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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer 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 proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transferee was effected for transmission to the purchaser.

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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)

### PROPOSED CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser**

**to the Independent Board Committee and the Independent Shareholders**



博大資本國際有限公司  
Partners Capital International Limited

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A notice convening an extraordinary general meeting of Yunnan Enterprises Holdings Limited (the "Company") to be held at Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong on Friday, 27 August 2010 at 11:30 a.m. (or as soon thereafter as the annual general meeting of the Company convened for the same day and place shall have been concluded or adjourned) is set out on pages 29 to 30 of this circular. Whether or not you propose to attend the meeting, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the head office and principal place of business of the Company at 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 holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not prevent shareholders of the Company from attending and voting at the meeting if they so wish.

\* For identification purpose only

Hong Kong, 12 August 2010

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## DEFINITIONS

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

“Acquisition”	the acquisition of the 60% equity interest in Cheng Cheng by the Company from Tianda Group pursuant to the Asset Swap Agreement
“Acquisition Announcement”	announcement of the Company dated 12 May 2010 in relation to, among other things, the Acquisition
“AGM”	the annual general meeting of the Company to be held on Friday, 27 August 2010 at 11:00 a.m. at Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong
“Announcement”	announcement of the Company dated 22 July 2010 in relation to, among other things, the proposed continuing connected transactions
“Asset Swap Agreement”	the conditional asset swap agreement dated 5 May 2010 entered into between the Company and Tianda Group
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Annual Purchase Caps”	the maximum aggregate annual value of the transactions contemplated under the Framework Agreement for the purchase of the Materials for the period ending 31 March 2011 and each of the two years ending 31 March 2012 and 31 March 2013 respectively
“Annual Sales Caps”	the maximum aggregate annual value of the transactions contemplated under the Framework Agreement for the sale of the cigarette packaging packs and boxes for the period ending 31 March 2011 and each of the two years ending 31 March 2012 and 31 March 2013 respectively
“Board”	the board of Directors

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## DEFINITIONS

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“Cheng Cheng”	珠海經濟特區誠成印務有限公司 (Zhuhai Special Economic Zone Cheng Cheng Printing Co., Ltd.*), a sino-foreign owned enterprise established under the laws of the PRC with limited liability
“Company”	Yunnan Enterprises Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Framework Agreement and the transactions contemplated thereunder (including the Annual Purchase Caps and the Annual Sales Caps)
“Enlarged Group”	the Group as enlarged by the Acquisition after Completion
“Framework Agreement”	an agreement dated 5 August 2010 into among the Company, Cheng Cheng and Hongta for (i) the purchase of the Materials and (ii) the sale of the cigarette packaging packs and boxes
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongta”	紅塔煙草(集團)有限責任公司 (Hongta Tobacco (Group) Limited*), a state-owned enterprise established in Yunnan Province, the PRC
“Hongta Cigarettes”	all brands of cigarettes manufactured by Hongta

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## DEFINITIONS

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“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors namely Mr. CHIU Sung Hong, Mr. CHIU Fan Wa and Mr. LAM Yat Fai established to advise the Independent Shareholders on the Framework Agreement and the transactions contemplated thereunder (including the Annual Purchase Caps and the Annual Sales Caps)
“Independent Shareholders”	Shareholders other than Hongta and its associates
“Latest Practicable Date”	9 August 2010, being the latest practicable date for ascertaining certain information prior to printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Materials”	the specially made anti-counterfeiting papers and anti-counterfeiting labels exclusively used for the purpose of manufacturing the cigarette packaging packs and boxes for Hongta Cigarettes
“Materials Suppliers”	the associates designated by Hongta
“Packs and Boxes Customers”	the subsidiaries designated by Hongta
“Partners Capital”	Partners Capital International Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities registered under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreement and the transactions contemplated thereunder (including the Annual Purchase Caps and the Annual Sales Caps)
“PRC”	the People’s Republic of China which for the purpose of this circular, excluding Hong Kong, Macau Special Administrative Region and Taiwan

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## DEFINITIONS

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	the existing ordinary shares of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“State Tobacco Monopoly Administration”	a government bureau in the PRC which is responsible for centralized management of staff, finance, properties, products, supply, distribution, and domestic and foreign trade of the tobacco industry in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianda Group”	Tianda Group Limited (天大集團有限公司), a company incorporated in Hong Kong with limited liability. Tianda Group is wholly-owned by Mr. FANG Wen Quan, the Chairman and Managing Director, holding approximately 63.50% of the issued share capital of the Company and the controlling shareholder of Cheng Cheng holding 60% equity interest of Cheng Cheng as at the Latest Practicable Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

