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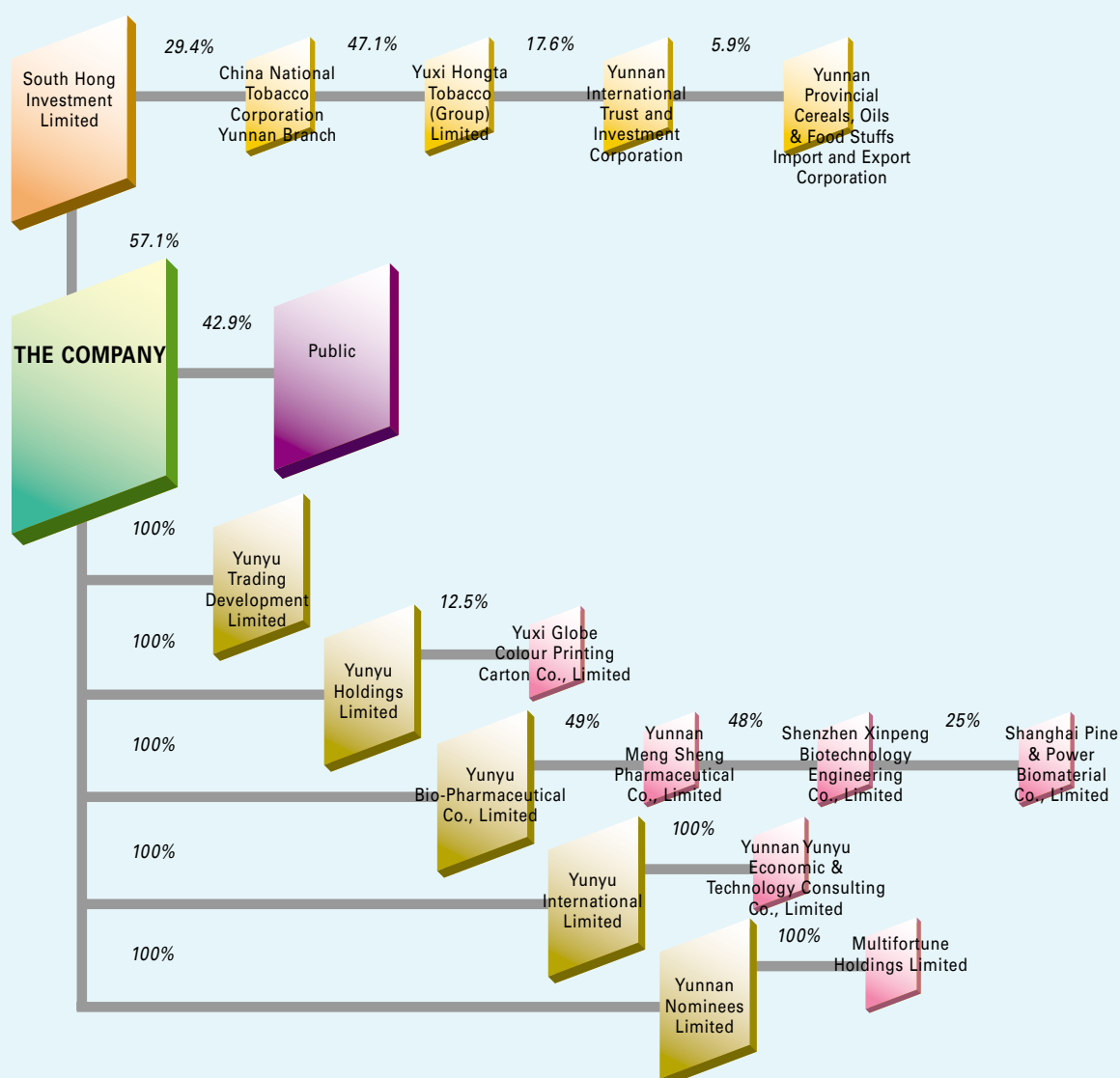
CORPORATE PROFILE & INTRODUCTION TO YUXI HONGTA

Annual Report 2002

Yunnan Enterprises Holdings Limited is a company incorporated in the Cayman Islands with limited liability and is listed on The Stock Exchange of Hong Kong Limited. Its principal activity is investment holding. The principle activities of its subsidiaries include the trading of cigarette-related products, the provision of management and consultancy services and the investment in a cigarette packaging and printing joint venture in China. It also invests in biotechnology projects with promising prospects. Currently, it holds a 48% equity interest in Shenzhen Xinpeng Biotechnology Engineering Company Limited, a 49% equity interest in Yunnan Meng Sheng Pharmaceutical Company Limited and a 25% equity interest in Shanghai Pine & Power Biomaterial Company Limited.

South Hong Investment Limited ("South Hong") is the controlling shareholder of the Company, holding 57.1% of the issued share capital. South Hong is an investment company formed by a group of leading enterprises in Yunnan Province, the People's Republic of China, namely, China National Tobacco Corporation Yunnan Branch, Yuxi Hongta Tobacco (Group) Limited, Yunnan International Trust and Investment Corporation and Yunnan Provincial Cereals, Oils & Food Stuffs Import and Export Corporation.

The shareholding structure is shown as follows:-



CORPORATE PROFILE & INTRODUCTION TO YUXI HONGTA

Annual Report 2002



Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta") was established in 1995 after a business transform from Yuxi Cigarette Factory, which was founded in 1956. Since then, it has developed into a diversified business group, taking tobacco production as its core business. The Group is currently involved in energy, transportation, light industry, chemistry, medicine, mechanical engineering, construction materials, tourism, hi-tech, finance and a number of other industries through equity investment or controlling shareholdings.

Through a series of business reforms, the Group was able to grow and expand its capabilities. It is the leader in the tobacco industry in China and has become a trans-industry, trans-regional conglomerate. The Group's cigarette manufacturing process has realized high efficiency, continuity and automation, while the management process is networked. Products such as "Hongtashan", "Yuxi", "Ashima", "Hongmei" have gained honours both on a provincial and ministerial level for their quality. In addition, "Hongtashan" received the gold prize in the National Quality Awards, and was recognized as a leading brand name in China by the National Industry and Commerce Bureau of the PRC. According to a report released by the Beijing Trademark Asset Evaluation Office, the "Hongtashan" brand name topped the most valued trademark list in China for the seventh consecutive year, with a value of RMB46.7 billion. The Group's projects have achieved outstanding recognition with the following awards: "Economic Efficient Enterprise" from the Yunnan Provincial Government and the State Tobacco Monopoly Bureau for several years, the "State First Class Enterprise" award in 1991, "National Excellent Enterprise Management (Gold)" in 1993 and ISO9002 certification in July 1999.

