry as Inland Lot No. 8822	The property comprises six office suites on the 24th floor of a 34-storey commercial building completed in 1997. The property has a total lettable area of approximately 500.19 square metres (5,384 square feet). Inland Lot No. 8822 is held under Conditions of Sale No. UB12360 commencing on 23rd August 1995 and expiring on 30th June 2047, and the Government Rent payable per annum is specified in General Condition No. 4 of Conditions of Sale No. UB12360.	The property is occupied by the Group for office use. Pursuant to a lease entered into between "Goldon Investment Limited" as lessor and the Company as lessee, the property is let at a monthly rent of HK$269,200 exclusive of Government Rent, Rates and service charge for a term commencing on 20th January 2006 and expiring on 5th January 2009 (both days inclusive) with a rent free period from 1st February 2006 to 30th March 2006.	No commercial value

Note:

1. The current registered owner of the property is "Goldon Investment Limited", an independent third party to the Company, under Conditions of Sale No. 12360 of Inland Lot No. 8822.

2. The property is not subject to mortgage or other material encumbrances.

3. The property lies on an area zoned "Commercial" under Central District (Extension) Outline Zoning Plan (No. S/H24/6) dated 27th December 2002.

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from ***Vigers Appraisal and Consulting Limited****, an independent valuer, in connection with the valuation of the property interests of the property to be acquired and held by the Company as at 31st August 2007.*

Vigers Appraisal and Consulting Limited
International Assets Appraisal Consultants

10th Floor
The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong
www.Vigers.com

23rd November 2007

The Board of Directors
Yunnan Enterprises Holdings Limited
Suites 2405-2410
24th Floor
CITIC Tower
No. 1 Tim Mei Avenue
Central
Hong Kong

Dear Sirs,

In accordance with your instruction for us to value the property interests of the property to be acquired and held by "Yunnan Enterprises Holdings Limited" (referred to as "the Company"), we confirm that we have inspected the property, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for the purpose of providing our opinion of value of the property interests of the property as at 31st August 2007 (the "Valuation Date").

Our valuation is our opinion of market value of the property interests of the property in concern which is defined as intended to mean "*the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller on an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*". Our valuation has been prepared in accordance with "The HKIS Valuation Standards on Properties (First Edition 2005)" published by The Hong Kong Institute of Surveyors, the relevant provisions in the Companies Ordinance as well as Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board).

In the course of our valuation, we have valued the property interests of the property by adopting the comparison method of valuation on the assumption that the property interests of the property can be sold with the benefit of vacant possession. Comparisons based on prices realized on actual sales or offerings of comparable properties have been made. Comparable properties with similar sizes, character, location and so on are analyzed and carefully weighed against all respective advantages and disadvantages of the property interests of the property in order to arrive at a fair comparison of value.

We have been given extracted copies of relevant title documents for the property in concern. We have not checked title to the property interests of the property nor scrutinized the original title documents, however. We have relied on the advice given by the Group and its legal advisors on the laws of the PRC, "Beijing Zhongzi Law Office" (hereinafter referred to as the "PRC Legal Advisors") regarding title to the property interests of the property. For the purpose of our valuation, we have taken into account the legal opinion of the PRC Legal Advisors. While we have exercised our professional judgement in arriving at our valuation, you are urged to consider our valuation assumptions with caution.

Our valuation has been made on the assumption that the property interests of the property can be sold in the prevailing market in existing state without the effect of any deferred term contract, leaseback, joint venture, management agreement or any other similar arrangement which may serve to affect the value of the property interests of the property unless otherwise noted or stated. In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the property interests of the property.

In valuing the property interests of the property, we have assumed that the owner of the property interests of the property in concern has free and uninterrupted rights to use and assign the property during the whole of the unexpired term(s) granted subject to the payment of usual land-use fees.

No investigation has been carried out to determine the suitability of the ground conditions or the services for any property development erected or to be erected on the property. Our valuation has been carried out on the assumption that these aspects are satisfactory. We have also assumed that all necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay. Other special assumptions for the property interests of the property have been stated in the footnotes of the valuation certificate, if any.