*Exchange rate used in this circular is 1 RMB = HK\$1.1474.*

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## LETTER FROM THE BOARD

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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)

*Directors:*

*Executive Directors:*

FANG Wen Quan (*Chairman and Managing Director*)

LI Suiming

LIU Huijiang

*Independent Non-Executive Directors:*

CHIU Sung Hong

CHIU Fan Wa

LAM Yat Fai

*Registered Office:*

Windward 1

Regatta Office Park

West Bay Road

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 Avenue

Central

Hong Kong

Hong Kong, 12 August 2010

*To the Shareholders,*

Dear Sir or Madam,

### **PROPOSED CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF EXTRAORDINARY GENERAL MEETING**

#### **INTRODUCTION**

Reference is made to the Announcement and the Acquisition Announcement. As stated in the Acquisition Announcement, on 5 May 2010, the Company and Tianda Group entered into the Asset Swap Agreement pursuant to which, among other things, Tianda Group agreed to transfer its 60% entire interest in Cheng Cheng to the Company.

As set out in the announcement of the Company dated 13 July 2010 regarding the poll results of the extraordinary general meeting approving, among other things, the Asset Swap Agreement, the ordinary resolutions approving the Asset Swap Agreement were duly passed.

\* For identification purpose only

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## LETTER FROM THE BOARD

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Upon the Completion, the Company will hold 60% interest in Cheng Cheng and Cheng Cheng will become a non-wholly owned subsidiary of the Company. The Framework Agreement is entered into among the Company, Cheng Cheng and Hongta for governing the ongoing purchases of the Materials and the sales of the cigarette packaging packs and boxes and specifying the terms adopted including the Annual Purchase Caps and the Annual Sales Caps.

Hongta is a substantial Shareholder indirectly holding approximately 11.50% equity interest of the issued share capital of the Company as at the Latest Practicable Date and is a connected person of the Company under the Listing Rules. Therefore, transactions contemplated under the Framework Agreement, following the Completion, will constitute continuing connected transactions under Chapter 14A of the Listing Rules. The terms and conditions of the Framework Agreement are set out below.

### **THE FRAMEWORK AGREEMENT**

#### **Date:**

5 August 2010

#### **Parties:**

- (i) the Company;
- (ii) Cheng Cheng; and
- (iii) Hongta

#### **Term**

The Framework Agreement is entered into between the above-mentioned parties for the three financial years ending 31 March 2013 subject to the fulfilment of the conditions precedent set out below and will become effective from the date of the Completion.

#### **Conditions precedent**

Conduct of the transactions contemplated under the Framework Agreement shall be conditional upon the Independent Shareholders' approval to be obtained at the EGM and the Completion.

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## LETTER FROM THE BOARD

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### (A) Purchase of Materials

#### *Nature of transaction:*

It is proposed that Cheng Cheng will continue to purchase and the Materials Suppliers will continue to sell the Materials on an order-by-order basis for a term commencing from the effective date of the Framework Agreement to 31 March 2013. The Materials include the specially made anti-counterfeiting papers and anti-counterfeiting labels exclusively used for the purpose of manufacturing the cigarette packaging packs and boxes for Hongta Cigarettes.

#### *Pricing basis*

The Materials will be sold to Cheng Cheng by the Materials Suppliers on an order-by-order basis at a price with reference to (i) the historical price of the Materials in the previous transactions between Cheng Cheng and the Materials Suppliers; and (ii) the prevailing market prices of similar types of materials used for manufacturing similar types of cigarette packaging packs and boxes and shall be comparable to the prices of the Materials charged by the Materials Suppliers to other cigarette packaging packs and boxes manufacturers.

#### *Payment terms*

Pursuant to the Framework Agreement, the credit period for the purchase of the Materials shall be set out in the relevant purchase order and shall be made within such time and in such manner in accordance with normal market practice.

#### *Annual Purchase Caps*

The Annual Purchase Caps for the three financial years ending 31 March 2013 are set out as follows:

<b>Financial year ending</b>	<b>Annual Purchase Caps</b> <i>RMB (million)</i>
31 March 2011	29 (equivalent to approximately HK\$33.3 million) (included the actual amount of RMB7.9 million (equivalent to approximately HK\$9.1 million) for the period from 1 April 2010 to 30 June 2010)
31 March 2012	33 (equivalent to approximately HK\$37.9 million)
31 March 2013	36 (equivalent to approximately HK\$41.3 million)

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## LETTER FROM THE BOARD

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The Annual Purchase Cap for the year ending 31 March 2011 is determined with reference to (i) the actual amount paid by Cheng Cheng to the Materials Suppliers in the previous transactions for the year ended 31 March 2010 of approximately RMB26.1 million; and (ii) the actual amount of orders placed by Cheng Cheng to the Materials Suppliers for the purchase of anti-counterfeiting papers and anti-counterfeiting labels amounted to approximately RMB7.9 million for the period from 1 April 2010 to 30 June 2010.