BOARD OF DIRECTORS*Executive Directors*

Liu Wandong (Chairman)
 Ma Pizhi (Managing Director)
 Cheng Hau Yan
 Dong Jianhua
 Li Hong
 Li Guanglin

Independent Non-executive Directors

Ho Wing Fun
 Lee Ka Sze, Carmelo

AUDITORS

Deloitte Touche Tohmatsu
 Certified Public Accountants
 26th Floor, Wing On Centre
 111 Connaught Road Central
 Hong Kong

HONG KONG LEGAL ADVISERS

Woo, Kwan, Lee & Lo
 27th Floor, Jardine House
 1 Connaught Place
 Hong Kong

COMPANY SECRETARY

Lee Ka Sze, Carmelo

C O R P O R A T E I N F O R M A T I O N**AUDIT COMMITTEE**

Ho Wing Fun
 Lee Ka Sze, Carmelo

PRINCIPAL BANKERS

DBS Kwong On Bank
 Merrill Lynch International Bank
 Limited (Merchant Bank)
 Bank of Communications

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 2903-2906, 29th Floor
 One International Finance Centre
 1 Harbour View Street, Central
 Hong Kong

HONG KONG SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
 5th Floor, Wing On Centre
 111 Connaught Road Central
 Hong Kong

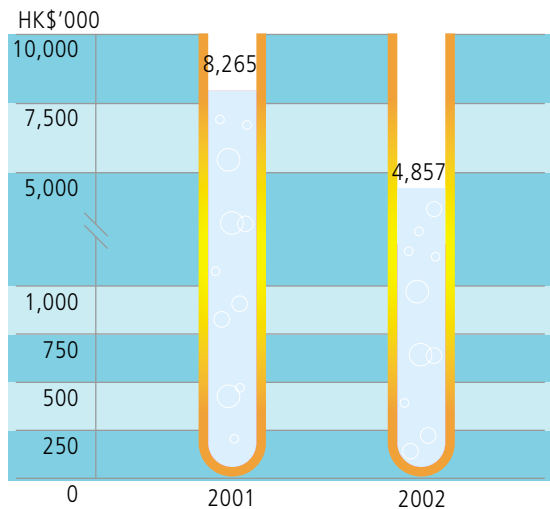
INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

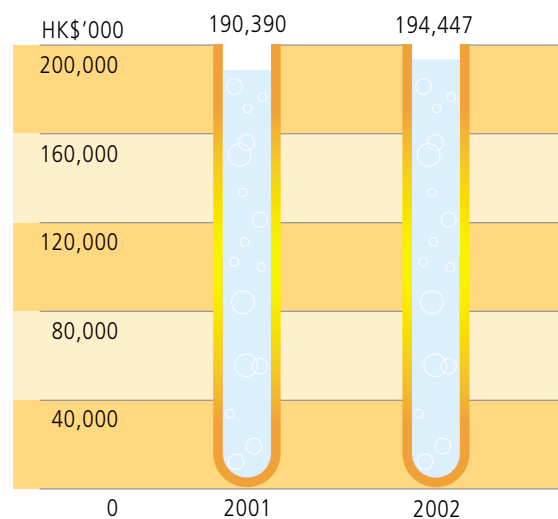
	2002 HK\$'000	2001 HK\$'000
Turnover	10,498	13,417
Net profit for the year	4,857	8,265
Basic earnings per share (cent)	1.057	1.798
Shareholders' funds	194,447	190,390

- Profit for the year decreased by 41% to HK\$4.857 million
- Share of profit (before tax) of associated companies amounted to HK\$3.8 million, representing a 1.4 times increase as compared to the previous year
- Administrative expenses showed a decrease of 11% over the previous year
- Shareholders' funds reached HK\$194 million

Net profit for the year



Shareholders' Funds



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Annual Report 2002

EXECUTIVE DIRECTORS

Mr. Liu Wandong, aged 52, an engineer, graduated from the Department of Physics in Jilin University in 1977. Mr. Liu held the posts of workshop chief, deputy secretary and secretary of the committee of the communist party in Yunnan Natural Gas Chemical Factory from 1977 to 1995. In 1995, Mr. Liu served as director of Yunnan Industrial and Commercial Administration Bureau and in 1999, as deputy head of Organizing Department of CPC Yunnan Provincial Committee. Mr. Liu has succeeded Mr. Zi Guorui as the Chairman of Yuxi Hongta Tobacco (Group) Limited ("Yuxi Hongta") in April 2002. He has also succeeded Mr. Zi as the Company's Chairman and executive director in May 2002.

Mr. MA Pizhi, aged 46, graduated from the postgraduate programme of International Economic and Trade of Yunnan University and has experience in management and trading. He held the posts of vice director of Kunming Prices of Commodities Bureau during the period from June 1986 to October 1992, and of vice president of Kunming International Trade Centre during the period from October 1992 to July 1998. He was also the chairman of Kunming Kumlong Exhibition Service Co., Ltd. and Kunming Ming Cheng Motor Service Co., Ltd., the vice chairman of Kunming Ming Cheng Communication Development Co., Ltd. and the assistant to general manager of Yunnan Hongta Industrial Co., Ltd. Mr. Ma is currently the managing director of the Company.

Mr. CHENG Hau Yan, aged 55, obtained a master of business administration degree from the Shanghai Jiao Tong University in 1983 and has experience in banking. Mr. Cheng held the posts of deputy division chief of the Finance and Planning Division of Yunnan Provincial Geology and Mining Bureau during the period from October 1984 to March 1986, and of deputy director of the Economic Commission of Kunming for the period from April 1986 to April 1988. During the period from May 1988 to 1996, he was president of the Yunnan Branch of Bank of Communications.

Ms. DONG Jianhua, aged 46, graduated from Yunnan Polytechnic University in 1985 and obtained a post-graduate diploma in Business Administration from Yunnan University in 1996. Ms. Dong has experience in industrial skill and management. She joined Yuxi Hongta in 1971 and is currently the vice chief engineer of Yuxi Hongta. She is also the managing director of Hong Kong Hongta International Tobacco Co., Ltd.

Mr. Li Hong, aged 47, graduated from Kunming Industry University in 1980 and has experience in international trade. He held the posts of vice director of The Office for Surrounding Countries of Foreign Trade & Economic Cooperation Bureau of Yunnan Province during the period from June 1991 to January 1994, and of vice director of Frontier Trade Bureau of Dehong. Between October 1997 to April 1999 he was president of China National Package Import & Export Corporation. Mr. Li is currently the general manager of Yunnan Provincial Cereals, Oils & Food Stuffs Import and Export Corporation.

Mr. Li Guanglin, aged 37, a senior accountant, graduated from the Yunnan Radio and TV University in 1987. He graduated from the postgraduate programme in Yunnan Institute of Finance and Trading in 1998. Mr. Li held the posts of section chief, deputy division chief and division chief of financial division of Chinese National Tobacco Corporation Yunnan Branch from 1993 to 2002. Mr. Li has become the director and chief accountant of Yuxi Hongta in April 2002. He has also been appointed as executive director of the Company in May 2002.

EXECUTIVE DIRECTORS *(Continued)*

Mr. ZI Guorui, aged 55, graduated from the post graduate program of business administration from Qing Hua University in 1983 and has experience in the industrial sector. Mr. Zi held the posts of deputy chief of Kunming Machinery Tools Factory during the period from January 1984 to December 1985 and of vice mayor of Kunming during the period from January 1986 to December 1995. Mr. Zi joined Yuxi Hongta as the chief executive in 1996. Mr. Zi resigned as the Chairman and executive director of the Company in May 2002.