We have inspected the property included in the attached valuation certificate. During the course of our inspection, we did not note any serious defect. However, neither structural survey nor test on any of the services has been made and we are therefore unable to report as to whether the property is free from rot, infestation or other structural or non-structural defect.

Having examined all relevant documentation, we have relied to a considerable extent on the information given by the Company, particularly in respect of planning approvals, statutory notices, easements, tenure, land-use rights, site areas, development parameters, occupancy status, development costs and in the identification of the property in concern.

Unless otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on the information contained in the documents provided to us by the Company and are therefore approximations. We have had no reason to doubt the truth and accuracy of the information made available to us and we have been advised by the Company that no material facts have been omitted from the information so given.

We have not carried out detailed on-site measurement to verify the correctness of the site and floor areas in respect of the property in concern but we have assumed that the site and floor areas shown on the documents handed to us are correct.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests of the property being valued for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property interests of the property are free from any encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the value of the property interests of the property.

According to the information provided by the Company, the potential tax liabilities which would arise on the disposal of property interests of the property in the PRC are PRC sales tax and its additional items including urban construction tax and additional education fee (a total of 5.565% of sales revenue), PRC land appreciation tax (30% of the net appreciation amount) and PRC corporate income tax (15 - 33%). According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liabilities. The likelihood of such liability crystalising is low as we have been advised by the Company that the Company currently has no intention on the disposal of property interests of the property set out in this report.

We declare hereby that we are independent to the Company and we are not interested directly or indirectly in any shares in any member of the Company. We do not have any right or option whether legally enforceable or not to subscribe for or to nominate persons to subscribe for any shares in any member of the Company.

Unless otherwise stated, all monetary amounts stated herein are in the currency of Renminbi ("RMB"), the lawful currency of the PRC.

We enclose herewith our Valuation Certificate.

Yours faithfully,
For and on behalf of
VIGERS APPRAISAL AND CONSULTING LIMITED
David W. I. CHEUNG
MRICS MHKIS RPS(GP) CREA MCIArb
Executive Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 23 years' valuation experience on properties in various regions including the PRC, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises.

VALUATION CERTIFICATE

Property Interests to be Held by the Company for Future Development

Property	**Description and Tenure**	**Particulars of Occupancy**	**Capital Value in Existing State as at 31st August 2007**
The Land Parcels located to the Southwest of Gangwan Main Road (Lot Nos. C0404009 and C0404007), Yinkeng, Xiangzhou, Zhuhai, Guangdong Province, The People's Republic of China	The property comprises two contiguous land parcels in irregular shape having a total site area of approximately 25,137.99 square metres. The property is in its early planning stage and is to be developed into a villa and residential development with ancillary facilities such as landscaped garden and carpark provided therein having a planned aboveground gross floor area of approximately 25,137.99 square metres. Part of the property having a site area of approximately 16,372.08 square metres is held under land-use rights for a term to be expired on 10th January 2076 for villa, residential and ancillary uses (the "First Land Parcel"); whilst the remainder of the property having a site area of approximately 8,765.91 square metres is expected to be held under land-use rights for a term of 70 years for residential use (the "Second Land Parcel") *(Note: The land-use rights of the Second Land Parcel is vested in the name of the PRC Company after the Valuation Date, please refer to Note 13. below for details).*	The First Land Parcel of the property is currently vacant; whilst majority of the Second Land Parcel of the property is temporarily occupied as a restaurant with the remainder left vacant.	RMB71,600,000 *(Please also refer to Note 10. below for further details.)*

Note:

1. Pursuant to State-owned Land-use Rights Grant Contract of Zhuhai City together with the Supplementary Agreement and Second Supplementary Agreement (Document No.: Zhu Guo Yung He Zi (1994) No. 24) entered into between Zhuhai Land Resources Bureau and "Tianda Property (Zhuhai) Ltd." on 10th June 1994, 15th July 2004 and 9th March 2005 respectively, the land-use rights of a parcel of land located at Dieshi Lot in Yinkeng of Tangjia having a total site area of 116,334.99 square metres (including the First Land Parcel and the Second Land Parcel of the property) has been granted to the latter for a term of 70 years. According to the said State-owned Land-use Rights Grant Contract of Zhuhai City together with the Supplementary Agreement and Second Supplementary Agreement, the land-use rights premium in respect of the First Land Parcel and the Second Land Parcel of the property has been fully paid, and the property is subject to the following salient development conditions.