The annual increment of the Annual Purchase Caps for the two years ending 31 March 2013 respectively is estimated at approximately 10% from the previous year on a prudent basis with respect to the estimated growth rate of the sales of cigarette packaging packs and boxes (basis of which is set out in the sub-sectioned headed “Annual Sales Caps” below) assuming that the quality level of the cigarette packaging packs and boxes is stable during the three years ending 31 March 2013.

### **(B) Sales of cigarette packaging packs and boxes**

#### ***Nature of transaction:***

It is proposed that Cheng Cheng will continue to sell and the Packs and Boxes Customers, will continue to purchase the cigarette packaging packs and boxes on an order-by-order basis for a term commencing from the effective date of the Framework Agreement to 31 March 2013.

#### ***Pricing basis***

The sale of the cigarette packaging packs and boxes shall be provided on normal commercial terms. The price for each sale of the cigarette packaging packs and boxes to the Packs and Boxes Customers will be determined by the parties with reference to (i) the historical price of the cigarette packaging packs and boxes in the previous transactions between Cheng Cheng and Packs and Boxes Customers; (ii) the estimated increase in demand for Hongta Cigarettes in the PRC and overseas market; and (iii) the tender price for tendering the manufacture of the cigarette packaging packs and boxes every year by the cigarette packaging packs and boxes manufacturers authorised by Hongta.

#### ***Payment terms***

Pursuant to the Framework Agreement, the credit period for the Packs and Boxes Customers to settle the payment shall be set out in the relevant purchase order and shall be made within such time and in such manner in accordance with normal market practice.

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## LETTER FROM THE BOARD

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### *Annual Sales Caps*

The Annual Sales Caps for the three financial years ending 31 March 2013 are set out as follows:

<b>Financial year ending</b>	<b>Annual Sales Caps</b> <i>RMB (million)</i>
31 March 2011	107 (equivalent to approximately HK\$122.8 million) (included the actual amount of RMB26.6 million (equivalent to approximately HK\$30.5 million) for the period from 1 April 2010 to 30 June 2010)
31 March 2012	119 (equivalent to approximately HK\$136.5 million)
31 March 2013	131 (equivalent to approximately HK\$150.3 million)

The Annual Sales Cap for the year ending 31 March 2011 is determined with reference to (i) the historical aggregate amount sold to the Packs and Boxes Customers by Cheng Cheng in previous transactions for the year ended 31 March 2010 of approximately RMB98 million; (ii) the actual sales orders placed by the Packs and Boxes Customers to Cheng Cheng for the cigarette packaging packs and boxes amounted to approximately RMB26.6 million for the period from 1 April 2010 to 30 June 2010; and (iii) the anticipated increase in demand of orders in view that Hongta has adopted the designs of the cigarette packaging packs and boxes for two brands of Hongta Cigarettes which are designed by Cheng Cheng.

The annual increment of the Annual Sales Caps for the two years ending 31 March 2013 respectively is estimated at approximately 10% from the previous year on a prudent basis with respect to (i) the compound annual growth rate of the sales amount of the cigarette packaging packs and boxes of Cheng Cheng for the three years ended 31 December 2009; (ii) the previous track records between Hongta and Cheng Cheng for the tendering results of the cigarette packaging packs and boxes each year; and (iii) the market growth rate of 15.7% of the top 30 key high-end brands in terms of volume as compares to 2008 according to the State Tobacco Monopoly Administration's annual conference report.

### **REASONS AND BENEFITS OF THE TRANSACTIONS**

The Company acts as an investment holding company. The principal activities of the Group are research, development, production and sales of pharmaceutical and biotechnology products; exploration, development and investment of mining and energy; property investment and development as well as investment holdings.