Mr. CHEN Toliu, aged 56, graduated from the Fujian Jimei Light Industry School in 1964. Mr. Chen obtained a diploma in management from the Yuxi Lian He University in 1988 and obtained a certificate of accountant from the Ministry of Finance of the People's Government of China in 1992. He has experience in accounting and management. Mr. Chen joined Yuxi Hongta in 1964. Mr. Chen resigned as executive director of the Company in May 2002.

NON-EXECUTIVE DIRECTORS

Mr. HO Wing Fun, aged 69, has been an executive director of Henderson Land Development Company Limited, a company listed on The Stock Exchange of Hong Kong Limited, since September 1997. He joined Henderson Development Limited in 1975 and has over 40 years' experience in operational management of property investment and development, specialising in accounting, auditing and taxation. Mr. Ho is also an executive director of Henderson Investment Limited and Henderson China Holdings Limited.

Mr. LEE Ka Sze Carmelo, aged 42, graduated from the University of Hong Kong with a Bachelor of laws degree. He is a practising solicitor in Hong Kong and a partner of Woo, Kwan, Lee & Lo. He is also a director of various companies listed on The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT

Mr. YIP Sai Keung Esmond, aged 36, is the Financial Controller of the Group. He is responsible for the Group's overall finance and accounting matters. Mr. Yip holds a Bachelor of Social Sciences degree from the University of Hong Kong. He is a fellow of The Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. Prior to joining the Group in 1999, Mr. Yip had worked in an international accounting firm in Hong Kong for over four years and in a listed company in Hong Kong as the financial controller and company secretary for over five years.

CHAIRMAN'S STATEMENT

Annual Report 2002



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

RESULTS

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

BUSINESS REVIEW

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

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

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

NEW INVESTMENT IN THE BIOTECHNOLOGY BUSINESS

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

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

PROSPECTS

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

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

CHAIRMAN'S STATEMENT

Annual Report 2002

APPRECIATION

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

Liu Wandong

Chairman

Hong Kong, 18 July 2002

During the year, the Group continued to expand its biotechnology business. The Group acquired a 49% equity interest in Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical") during the year under review. This acquisition was then completed in August 2001 upon the issuance of business license by the Administration for Industry and Commerce for the new sino-foreign joint venture. In addition to further capital being injected, the Group's investment in Meng Sheng Pharmaceutical for the reviewing year totalled RMB10.78 million. This is fully compliant with the Group's strategy to invest in biotechnology business.

FINANCIAL REVIEW

The Group's turnover for the year ended 31 March 2002 amounted to HK\$10.5 million, which represented a decrease of 22% when compared with HK\$13.4 million in 2001. The decrease in turnover was mainly attributable to the drop in the Group's import business. In addition, other revenue (mainly comprising of bank interest income) declined significantly as a result of the sustained drop in interest rates during 2001. Despite these factors, the Group continued to control its operating costs in an effective manner. During the year under review, the administrative expenses for the Group decreased by 11% compared to the previous year. At the same time, the Group was entitled to a share of profits (before tax) of its two biotechnology associates amounting to HK\$3.8 million and representing a 1.4 times increase as compared to the previous year. This has helped to mitigate the drop in the Group's turnover and other revenue for the year under review. As a result, the Group recorded a net profit of HK\$4.86 million for the financial year ended 31 March 2002, compared with HK\$8.26 million of the previous year. As at 31 March 2002, the shareholders' funds for the Group increased by 2% to HK\$194 million.

OPERATIONS ANALYSIS

Core businesses

As disclosed in the 2000 Annual Report, sluggish economic environment affected the Group's tobacco export business. Since then, the situation has continued to deteriorate, and hence the Group determined to suspend the export business. The Group will continue to closely monitor the market conditions for such export business in the year ahead. Such sluggish market conditions also affected the Group's import business for cigarette-related products. For the year ended 31 March 2002, the Group received an agency fee income of HK\$131,000 from imported materials amounting to US\$1.12 million, which was a decrease compared to the previous year. Besides, Yuxi Globe Color Printing Carton Co., Ltd. ("Yuxi Globe"), in which the Group holds a 12.5% equity interest, was also affected under this highly competitive environment. However, with its strong foundations, the company was able to report a turnover of RMB298 million in 2001, and accordingly earned a net profit of RMB54 million. This is its eighth consecutive year of profitability and from such the Group received a dividend payment of RMB6.29 million (or HK\$5.9 million) from Yuxi Globe during the year under review, consolidating the Group's income base.

Another core business venture for the Group is the provision of management and consultancy services for enterprises in China. This business recorded stable performance during the year, bringing the Group a consultancy fee income of RMB 4.726 million (or HK\$4.459 million) for the provision of economic and technology consulting services. Following China's entry into the World Trade Organization and the consequent reform and restructuring of many Chinese enterprises, together with the Group's proven success in such provision of services over the past few years, there will be plenty of opportunities for expansion.

Performances of associates

(1) Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering")



Since Xinpeng Biotechnology Engineering's major product rhG-CSF was launched in the market in 1999, its turnover has seen rapid growth. Turnover and sales of this medicine for the year 2001 amounted to RMB32.7 million (excluding VAT) and 202,000 units respectively, representing a corresponding increase of 60% and 68% when compared to 2000. Xinpeng Biotechnology Engineering currently has 25 sales offices spreading across the various provinces in China with 100 salesforce. With the Good Manufacturing Practice ("GMP") certification awarded in early 2001, the sales and marketing efforts for rhG-CSF were enhanced via sponsorships and promotional activities, resulting in elevated penetration rate and well maintained customer relationships. Its comprehensive sales network and flexible marketing strategies were hence the main force in achieving a new peak in turnover in 2001. As a result, Xinpeng Biotechnology Engineering recorded a profit (before tax) of RMB7.663 million (or HK\$7.229 million) for the year under review. This in turn entitled the Group to share a profit (before tax) of HK\$3.47 million in the respective year, thus providing lucrative profit contribution to the Group.

With its solid foundation, Xinpeng Biotechnology Engineering is seeking to expand its market share in China's pharmaceutical market. In April 2002, Xinpeng Biotechnology Engineering invested to set up a joint venture, Yunnan Pharmaceutical Group Co., Ltd. ("Yunnan Pharmaceutical") at a cash consideration of RMB20 million for a 62.5% equity interest. Registered in the Kunming Economic and Technology Development Zone in Yunnan Province, Yunnan Pharmaceutical is a high-tech enterprise mainly engaged in the research, development and manufacture of biopharmaceuticals, new Chinese medicines as well as other pharmaceutical raw materials and agents. Yunnan Pharmaceutical owns the production certificates for its major products such as Cordyceps Mycelia Liquor, Heparin Calcium Injection and LMWHS Injection. The management anticipates that these products will have defined demands in China with positive market potential. The investment from Xinpeng Biotechnology Engineering will be used to build a GMP-compliant production line and to further the R&D for new products. Yunnan Pharmaceutical's products can on one hand broaden the product range offered by Xinpeng Biotechnology Engineering. On the other hand, it can expand its market share in China through the comprehensive and established sales network of Xinpeng Biotechnology Engineering, preparing for the highly competitive pharmaceutical marketplace in China.