– Plot Ratio	:	0.8 *(Please also refer to Note 9. and Note 12.v. for further details.)*
– Uses	:	Residential, villa and ancillary facilities
– Building Covenants	:	To commence construction work within one year upon signing of Supplementary Agreement; or to submit prior writing application for delay *(Please also refer to Note 12.iv. below for further details.)*

2. Pursuant to Certificate of Real Estate Ownership (Document No.: Yue Fang Di Zheng Zi No. C5013366) issued by Zhuhai Municipal Government registered on 7th December 2006, the land-use rights of the First Land Parcel of the property (Lot No.: C0404009) which is located to the southwest of Gangwan Main Road in Yinkeng of Xiangzhou of Zhuhai city for villa, residential and ancillary uses with site area of approximately 16,372.08 square metres is vested in the name of "Zhuhai Tianheng Real Estate Company Limited" (the "PRC Company") to be expired on 10th January 2076.

3. Pursuant to Permission Certificate for Construction Land-use Planning of the People's Republic of China (Document No.: 2007 Yung Di Zi No. 001) issued by Zhuhai Urban Planning Bureau dated 17th January 2007, the First Land Parcel of the property has fulfilled the urban planning requirements.

4. Pursuant to Permission Certificate for Construction Land-use Planning of the People's Republic of China (Document No.: 2007 Yung Di Zi No. 077) issued by Zhuhai Urban Planning Bureau dated 27th August 2007, the Second Land Parcel of the property has fulfilled the urban planning requirements.

5. The capital value of the property assuming full completion under the development proposal as described in our report as of the Valuation Date would be RMB293,000,000.

6. The estimated development costs to completion of the property under the development proposal as described in our report as of the Valuation Date is RMB98,688,000 excluding marketing, finance and other indirect costs.

7. The proposed development of the property is anticipated to be completed in the 2nd quarter of 2009.

8. A summary of major certificates as of the Valuation Date is shown as follows:

i.	State-owned Land-use Rights Grant Contract	Yes
ii.	Certificate of Real Estate Ownership	Part

iii.	Permission Certificate for Construction Land-use Planning	Yes
iv.	Permission Certificate for Construction Works Planning	No
v.	Permission Certificate for Construction Works Commencement	No
vi.	Presale Permit of Commodity Housing	No

9. Notwithstanding that the planned gross floor area of the property exceeds the permitted gross floor area under State-owned Land-use Rights Grant Contract, the grantee of the State-owned Land-use Rights Grant Contract (i.e. "Tianda Property (Zhuhai) Ltd.") is liable for the likely extra land-use rights grant fee for the increase in plot ratio from 0.8 to 1.0 and hence no allowance has been made for the said extra land-use rights grant fee in the course of our valuation. *(Please also refer to Note 12.v. below for further details.).*

10. In the course of our valuation, we have ascribed no commercial value to the Second Land Parcel of the property under State-owned Land-use Rights Grant Contract as mentioned in Note 1. above as the PRC Company has not yet obtained a valid Certificate of Real Estate Ownership as of the Valuation Date. Had the PRC Company obtained a valid Certificate of Real Estate Ownership, the capital value of the Second Land Parcel of the property in existing state as at 31st August 2007 on a market value basis would be RMB38,400,000.

11. Our valuation is carried out on a market value basis assuming sale with vacant possession.

12. The PRC Legal Advisors have stated in their legal opinion, including but not limited to the following:

    i. The PRC Company has the right to transfer, lease, mortgage or by other means dispose of the land-use rights of the First Land Parcel of the property during its land-use rights term.

    ii. The First Land Parcel of the property is not subject to mortgage or other material encumbrances.

    iii. As the PRC Company has not yet obtained the land-use rights of the Second Land Parcel of the property under the laws of the PRC, the PRC Company has no right to transfer, lease, mortgage or by other means dispose of the said land-use rights.

    iv. As the relevant government departments have not yet completed the handover conditions for construction work commencement, the property is not regarded as "void site".

    v. Prior to the transfer of the property to the PRC Company, the permitted plot ratio under prevailing planning standards of the property has been increased from 0.8 to 1.0 and hence "Tianda Property (Zhuhai) Ltd.", the grantee of the State-owned Land-use Rights Grant Contract, is liable for the extra land-use rights grant fee payable, if any.