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## LETTER FROM THE BOARD

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Cheng Cheng is a sino-foreign owned enterprise established under the laws of the PRC with limited liability and is principally engaged in the manufacture of packaging and other printing products in the PRC. Hongta, a state-owned enterprise established in Yunnan Province, the PRC, is a tobacco manufacturer in the PRC, which produces and sells different brands of cigarette. In order to protect the trademark of Hongta Cigarettes, the cigarette packaging packs and boxes must contain proper anti-counterfeiting characteristics of Hongta, which enable the customers to distinguish from the counterfeit products. Thus, the Materials must be made by the Materials Suppliers. In this regard, Cheng Cheng, as one of the manufacturers of the cigarette packaging packs and boxes, must purchase the Materials from the Materials Suppliers. The prices of the Materials paid by each manufacturer of the cigarette packaging packs and boxes are close to each other however Cheng Cheng can enjoy a more favourable pricing due to the geographical advantage of less transportation cost. All the cigarette packaging packs and boxes, with the names and the anti-counterfeiting labels of Hongta Cigarettes, will then be sold to the Packs and Boxes Customers for further processing of the Hongta Cigarettes.

Also, Cheng Cheng has been entering into the transactions of purchasing Materials and selling of the cigarette packaging packs and boxes with the Material Suppliers and the Packs and Boxes Customers. The sales transactions have accounted for a significant portion of its turnover of Cheng Cheng since incorporation and will also represent a significant portion of the turnover of the Enlarged Group.

In view of the aforesaid and that the previous transactions between Cheng Cheng and (i) the Materials Suppliers for the purchase of the Materials; and (ii) the Packs and Boxes Customers for the sale of the cigarette packaging packs and boxes will continue on a recurring basis upon the Completion, the Directors, including the independent non-executive Directors are of the view that the Framework Agreement and the transactions contemplated thereunder (including the Annual Purchase Caps and the Annual Sales Caps) are (i) on an arm's length basis and on normal commercial terms; and (ii) fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **LISTING RULES IMPLICATIONS**

Hongta is a substantial Shareholder indirectly holding approximately 11.50% equity interest of the issued share capital of the Company as at the Latest Practicable Date and is a connected person of the Company under the Listing Rules. Therefore, transactions contemplated under the Framework Agreement, following the Completion, will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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As all the relevant percentage ratios in respect of each of the Annual Purchase Caps and the Annual Sales Caps exceed 5%, the Framework Agreement and the transactions contemplated thereunder are subject to the requirements of reporting, announcement and the Independent Shareholders' approval under Chapter 14A of the Listing Rules.

### EGM

A notice convening the EGM to be held at Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong at 11:30 a.m. (or as soon thereafter as the AGM convened for the same day and place shall have been concluded or adjourned) on Friday, 27 August 2010 for the purpose of considering and, if thought fit passing, with or without amendments, the ordinary resolution to approve the Framework Agreement and the transactions contemplated thereunder is set out on pages 29 to 30 in this circular.

Whether or not you are able to attend the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

As at the Latest Practicable Date, Hongta and its associates which are interested in 214,992,932 Shares, representing approximately 11.50% equity interest of the issued share capital of the Company, are required to abstain from voting in respect of the relevant resolution to be proposed at the EGM. None of the Directors had a material interest in the Framework Agreement and each of them therefore exercised their respective voting rights at the board meeting held for the purpose of approving the Framework Agreement and the transactions contemplated thereunder (including the Annual Purchase Caps and the Annual Sales Caps).

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## LETTER FROM THE BOARD

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### FORMATION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the Framework Agreement was entered into on normal commercial terms, and whether the terms of the Framework Agreement and the transactions contemplated thereunder (including the Annual Purchase Caps and the Annual Sales Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the letter from the Independent Board Committee containing its advice set out on page 13 of this circular.

Partners Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Framework Agreement was entered into on normal commercial terms, and whether the terms of the Framework Agreement and the transactions contemplated thereunder (including the Annual Purchase Caps and the Annual Sales Caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from Partners Capital is set out on pages 14 to 24 of this circular.

### RECOMMENDATION

The Directors (including independent non-executive Directors) believe that the terms of the Framework Agreement and the transactions contemplated thereunder including the Annual Purchase Caps and the Annual Sales Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

### GENERAL

Your attention is also drawn to the letter from the Independent Board Committee, the letter from Partners Capital and the additional information set out in Appendix to this circular and the notice of EGM.

By order of the Board  
**Yunnan Enterprises Holdings Limited**  
**FANG Wen Quan**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

12 August 2010

*To the Independent Shareholders*

Dear Sir or Madam,

### **PROPOSED CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as the members of the Independent Board Committee to advise the Independent Shareholders in respect of the resolution to approve the transactions contemplated under the Framework Agreements, details of which are set out in the “Letter from the Board” contained in the circular of the Company (the “Circular”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the “Letter from the Board”, the advice of Partners Capital in its capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of whether the terms of the Framework Agreements are fair and reasonable and in the interests of the Company and its Shareholders as a whole, as set out in the “Letter from Partners Capital” as well as other additional information set out in other parts of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by Partners Capital in relation thereto as stated in its letter, we consider the terms of the transactions contemplated under the Framework Agreements to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the transactions contemplated under the Framework Agreements, including the Annual Purchase Caps and the Annual Sales Caps.