(2) Yunnan Meng Sheng Pharmaceutical Co. Ltd. ("Meng Sheng Pharmaceutical")



Meng Sheng Pharmaceutical is the Group's newly-acquired associate company during the year under review. Established in Yunnan Province in 1997, it is engaged in the R&D, manufacture and sale of biotechnology products. Its major product, Cerebroprotein Hydrolysate Injection, is among the few of its type on the market which fully conform to new production standards issued by the State Drug Administration in early 2001. In the few months between the issuance of business license and 31 March 2002, Meng Sheng Pharmaceutical recorded a turnover of RMB2.53 million and profit before taxation of RMB716,000. The Group was then entitled to an immediate profit share of HK\$330,000 during the year under review.

Cerebroprotein Hydrolysate Injection is expected to have huge market potential, and its sales orders are increasing rapidly. The construction work of Meng Sheng Pharmaceutical's new production plant, located at the Kunming Economic and Technology Development Zone, commenced last year and is now completed. The new production base is equipped with modern production facilities and the production workshops fully comply with GMP standards. Relevant authority has conducted GMP inspections in the new production base, and the management believes that Meng Sheng Pharmaceutical will be awarded the GMP certification in the near future. The new production base will increase Meng Sheng Pharmaceutical's production

capacity by six to eight times to cater for future market demands. Besides, Meng Sheng Pharmaceutical is actively developing new products with excellent potential such as Ribonucleic Acid for Injection and Anti-HBs Immune-Acidum Ribonucleicum Injection. Meng Sheng Pharmaceutical was designated a "High and New Technology Enterprise" in 1998, which signifies its innovative R&D capabilities and advanced technology. This recognition helps to foster an advantageous position for the Company in China's pharmaceutical market.

With the innovative R&D technology, a modernized production base, and the pending GMP certification, the Group strongly believes that Meng Sheng Pharmaceutical has a promising development prospect in generating lucrative returns to the Group.



INVESTMENT IN SHANGHAI PINE & POWER BIOMATERIAL COMPANY LIMITED

Following the investments in Xinpeng Biotechnology Engineering and Meng Sheng Pharmaceutical, the Group has added a new member to its biotechnology investment portfolio. In April 2002, the Group set up a sino-foreign joint venture, Shanghai Pine & Power Biomaterial Company Limited ("Pine & Power Biomaterial"), at a cash consideration of RMB1.35 million for a 25 % equity interest. Pine & Power Biomaterial is a hi-tech entity registered in Shanghai Zhangjiang Hi-Tech Park. It is engaged in the research, manufacture and sale of medical biomaterials, with total investment and registered capital amounting to RMB5.38 million. Pine & Power Biomaterial's business license was then issued by the Administration for Industry and Commerce of Shanghai in June 2002.

Pine & Power Biomaterial's management consists mainly of a team of professionals who have studied abroad in Europe and Japan, specializing in bio-medical and business management areas. They have strong competence in the research and development of medical biomaterials and corporate management, as well as a wealth of experience in sales and marketing management.

Pine & Power Biomaterial's major product is the Fibrin Glue series. Fibrin Glue is one of the most effective surgical hemostats and surgical sealants, which can be widely applied in modern surgeries, such as neurosurgery, thoracicsurgery, plastic surgery, burns, obstetrics & gynecology and otorhinolaryngology. Currently, similar products in the market use human blood as the core raw materials. Not only is this highly expensive, but supply is limited. It is also difficult to completely avoid contaminations from pathogenetic microbe in the human blood such as HIV and hepatitis viruses. Pine & Power Biomaterial uses mammal blood to replace human blood to solve these documented problems. As evaluated by the Chinese Academy of Science's Shanghai Documentation & Information Centre, this technology leads the development in China and is on a par with international standards. Pine & Power Biomaterial has strong R&D capabilities, an enterprising spirit as well as modern management framework. The Group believes that Pine & Power Biomaterial is capable to bring favorable returns to the Group in the future.

APPOINTMENT OF NEW DIRECTORS

Mr. Liu Wandong was appointed as the Company's Chairman and executive director, whereas Mr. Li Guanglin was appointed as executive director by the Board of Directors, effective 29 May 2002.

Mr. Zi Guorui and Mr. Chen Toliu resigned as directors effective 29 May 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position remains strong. As at 31 March 2002, the Group held cash and bank balances of approximately HK\$83 million with no debts or borrowings. With this strong financial foundation, the Group has adequate resources to meet its working capital requirements and to pursue new investment opportunities should they arise.

REPORT OF THE DIRECTORS

Annual Report 2002

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

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

PRINCIPAL ACTIVITIES

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

RESULTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

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

INVESTMENT PROPERTY

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND WARRANTS

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

DIRECTORS

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

Executive directors:

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

Independent non-executive directors:

Ho Wing Fun
Lee Ka Sze, Carmelo

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

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

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

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

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

REPORT OF THE DIRECTORS

Annual Report 2002

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

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

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

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

SUBSTANTIAL SHAREHOLDERS

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

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

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

POST BALANCE SHEET EVENT

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

CORPORATE GOVERNANCE

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

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

PRE-EMPTIVE RIGHTS

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

AUDITORS

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

On behalf of the Board

Liu Wandong

Chairman

Hong Kong, 18 July 2002

REPORT OF THE AUDITORS

Annual Report 2002

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

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

執業會計師
香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF YUNNAN ENTERPRISES HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 18 July 2002

CONSOLIDATED INCOME STATEMENT

Annual Report 2002

For the year ended 31 March 2002

	NOTES	2002 HK\$	2001 HK\$
Turnover	4	10,497,826	13,417,090
Other operating income	5	3,164,917	6,402,388
Staff costs		(4,491,129)	(4,792,319)
Depreciation		(663,945)	(683,488)
Other operating expenses		(6,380,235)	(7,469,237)
Profit from operations	6	2,127,434	6,874,434
Share of results of associates		3,800,887	1,593,317
Profit before taxation		5,928,321	8,467,751
Taxation	8	(1,071,723)	(203,042)
Net profit for the year		4,856,598	8,264,709
Earnings per share	9		
Basic		1.057 cents	1.798 cents
Diluted		N/A	1.797 cents

CONSOLIDATED BALANCE SHEET

Annual Report 2002

At 31 March 2002

	NOTES	2002 HK\$	2001 HK\$
NON-CURRENT ASSETS			
Investment property	10	14,200,000	15,000,000
Property, plant and equipment	11	1,465,952	2,051,079
Interests in associates	13	52,470,430	40,571,687
Investments in an investee company	14	31,177,196	31,177,196
Loan to an investee company	15	4,843,000	4,843,000
		104,156,578	93,642,962
CURRENT ASSETS			
Trade and other receivables	16	8,903,254	8,724,977
Pledged bank deposits	27	5,000,000	5,000,000
Bank deposits		65,989,650	71,591,160
Bank balances and cash		12,386,781	12,980,379
		92,279,685	98,296,516
CURRENT LIABILITIES			
Other payables		1,034,052	1,547,772
Amount due to an associate	18	773,014	–
Tax liabilities		180,893	–
		1,987,959	1,547,772
NET CURRENT ASSETS			
		90,291,726	96,748,744
		194,448,304	190,391,706
CAPITAL AND RESERVES			
Share capital	19	45,947,300	45,947,300
Reserves	21	148,499,557	144,442,959
		194,446,857	190,390,259
MINORITY INTEREST			
		1,447	1,447
		194,448,304	190,391,706