13. Pursuant to Certificate of Real Estate Ownership (Document No.: Yue Fang Di Zheng Zi No. C5613762) issued by Zhuhai Municipal Government registered on 25th October 2007, the land-use rights of the Second Land Parcel of the property (Lot No. C0404007) which is located to the southwest of Gangwan Main Road in Yinkeng of Xiangzhou of Zhuhai city for residential use with site area of approximately 8,765.91 square metres is vested in the name of "Zhuhai Tianheng Real Estate Company Limited" (the "PRC Company") to be expired on 4th September 2077.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to the Vendor) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than information relating to the Vendor) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular (other than information relating to the Vendor) misleading.

The sole director of the Vendor accept full responsibility for the accuracy of the information (other than that relating to the Group) contained in this circular and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this circular (other than that relating to the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement (other than that relating to the Group), in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Completion and the increase in authorised share capital becoming effective are set out as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
1,000,000,000	Shares	100,000,000
Issued and fully paid:		
506,853,952	Shares	50,685,395

Upon Completion and the increase in authorised share capital becoming effective

Authorised:		*HK$*
2,000,000,000	Shares	200,000,000
Issued and fully paid:		
506,853,952	Shares	50,685,395
428,205,128	Consideration Shares	42,820,513
935,059,080	Shares	93,505,908

No Share has been issued since 31 March 2007 (the date to which the latest audited consolidated financial statements of the Company) up to the Latest Practicable Date.

All the existing Shares in issue rank pari passu in all respects with each other including as regards to rights to dividends, voting and return of capital. The holders of the Consideration Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Consideration Shares. The Consideration Shares to be issued will, when issued and fully paid, rank pari passu in all respects with the existing Shares.

The Company does not have any outstanding options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date.

3. DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares (within the meaning of Part XV of the SFO) or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Shares

Name of Director	Capacity	Number of issued Shares held	Number of unissued Shares held	Aggregate interest	Approximate percentage of the issued share capital of the Company immediately after Completion
Mr. Fang	Held by controlled corporation	47,380,952 *(Note)*	428,205,128 *(Note)*	475,586,080	50.86

Note: *These 47,380,952 Shares are beneficially owned by the Vendor. Mr. Fang has 100% equity interests in the Vendor and accordingly, is deemed to have a corporate interest in the said 47,380,952 Shares owned by the Vendor. The 428,205,128 unissued Shares represent the Consideration Shares to be issued to the Vendor upon Completion.*

As at the Latest Practicable Date, save as disclosed above, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any interests or short positions in any shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. SUBSTANTIAL SHAREHOLDERS INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND OTHER MEMBERS OF THE GROUP

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have, an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Interest in the Shares

Name of substantial Shareholders	Long position/ Short position	Capacity	Number of issued Shares held	Number of unissued Shares held	Aggregate interest	Approximate percentage of the issued share capital of the Company immediately after Completion %
South Hong	Long position	Beneficial owner	262,442,930 *(Note 1)*	–	262,442,930	28.07
Hongta Tobacco (Group) Limited	Long position	Held by controlled corporation	262,442,930 *(Note 1)*	–	262,442,930	28.07
Vendor	Long position	Beneficial owner	47,380,952	428,205,128 *(Note 2)*	475,586,080	50.86

Notes:

(1) These 262,442,930 Shares are beneficially owned by South Hong which is owned as to 92.28% by Hongta Tobacco (Group) Limited. Accordingly, Hongta Tobacco (Group) Limited is deemed to be interested in the 262,442,930 Shares owned by South Hong.

(2) The 428,205,128 unissued Shares represent the Consideration Shares to be issued to the Vendor upon Completion.

Long positions in another member of the Group

Name of non wholly-owned subsidiary of the Company	Name of substantial shareholders	Approximate percentage of equity interest in the registered capital of the subsidiary of the Company
		%
Yunnan Meng Sheng Pharmaceutical Co., Limited	Yunnan Li Nuo Biotechnology Co. Ltd.	45

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or held any option in respect of such capital.

5. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors had entered into or had proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation). In addition, none of the Directors had any existing nor proposed service contract, with the Company or its subsidiaries or associated companies:

(i) which (including both continuous and fixed term contract) have been entered into or amended within six months before the date of the Announcement;

(ii) which are continuous contracts with a notice period of twelve months or more; or

(iii) which are fixed term contracts with more than twelve months to run irrespective of the notice period.

6. INTEREST IN ASSETS AND CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, save for the Acquisition Agreement in which Mr. Fang was interested, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Enlarged Group. In addition there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Whitewash Waiver and/or the Acquisition or otherwise connected with the Whitewash Waiver and/or the Acquisition.

As at the Latest Practicable Date, save for the Acquisition Agreement in which Mr. Fang was interested, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 March 2007 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, there was no benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Whitewash Waiver and/or the Acquisition.

7. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates were considered to have interests in any business which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

8. INTERESTS OF OTHER PARTIES

(a) As at the Latest Practicable Date, (i) the Vendor holds 47,380,952 Shares, representing approximately 9.35% of the issued share capital of the Company; and (ii) South Hong, a concert party of the Vendor, holds 262,442,930 Shares, representing approximately 51.78% of the issued share capital of the Company. Save as aforesaid, the Vendor and parties acting in concert with it did not have any interest in securities of the Company as at the Latest Practicable Date.

(b) As at the Latest Practicable Date, the Company did not have interest in any securities of the Vendor.

(c) As at the Latest Practicable Date, save for Mr. Fang, none of the Directors, Taifook Capital Limited, CIMB, Deloitte Touche Tohmatsu and Vigers Appraisal and Consulting Limited had any interest in securities in the Vendor.

(d) As at the Latest Practicable Date, Mr. Fang, the sole director of the Vendor, was beneficially interested in approximately 9.35% of total issued share capital of the Company as at the Latest Practicable Date.

(e) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code.

(f) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Vendor or with any of its concert parties.

(g) As at the Latest Practicable Date, none of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company, nor any fund managed on a discretionary basis by any fund manager connected with the Company had any interest in the securities of the Company and the Vendor.

(h) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Vendor or any of its concert parties and other persons that the Consideration Shares to be acquired by the Vendor under the Acquisition Agreement would be transferred, charged or pledged to that person.

(i) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) existed between the Vendor or any of its concert parties and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Whitewash Waiver and/or the Acquisition.

(j) As at the Latest Practicable Date, none of Taifook Capital Limited, CIMB, Deloitte Touche Tohmatsu, Vigers Appraisal and Consulting Limited and any other advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had any interest in the securities of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any direct or indirect interest in any assets which have been, since 31 March 2007, the date to which the latest audited financial statements of the Group were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

(k) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed to vote for or against the Whitewash Waiver and/or the Acquisition. As at the Latest Practicable Date, save for Mr. Fang who was beneficially interested in approximately 9.35% of total issued share capital of the Company, none of the Directors had interest in securities of the Company and accordingly, no Director was entitled to vote in respect of the proposed ordinary resolutions approving the Whitewash Waiver and/or the Acquisition.

9. DEALINGS IN SECURITIES

(a) Directors

Save for the entering into of the Acquisition Agreement, none of the Directors and their concert parties had dealt in any securities of the Company and the Vendor for value during the Relevant Period.

(b) The Vendor

Save for the entering into of the Acquisition Agreement, none of the Vendor and the sole director of the Vendor, Mr. Fang and their respective concert parties had acquired any voting rights in the Company or had dealt in any securities of the Company for value during the Relevant Period. The Vendor has also undertaken that it and its concert parties shall not deal in the securities of the Company for value until Completion.

(c) Others

The Company did not have dealings in the securities of the Vendor during the Relevant Period.

None of the Directors, Taifook Capital Limited, CIMB, Deloitte Touche Tohmatsu, Vigers Appraisal and Consulting Limited or any of their respective holding companies, or any of their respective subsidiaries had dealt in any securities of the Company for value during the Relevant Period.

10. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given advice or opinion in this circular or contained in this circular:

Name	**Qualifications**
CIMB	A licensed corporation to carry out Types 1, 4 and 6 regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Vigers Appraisal and Consulting Limited	An independent professional property valuer

CIMB, Deloitte Touche Tohmatsu and Vigers Appraisal and Consulting Limited have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their respective letters and reports or references to their respective names in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of CIMB, Deloitte Touche Tohmatsu and Vigers Appraisal and Consulting Limited was not beneficially interested in the share capital of any member of the Group nor did they have any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. MATERIAL CONTRACT

Save for the Acquisition Agreement, the Enlarged Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of the Announcement and up to and including the Latest Practicable Date which are or may be material.

12. LITIGATION

As at the Latest Practicable Date, neither the Enlarged Group nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against the Enlarged Group or any of its subsidiaries.

13. PROCEDURES FOR DEMANDING A POLL

Articles 69 and 70 of the articles of association of the Company set out the procedures under which a poll may be demanded. A resolution put to the vote of a meeting shall be decided on a show of hands, unless a poll is taken as may from time to time be required under the Listing Rules or unless a poll is (before or on the declaration of the result of the show of hands) demanded by:

(i) the chairman;

(ii) at least 3 members present in person or by proxy or representative for the time being entitled to vote at the meeting;

(iii) any member or members present in person or by proxy or representative and representing not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or

(iv) any member or members present in person or by proxy or representative and holding shares in the Company conferring a right to attend and vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

On a show of hands, every member of the Company present in person or by proxy or by an authorized representative or by proxy shall have one vote, and on a poll every member present in person or by proxy or, by an authorized corporate representative shall have one vote for each share of which he is the holder and which is fully paid up or credited as fully paid up. A person entitled to cast more than one vote upon a poll need not use all his votes or cast all the votes he uses in the same way.

14. MARKET PRICES

(a) The highest and lowest closing prices of the Shares quoted on the Stock Exchange during the Relevant Period were HK$1.47 per Share on 1 June 2007 and HK$0.69 per Share on 17 August 2007 respectively.

(b) The table below sets out the closing prices of the Shares on the Stock Exchange as at the last trading day of (i) each of the six calendar months immediately preceding 30 October 2007, the date of the Announcement; and (ii) 31 October 2007:

	Closing price *(HK$)*
30 April 2007	0.82
31 May 2007	0.95
29 June 2007	1.31
31 July 2007	1.16
31 August 2007	0.82
28 September 2007	0.90
31 October 2007	1.24

(c) The closing price of the Shares on the Stock Exchange as at 26 October 2007, being the last trading day of the Shares on the Stock Exchange prior to the Suspension, was HK$1.00 per Share.

(d) The closing price of the Shares on the Stock Exchange as at the Latest Practicable Date was HK$1.00 per Share.

15. GENERAL

(a) Save for the Acquisition Agreement, there were no contract or agreement entered into by the Vendor subsisting as at the Latest Practicable Date in which any of the Directors has a material personal interest.

(b) The branch share registrar of the Company in Hong Kong is Tricor Secretaries Limited whose registered office is situated at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) The secretary of the Company is Mr. Lee Ka Sze, Carmelo who is a practising solicitor in Hong Kong.

(d) The qualified accountant of the Company is Mr. Chai Chung Wai who is a fellow member of The Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and a member of Institute of Chartered Accountants of England and Wales.

(e) Principal members of the Vendor and the parties acting in concert with it are South Hong and Mr. Fang.

(f) The registered address of the Vendor is Suites 2401-2410, 24/Floor, CITIC Tower, No.1 Tim Mei Avenue, Central, Hong Kong.

(g) The address of Mr. Fang is 1 Mclean Crescent, Mosman NSW 2088, Australia.

(h) The registered address of South Hong is Suite 2405-2410, 24/F CITIC Tower, No. 1 Tim Mei Avenue, Central.

(i) The registered address of CIMB is 25/Floor, Central Tower, 28 Queen's Road Central, Hong Kong.

(j) The registered address of Taifook Capital Limited is 25th Floor, New World Tower, 16-18 Queen's Road Central, Hong Kong.