The financial statements on pages 21 to 49 were approved and authorised for issue by the Board of Directors on 18 July 2002 and are signed on its behalf by:

LIU WANDONG
Chairman

MA PIZHI
Managing Director

BALANCE SHEET

Annual Report 2002

At 31 March 2002

	NOTES	2002 HK\$	2001 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,154,499	1,280,103
Interests in subsidiaries	12	82,020,458	80,245,708
		<u>83,174,957</u>	<u>81,525,811</u>
CURRENT ASSETS			
Other receivables		1,089,937	1,341,392
Bank deposits		65,982,938	71,364,804
Bank balances and cash		906,139	826,881
		<u>67,979,014</u>	<u>73,533,077</u>
CURRENT LIABILITIES			
Other payables		708,881	760,740
Amounts due to subsidiaries	17	773,677	827,766
		<u>1,482,558</u>	<u>1,588,506</u>
NET CURRENT ASSETS			
		<u>66,496,456</u>	<u>71,944,571</u>
		<u>149,671,413</u>	<u>153,470,382</u>
CAPITAL AND RESERVES			
Share capital	19	45,947,300	45,947,300
Reserves	21	103,724,113	107,523,082
		<u>149,671,413</u>	<u>153,470,382</u>

LIU WANDONG

Chairman

MA PIZHI

Managing Director

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Annual Report 2002

For the year ended 31 March 2002

	2002 HK\$	2001 HK\$
Revaluation decrease on an investment property	(800,000)	–
Exchange difference arising on translation of operations outside Hong Kong	–	1,412,683
(Loss) gain not recognised in the consolidated income statement	(800,000)	1,412,683
Net profit for the year	4,856,598	8,264,709
Total recognised gains	4,056,598	9,677,392
Goodwill arising on acquisition of an associate taken to reserves	–	(7,938,469)
	4,056,598	1,738,923

CONSOLIDATED CASH FLOW STATEMENT

Annual Report 2002

For the year ended 31 March 2002

	NOTES	2002 HK\$	2001 HK\$
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	23	2,320,650	(4,465,841)
CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		2,360,388	5,285,382
TAXATION			
Tax paid in the People's Republic of China		(272,683)	–
INVESTING ACTIVITIES			
Acquisition of an associate		(10,521,145)	(41,437,565)
Purchase of property, plant and equipment		(82,318)	(1,000)
Increase in pledged bank deposits		–	(5,000,000)
Proceeds arising from the liquidation of an associate		–	571,994
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(10,603,463)	(45,866,571)
NET CASH OUTFLOW BEFORE FINANCING		(6,195,108)	(45,047,030)
FINANCING	24		
Repurchase of shares		–	(37,200)
Expenses on repurchase of shares		–	(304)
CASH OUTFLOW FROM FINANCING		–	(37,504)
DECREASE IN CASH AND CASH EQUIVALENTS		(6,195,108)	(45,084,534)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD		84,571,539	129,416,507
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		–	239,566
CASH AND CASH EQUIVALENTS CARRIED FORWARD		78,376,431	84,571,539
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank deposits		65,989,650	71,591,160
Bank balances and cash		12,386,781	12,980,379
		78,376,431	84,571,539

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

1. GENERAL

The Company is a listed public limited company incorporated in the Cayman Islands and its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is South Hong Investment Limited, a private limited company incorporated in Hong Kong.

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31 March 2001 have been amended so that they are presented on a consistent basis.

Leases

In the current year, the Company has adopted SSAP 14 (Revised) "Leases". Disclosures for the Group's operating lease arrangements as set out in note 26 have been modified so as to meet the requirements of SSAP 14 (Revised). Comparative disclosures have been restated in order to achieve a consistent presentation.

Goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1 April 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1 April 2001 is capitalised and amortised over its estimated useful life.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of an investment property, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions of subsidiaries or associates prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions of subsidiaries or associates on or after 1 April 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Revenue recognition

Agency fee and consultancy income are recognised when services are rendered.

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

An investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment property except where the unexpired term of the relevant lease including the renewable period is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	10%
Furniture, fixtures and equipment	10%
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Impairment

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. Impairment losses are 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

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries and associates which are denominated in dollars currencies other than Hong kong dollar are translated at the rates ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

4. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions - provision of agency services, consultancy services and investment holding for dividend income. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Agency services	Consultancy services	Investment holding	Consolidated
	Year ended	Year ended	Year ended	Year ended
	31 March 2002	31 March 2002	31 March 2002	31 March 2002
	HK\$	HK\$	HK\$	HK\$
TURNOVER	131,040	4,458,731	5,908,055	10,497,826
SEGMENT RESULTS	(397,816)	1,555,388	2,713,354	3,870,926
Other operating income				3,164,917
Unallocated corporate expenses				(4,908,409)
Profit from operations				2,127,434
Share of results of associates				3,800,887
Profit before taxation				5,928,321
Taxation				(1,071,723)
Net profit for the year				4,856,598

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

BALANCE SHEET

	Agency services	Consultancy services	Investment holding	Consolidated
	At	At	At	At
	31 March 2002	31 March 2002	31 March 2002	31 March 2002
	HK\$	HK\$	HK\$	HK\$
ASSETS				
Segment assets	133,901	8,981,852	42,005,556	51,121,309
Unallocated corporate assets				145,314,954
Consolidated total assets				<u>196,436,263</u>
LIABILITIES				
Segment liabilities	25,000	180,894	9,000	214,894
Unallocated corporate liabilities				1,773,065
Consolidated total liabilities				<u>1,987,959</u>

OTHER INFORMATION

	Agency services	Consultancy services	Investment holding	Others	Consolidated
	Year ended	Year ended	Year ended	Year ended	Year ended
	31 March 2002	31 March 2002	31 March 2002	31 March 2002	31 March 2002
	HK\$	HK\$	HK\$	HK\$	HK\$
Amortisation of goodwill	-	-	-	107,029	107,029
Depreciation	-	42,228	-	621,717	663,945

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

	Agency services	Consultancy services	Investment holdings	Consolidated
	Year ended 31 March 2001 HK\$	Year ended 31 March 2001 HK\$	Year ended 31 March 2001 HK\$	Year ended 31 March 2001 HK\$
TURNOVER	<u>3,490,791</u>	<u>2,614,670</u>	<u>7,311,629</u>	<u>13,417,090</u>
SEGMENT RESULTS	<u>197,599</u>	<u>473,355</u>	<u>4,583,490</u>	5,254,444
Other operating income				6,402,388
Unallocated corporate expenses				<u>(4,782,398)</u>
Profit from operations				6,874,434
Share of results of associates				<u>1,593,317</u>
Profit before taxation				8,467,751
Taxation				<u>(203,042)</u>
Net profit for the year				<u>8,264,709</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

4. SEGMENT INFORMATION (CONT'D)

(a) Business segments (CONT'D)

BALANCE SHEET

	Agency services	Consultancy services	Investment holding	Consolidated
	At	At	At	At
	31 March 2001	31 March 2001	31 March 2001	31 March 2001
	HK\$	HK\$	HK\$	HK\$
ASSETS				
Segment assets	2,861	12,105,379	43,416,227	55,524,467
Unallocated corporate assets				136,415,011
Consolidated total assets				<u>191,939,478</u>
LIABILITIES				
Segment liabilities	25,000	364,961	9,000	398,961
Unallocated corporate liabilities				1,148,811
Consolidated total liabilities				<u>1,547,772</u>

OTHER INFORMATION

	Agency services	Consultancy services	Investment holding	Others	Consolidated
	Year ended	Year ended	Year ended	Year ended	Year ended
	31 March 2001	31 March 2001	31 March 2001	31 March 2001	31 March 2001
	HK\$	HK\$	HK\$	HK\$	HK\$
Depreciation	–	39,217	–	644,271	683,488

(b) Geographical segments

All of the activities of the Group are based in the People's Republic of China, excluding Hong Kong (the "PRC"), and all of the Group's revenue and profit from operations (excluding interest income and rental income) are derived from the PRC.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

5. OTHER OPERATING INCOME

	2002 HK\$	2001 HK\$
Interest income from bank deposits	2,360,388	5,285,382
Gross rental income from an investment property	465,114	858,672
Others	339,415	258,334
	3,164,917	6,402,388

6. PROFIT FROM OPERATIONS

	2002 HK\$	2001 HK\$
Profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration	4,212,790	4,628,500
Retirement benefits scheme contributions	278,339	163,819
Total staff costs	4,491,129	4,792,319
Auditors' remuneration	300,000	322,774
Depreciation of property, plant and equipment	663,945	683,488
Allowance for doubtful debts	–	363,418
Amortisation of goodwill	107,029	–
Loss on write off of property, plant and equipment	3,500	3,363
and after crediting:		
Gross rental income from an investment property less outgoings of HK\$16,000 (2001: HK\$21,400)	449,114	837,272

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2002 HK\$	2001 HK\$
Fees		
Executive directors	360,000	403,225
Independent non-executive directors	120,000	120,000
	<u>480,000</u>	<u>523,225</u>
Other emoluments (executive directors)		
Salaries and other benefits	1,437,709	1,590,933
Retirement benefits scheme contributions	53,975	54,000
	<u>1,491,684</u>	<u>1,644,933</u>
Total emoluments	<u>1,971,684</u>	<u>2,168,158</u>

The emoluments of the directors were within the following bands:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	7	9
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2001: two) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining three (2001: three) individuals were as follows:

	2002 HK\$	2001 HK\$
Salaries and other benefits	1,315,900	1,470,920
Retirement benefits scheme contributions	<u>54,800</u>	<u>82,800</u>
	<u>1,370,700</u>	<u>1,553,720</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONT'D)

(b) Employees' emoluments (CONT'D)

The aggregate emoluments of each of the highest paid individuals during both years were not more than HK\$1,000,000.

During the years ended 31 March 2002 and 2001, no emoluments were paid by the Company to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Company or as compensation for loss of office.

8. TAXATION

	2002 HK\$	2001 HK\$
The charge comprises:		
PRC income tax	453,576	–
Share of taxation attributable to associates	618,147	203,042
	<u>1,071,723</u>	<u>203,042</u>

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

Taxation arising in the PRC is calculated at the rates prevailing in the relevant jurisdiction.

Details of unrecognised deferred taxation are set out in note 22.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2002 HK\$	2001 HK\$
Net profit for the year	<u>4,856,598</u>	<u>8,264,709</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>459,473,000</u>	459,544,396
Effect of dilutive potential ordinary shares in respect of warrants		<u>462,104</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>460,006,500</u>

No diluted earnings per share is presented because the exercise price of the Company's warrants was higher than the fair value per share during the year.

10. INVESTMENT PROPERTY

	THE GROUP HK\$
At 1 April 2001	15,000,000
Revaluation decrease	<u>(800,000)</u>
At 31 March 2002	<u>14,200,000</u>

The Group's investment property is rented out under operating lease and is held under a medium-term lease in Hong Kong. The investment property was revalued at 31 March 2002 by LCH (Asia - Pacific) Surveyors Limited, an independent professional valuer, on an open market existing use basis. This valuation gave rise to a revaluation decrease of HK\$800,000 which has been charged to the investment property revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

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

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP				
COST				
At 1 April 2001	1,192,080	5,379,440	1,265,029	7,836,549
Additions	–	82,318	–	82,318
Written off	–	(4,000)	–	(4,000)
At 31 March 2002	1,192,080	5,457,758	1,265,029	7,914,867
DEPRECIATION				
At 1 April 2001	319,377	4,201,064	1,265,029	5,785,470
Provided for the year	119,208	544,737	–	663,945
Eliminated on write off	–	(500)	–	(500)
At 31 March 2002	438,585	4,745,301	1,265,029	6,448,915
NET BOOK VALUES				
At 31 March 2002	753,495	712,457	–	1,465,952
At 31 March 2001	872,703	1,178,376	–	2,051,079
THE COMPANY				
COST				
At 1 April 2001	1,192,080	638,040	1,265,029	3,095,149
Additions	–	66,818	–	66,818
Written off	–	(4,000)	–	(4,000)
At 31 March 2002	1,192,080	700,858	1,265,029	3,157,967
DEPRECIATION				
At 1 April 2001	319,377	230,640	1,265,029	1,815,046
Provided for the year	119,208	69,714	–	188,922
Eliminated on write off	–	(500)	–	(500)
At 31 March 2002	438,585	299,854	1,265,029	2,003,468
NET BOOK VALUES				
At 31 March 2002	753,495	401,004	–	1,154,499
At 31 March 2001	872,703	407,400	–	1,280,103

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$	2001 HK\$
Unlisted shares, at cost	11,338,022	11,338,022
Amounts due from subsidiaries	142,517,581	140,742,831
	153,855,603	152,080,853
Less: Impairment loss	(71,835,145)	(71,835,145)
	82,020,458	80,245,708

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, repayment will not be required in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

Details of the principal subsidiaries of the Company at 31 March 2002 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		Principal activity
			The Company %	The subsidiary %	
Multifortune Holdings Limited	British Virgin Islands/PRC	US\$1	–	100	Provision of agency services
Yunnan Nominees Limited	Hong Kong	HK\$2	100	–	Investment holding
Yunnan Yunyu Economic & Technology Consulting Co., Ltd.	PRC	US\$100,000	–	100	Provision of consultancy services
Yunyu Bio - Pharmaceutical Company Limited	British Virgin Islands/PRC	US\$1	–	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

12. INTERESTS IN SUBSIDIARIES (CONT'D)

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		Principal activity
			The Company %	The subsidiary %	
Yunyu Holdings Limited	Hong Kong	HK\$2	100	–	Investment holding
Yunyu International Limited	Hong Kong	HK\$2	100	–	Investment holding
Yunyu Management & Consultant Limited	Hong Kong	HK\$2	100	–	Provision of consultancy services
Yunyu Trading Development Limited	Hong Kong	HK\$5,000,000	100	–	Investment holding and property investment

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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002	2001
	HK\$	HK\$
Share of net assets	48,296,297	40,571,687
Goodwill arising on acquisition of an associate (note a)	4,174,133	—
	<u>52,470,430</u>	<u>40,571,687</u>
Note a:		
		HK\$
COST		
Arising on acquisition of an associate and balance at 31 March 2002		4,281,162
AMORTISATION		
Charge for the year and balance at 31 March 2002		<u>107,029</u>
NET BOOK VALUE		
At 31 March 2002		<u>4,174,133</u>

Goodwill is amortised over its estimated useful life of 20 years.