(k) The English texts of this circular and the accompanying form of proxy prevail over their respective Chinese texts.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 6:00 p.m. (save for Saturdays and public holidays) at the office of the Company at Suites 2405-2410, 24th Floor, CITIC Tower, No.1 Tim Mei Avenue, Central, Hong Kong and on the websites of the Company (www.yunnan.com.hk) and the Securities and Futures Commission (www.sfc.hk) from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the audited financial statements of the Group for the two years ended 31 March 2007;

(c) the accountant's report on the Subject Group, the text of which is set out in Appendix II to this circular;

(d) the accountant's report on the PRC Company, the text of which is set out in Appendix III to this circular;

(e) the report issued by Deloitte Touche Tohmatsu in connection with the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(f) the letter of recommendation from the Independent Board Committee to the Independent Shareholders as set out in this circular;

(g) the letter of advice from CIMB to the Independent Board Committee and the Independent Shareholders, the text of which is set out in this circular;

(h) the valuation report issued by Vigers Appraisal and Consulting Limited on property interests of the Group as set out in Appendix V to this circular;

(i) the valuation report issued by Vigers Appraisal and Consulting Limited on the Land as set out in Appendix VI to this circular;

(j) the copy of the Acquisition Agreement as disclosed under the section headed "Material contract" in this appendix; and

(k) the written consents given by CIMB, Deloitte Touche Tohmatsu, and Vigers Appraisal and Consulting Limited referred to in the section headed "Experts and consents" in this appendix.

雲南實業控股有限公司

YUNNAN ENTERPRISES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0455)

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an extraordinary general meeting (the "EGM") of the shareholders of Yunnan Enterprises Holdings Limited (the "Company") will be held at Suite 2405-2410, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong on 10 December 2007 at 3:00 p.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**

(i) conditional upon the Listing Committee of The Hong Kong Stock Exchange Limited approving the listing of and granting the permission to deal in the Consideration Shares (as defined in sub-paragraph (ii) below) to be issued to Tianda Group Limited ("**Tianda**") under the acquisition agreement dated 25 October 2007 (the "**Acquisition Agreement**") as defined in the circular dated 23 November 2007 despatched to the shareholders of the Company (the "**Circular**"), a copy of which has been produced to this meeting marked "A" and signed by the chairman of this meeting for the purpose of identification, the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the acquisition of the Sale Share and the Sale Loan (as defined in the Circular) by the Company from Tianda, and the issuance and allotment of the Consideration Shares), be hereby approved, confirmed and ratified; and

(ii) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Acquisition Agreement and the transactions contemplated thereunder, including but not limited to the allotment and issue of 428,205,128 ordinary shares of HK$0.10 each in the share capital of the Company (the "**Consideration Shares**") at the price of HK$0.39 per share to Tianda."

2. "**THAT** conditional upon the passing of the resolution no. 1 above and subject to the granting of the Whitewash Waiver (as defined below) by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission and any conditions that may be imposed thereon, the waiver of the obligation of Tianda and parties acting in concert with it to make a mandatory general offer arising from the issue of the Consideration Shares under the Acquisition Agreement pursuant to Note 1 to the Notes on dispensations of Rule 26 of the Code on Takeovers and Mergers (the "**Whitewash Waiver**") be and is hereby approved and that any one or more of the Directors be and is/are hereby authorised to take such action and execute such documentation as he/they may in his/their absolute discretion consider necessary, desirable or expedient to give effect to any matters relating to or in connection with the Whitewash Waiver."

3. "**THAT** the authorised share capital of the Company be hereby increased from HK$100,000,000 to HK$200,000,000 to be divided into 2,000,000,000 ordinary shares of HK$0.10 each by the creation of additional 1,000,000,000 unissued shares of the Company and such new shares to rank pari passu with the existing shares in all respect."

By Order of the Board of
YUNNAN ENTERPRISES HOLDINGS LIMITED
MA Pizhi
Managing Director

Hong Kong, 23 November 2007

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the head office and principal place of business of the Company in Hong Kong at Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. The Board of Directors of the Company comprises:

   Executive Directors:
   LI Suiming *(Chairman)*
   MA Pizhi *(Managing Director)*
   Li Guanglin
   FANG Wen Quan
   LIU Huijiang

   Independent Non-Executive Directors:
   HO Wing Fun
   WU Wen Jing, Benjamin
   LAM Yat Fai