Details of the associates of the Group at 31 March 2002 are as follows:

Name of associate	Place of establishment and operation	Proportion of nominal value of issued share capital held by the Group %	Principal activity
雲南盟生藥業有限公司	PRC	49	Research, development, manufacture and sale of biotechnology products
深圳新鵬生物工程有限公司	PRC	48	Research, development, manufacture and sale of biotechnology products

The financial statements of the associates are not audited by Deloitte Touche Tohmatsu.

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

13. INTERESTS IN ASSOCIATES (CONT'D)

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

Results for the year

	雲南盟生藥業有限公司 1.9.2001 (date of acquisition) to 31.3.2002 HK\$	深圳新鵬生物工程有限公司 1.4.2001 to 31.3.2002 HK\$	21.8.2000 (date of acquisition) to 31.3.2001 HK\$
Turnover	<u>2,383,603</u>	<u>32,551,524</u>	<u>12,589,629</u>
Depreciation	<u>129,207</u>	<u>2,451,143</u>	<u>1,211,486</u>
Profit before taxation	<u>675,192</u>	<u>7,229,254</u>	<u>3,319,410</u>
Profit before taxation attributable to the Group	<u>330,844</u>	<u>3,470,043</u>	<u>1,593,317</u>

Financial position

	雲南盟生藥業有限公司 2002 HK\$	深圳新鵬生物工程有限公司 2002 HK\$	2001 HK\$
Non-current assets	<u>13,210,380</u>	<u>26,923,714</u>	<u>30,509,940</u>
Current assets	<u>5,824,374</u>	<u>69,145,818</u>	<u>59,113,452</u>
Current liabilities	<u>(5,624,903)</u>	<u>(6,782,979)</u>	<u>(3,919,802)</u>
Non-current liabilities	<u>–</u>	<u>(2,358,491)</u>	<u>(1,179,245)</u>
Net assets	<u>13,409,851</u>	<u>86,928,062</u>	<u>84,524,345</u>
Net assets attributable to the Group	<u>6,570,827</u>	<u>41,725,470</u>	<u>40,571,687</u>

NOTES TO THE FINANCIAL STATEMENTS

Annual Report 2002

For the year ended 31 March 2002

14. INVESTMENTS IN AN INVESTEE COMPANY

THE GROUP
2002 & 2001
HK\$

Investment securities

Unlisted equity securities, at cost

31,177,196

The investment represents the Group's 12.5% interest in the registered capital of Yuxi Globe Colour Printing Carton Co., Ltd., a company registered in the PRC which is engaged in the business of printing and sale of cigarette packs and boxes. The directors consider that the investments worth at least their costs.

15. LOAN TO AN INVESTEE COMPANY

The loan to the investee company is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of the directors, the loan will not be received in the next twelve months from the balance sheet date and accordingly, the loan is shown as non-current.

16. TRADE AND OTHER RECEIVABLES

The Group allows a credit period of 21 days to its trade debtors.

THE GROUP

2002 2001
HK\$ HK\$

Trade receivables, current

131,040 –

Dividends receivable

7,606,168 7,311,629

Other receivables

1,166,046 1,413,348

8,903,254 **8,724,977**

17. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

18. AMOUNT DUE TO AN ASSOCIATE

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

19. SHARE CAPITAL

	Number of shares		Amount	
	2002	2001	2002	2001
			HK\$	HK\$
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning and at end of the year	1,000,000,000	1,000,000,000	1,000,000,000	100,000,000
Issued and fully paid:				
At beginning of the year	459,473,000	459,553,000	45,947,300	45,955,300
Repurchased (note)	–	(80,000)	–	(8,000)
At end of the year	459,473,000	459,473,000	45,947,300	45,947,300

Note:

In 2001, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares	Price per share		Aggregate paid (before expenses) HK\$
		Highest HK\$	Lowest HK\$	
February 2001	60,000	0.48	0.48	28,800
March 2001	20,000	0.42	0.42	8,400
	80,000			37,200

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued capital of the Company was diminished by the nominal value thereof. The premium payable on repurchase was charged against the share premium account.

The Company has a share option scheme pursuant to which the Company may grant options to executive directors and employees of the Group to subscribe for shares in the Company in accordance with the terms of the share option scheme, subject to a maximum of 10% of the issued share capital of the Company from time to time.

No option was granted under the share option scheme during the year and the share option scheme has been expired as at the balance sheet date.

20. WARRANTS

On 6 December 1999, a bonus issue of 76,710,600 warrants was made on the basis of one warrant for every five issued shares held on 2 December 1999. Each warrant entitles its holder to subscribe in cash at a price of HK\$1.60 for one share of the Company at any time from 10 December 1999 to 30 September 2002, both days inclusive. No warrant was exercised during the year and exercise in full of these warrants would result in the issue of 76,710,600 additional shares of HK\$0.10 each.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

21. RESERVES

	Share premium	Capital redemption reserve	Goodwill reserve	Special reserve	Exchange reserve	Investment property revaluation reserve	Deficit	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP								
At 1 April 2000	187,506,468	-	-	3,460,016	-	800,514	(49,033,458)	142,733,540
Exchange differences on translation of operations outside Hong Kong	-	-	-	-	1,412,683	-	-	1,412,683
Repurchase of shares	(37,200)	8,000	-	-	-	-	-	(29,200)
Expenses on share repurchase	(304)	-	-	-	-	-	-	(304)
Goodwill arising on acquisition of an associate	-	-	(7,938,469)	-	-	-	-	(7,938,469)
Net profit for the year	-	-	-	-	-	-	8,264,709	8,264,709
At 31 March 2001	187,468,964	8,000	(7,938,469)	3,460,016	1,412,683	800,514	(40,768,749)	144,442,959
Revaluation decrease for the year	-	-	-	-	-	(800,000)	-	(800,000)
Net profit for the year	-	-	-	-	-	-	4,856,598	4,856,598
At 31 March 2002	187,468,964	8,000	(7,938,469)	3,460,016	1,412,683	514	(35,912,151)	148,499,557

	Share premium	Capital redemption reserve	Deficit	Total
	HK\$	HK\$	HK\$	HK\$
THE COMPANY				
At 1 April 2000	187,506,468	-	(48,359,926)	139,146,542
Repurchase of shares	(37,200)	8,000	-	(29,200)
Expenses on share repurchase	(304)	-	-	(304)
Net loss for the year	-	-	(31,593,956)	(31,593,956)
At 31 March 2001	187,468,964	8,000	(79,953,882)	107,523,082
Net loss for the year	-	-	(3,798,969)	(3,798,969)
At 31 March 2002	187,468,964	8,000	(83,752,851)	103,724,113

The deficit of the Group include profit of HK\$4,412,382 (2001: HK\$1,229,642) attributable to associates.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

21. RESERVES (CONT'D)

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 in 1992.

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Associations, provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends can only be distributed out of the profits of the Company. Accordingly, no dividend can be distributed out of the share premium account of the Company but dividends can be distributed out of profits earned in the current financial year of the Company, regardless of losses of a prior financial year, provided the Company remains solvent throughout.

22. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the amount of the net potential deferred tax asset in respect of timing differences which has not been recognised in the balance sheet is as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Tax effect of timing differences because of:				
Estimated tax losses	13,407,278	12,994,490	5,618,434	4,821,007
Excess of tax allowances over depreciation	(124,921)	(192,927)	(150,451)	(166,144)
	<u>13,282,357</u>	<u>12,801,563</u>	<u>5,467,983</u>	<u>4,654,863</u>

Deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will crystallise in the foreseeable future.

Deferred tax has not been provided on the revaluation surplus arising on the revaluation of investment property as profits arising on the disposal of this asset would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

22. UNRECOGNISED DEFERRED TAXATION (CONT'D)

The amount of the net unrecognised deferred tax credit for the year is as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Tax effect of timing differences because of:				
Estimated tax losses	412,788	294,580	797,427	166,119
Excess of depreciation over tax allowances	68,006	105,806	15,693	41,126
	480,794	400,386	813,120	207,245

23. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2002	2001
	HK\$	HK\$
Profit before taxation	5,928,321	8,467,751
Share of results of associates	(3,800,887)	(1,593,317)
Depreciation	663,945	683,488
Amortisation of goodwill	107,029	–
Loss on write off of property, plant and equipment	3,500	3,363
Loss on liquidation of an associate	–	12,069
Interest income	(2,360,388)	(5,285,382)
Decrease (increase) in trade and other receivables	1,519,836	(6,992,650)
(Decrease) increase in trade and other payables	(513,720)	238,837
Increase in amount due to an associate company	773,014	–
Net cash inflow (outflow) from operating activities	2,320,650	(4,465,841)

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	Share premium	Capital redemption reserve
	HK\$	HK\$	HK\$
At 1 April 2000	45,955,300	187,506,468	–
Repurchase of shares	(8,000)	(37,200)	8,000
Expenses on shares repurchase	–	(304)	–
At 31 March 2001 & 2002	45,947,300	187,468,964	8,000

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

25. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement benefits scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost charged to the consolidated income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At 31 March 2001, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which were available to reduce the contribution payable in the future years was HK\$14,859. There is no forfeited contribution as at 31 March 2002.

26. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payment paid under operating leases in respect of premises during the year amounting to HK\$2,591,820 (2001: HK\$2,591,820).

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

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	2,120	2,592
In the second to fifth year inclusive	—	2,120
	<u>2,120</u>	<u>4,712</u>

Operating lease payments represent rentals payable by the Group for office premises. Leases are negotiated for an average term of 4 years and rentals are fixed for an average of 4 years.

The Group as lessor

Property rental income earned during the year was HK\$465,114 (2001: HK\$858,672). The premise held have committed tenants for the next 3 years.

NOTES TO THE FINANCIAL STATEMENTS

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For the year ended 31 March 2002

Yunnan Enterprises Holdings Limited

26. OPERATING LEASE COMMITMENTS (CONT'D)

The Group as lessor (CONT'D)

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	387	465
In the second to fifth year inclusive	853	—
	<u>1,240</u>	<u>465</u>

27. PLEDGE OF ASSETS

At 31 March 2002, bank deposits of the Group amounting to HK\$5,000,000 (2001: HK\$5,000,000) have been pledged against the general banking facilities of the Group.

28. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2002	2001
	HK\$	HK\$
Agency fee income from Yuxi Hongta	131,040	3,490,791
Consultancy income from Yuxi Hongta	353,774	2,476,415
Consultancy income from Yunnan Hongta Import & Export Co. Ltd. ("Yunnan Hongta")	<u>4,104,957</u>	<u>—</u>

Yuxi Hongta is a substantial shareholder of the Company's ultimate holding company.

Yunnan Hongta is a wholly-owned subsidiary of Yuxi Hongta.

The above transactions were carried out at cost plus a percentage profit mark-up.

29. POST BALANCE SHEET EVENT

In April 2002, the Group set up a sino-foreign joint venture, Shanghai Pine & Power Biomaterial Company Limited ("Pine & Power Biomaterial"), at a cash consideration of RMB1.35 million (approximately HK\$1.27 million) for a 25% equity interest. Pine & Power Biomaterial is a hi-tech entity registered in Shanghai Zhangjiang Hi-Tech Park, the PRC. It is engaged in the research, manufacture and sale of medical biomaterials.

FINANCIAL SUMMARY

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RESULTS

	Year ended 31 March				2002 HK\$'000
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	
Turnover	19,313	44,072	13,898	13,417	10,498
(Loss) profit from operations	(13,639)	192	758	6,874	2,127
Finance costs	(625)	(288)	–	–	–
Share of results of associates	–	–	–	1,593	3,801
(Loss) profit before taxation	(14,264)	(96)	758	8,467	5,928
Taxation	–	–	–	(203)	(1,072)
(Loss) profit after taxation	(14,264)	(96)	758	8,264	4,856
Minority interests	77	6	–	–	–
Net (loss) profit for the year	(14,187)	(90)	758	8,264	4,856

ASSETS AND LIABILITIES

	At 31 March				2002 HK\$'000
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	
Non-current assets	18,316	24,030	54,336	93,643	104,156
Net current (liabilities) assets	(4,409)	94,203	134,354	96,749	90,292
	13,907	118,233	188,690	190,392	194,448
Shareholders' funds	12,185	118,232	188,689	190,391	194,447
Minority interests	7	1	1	1	1
Bank borrowings due after one year	1,715	–	–	–	–
	13,907	118,233	188,690	190,392	194,448

PARTICULARS OF INVESTMENT PROPERTY

Annual Report 2002

Location	Lease term	Type
3rd Floor, Alliance Building Nos. 130-136 Connaught Road Central Hong Kong	Medium-term lease	Commercial

NOTICE OF ANNUAL GENERAL MEETING

Annual Report 2002

NOTICE IS HEREBY GIVEN that an annual general meeting of the Company will be held at Suite 2903-2906, 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong on Thursday, 29 August 2002 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the Directors and Auditors for the year ended 31 March 2002;
2. To re-elect Directors and to fix the remuneration of Directors;
3. To re-appoint Auditors and to authorise the Directors to fix their remuneration;
4. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

"THAT:

- (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate of the nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
 - (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company."

5. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; (iii) an issue of shares as scrip dividends pursuant to the articles of association of the Company from time to time or (iv) an issue of shares, upon the exercise of the subscription right attaching to any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed 20% of the aggregate of the nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; and
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company; and

NOTICE OF ANNUAL GENERAL MEETING

Annual Report 2002

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to the holders of shares of the Company whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company)."

6. As special business, to consider and, if thought fit, pass the following resolution as an ordinary resolution:

"**THAT** subject to the passing of the Resolutions Nos. 4 and 5 set out in the notice convening this meeting, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares pursuant to Resolution No. 5 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 4 set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution."

By Order of the Board

MA Pizhi

Managing Director

Hong Kong, 18 July 2002

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 in his stead. 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 principal place of business of the Company in Hong Kong at Suite 2903-2906, 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. A circular setting out further information regarding Resolutions Nos. 4 to 6 above will be dispatched to members of the Company and, for information only, the warrant holders of the Company together with the 2002 annual report.