Yours faithfully  
Independent Board Committee

**Mr. CHIU Sung Hong**  
*Independent Non-executive  
Director*

**Mr. CHIU Fan Wa**  
*Independent Non-executive  
Director*

**Mr. LAM Yat Fai**  
*Independent Non-executive  
Director*

\* *For identification purpose only*

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## LETTER FROM PARTNERS CAPITAL

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*The following is the text of a letter of advice from Partners Capital, 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 respect of the Framework Agreement, including the Annual Purchase Caps and the Annual Sales Caps.*



博大資本國際有限公司  
Partners Capital International Limited

Partners Capital International Limited  
Unit 3906, 39/F, COSCO Tower  
183 Queen's Road Central  
Hong Kong

12 August 2010

*To the Independent Board Committee  
and Independent Shareholders*

Dear Sirs,

### PROPOSED CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed continuing connected transactions (namely the transactions contemplated under the Framework Agreement), particulars of which are set out in the letter from the Board (the "Letter from the Board") of this circular to the Shareholders dated on 12 August 2010 (the "Circular") and in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as given to them under the definitions section of the Circular.

As set out in the Letter from the Board, Hongta is the substantial Shareholder indirectly holding approximately 11.50% equity interest of the issued share capital of the Company. Hence, Hongta is a connected person of the Company under Listing Rules. Therefore, the transactions contemplated under the Framework Agreement, upon Completion, will constitute continuing connected transactions (the "Transactions") for the Company under Chapter 14A of the Listing Rules. The Transactions are subject to the approval of the Independent Shareholders by way of poll at the EGM. Details regarding the EGM are set out in the Circular. Hongta and its associates shall abstain from voting in respect of the Framework Agreement and Transactions at the EGM.

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## LETTER FROM PARTNERS CAPITAL

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Partners Capital is not connected with the directors, chief executive and substantial shareholders of the Company or the Group or Hongta or any of its respective associates and therefore is considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby Partners Capital will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company, Hongta or its respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by management of the Company and executive Directors were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company and the executive Directors regarding the Group, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by management of the Company and the executive Directors respectively in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by management of the Company and the executive Directors. We have not, however, conducted an independent in-depth investigation into the business or affairs or future prospects of the Group and Cheng Cheng, nor have we carried out any independent verification of the information supplied to us.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion regarding the terms of the Framework Agreement, we have considered the following principal factors and reasons:

#### **Reasons for and Background of the Transactions**

On 5 May 2010, the Company and Tianda Group entered into the Asset Swap Agreement pursuant to which, among other things, Tianda Group agreed to transfer its 60% entire interest in Cheng Cheng to the Company and Cheng Cheng will become a subsidiary of the Company upon Completion. The Framework Agreement is entered into in respect of the purchase of the Materials (“Purchase Orders”) by Cheng Cheng from Materials Suppliers and the sale of the cigarette packaging packs and boxes (“Sales Order”) by Cheng Cheng to Packs and Boxes Customers.

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## LETTER FROM PARTNERS CAPITAL

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Cheng Cheng is a sino-foreign owned enterprise established under the laws of the PRC with limited liability headquartered in Zhuhai, Guangdong Province, the PRC and is principally engaged in the manufacture of packaging and other printing products. The major products of Cheng Cheng include cigarette packaging packs and boxes. Since its establishment in September 1995, Cheng Cheng has equipped with a total of 6 production lines. As advised by the management of Cheng Cheng, Cheng Cheng currently possesses 3 professional designers who specialise in designs of cigarette packaging packs and boxes. Cheng Cheng has procured designs of the cigarette packaging packs and boxes to Hongta which has adopted designs for two brands of Hongta Cigarettes from Cheng Cheng. The orders of cigarettes packaging packs and boxes are anticipated to increase in demand. On 30 June 2010, one of the designs under Hongtashan brand won an industrial award, namely 2009 中國十大煙標金獎 (Gold Award of Top 10 Cigarette Packaging Packs and Boxes (2009)), for cigarette packaging packs and boxes designs. The Directors believe that the strong design capability of Cheng Cheng sustains the ongoing business relationship between Cheng Cheng and Hongta.

Hongta, a state-owned enterprise established in Yunnan Province, the PRC, is a tobacco manufacturer in the PRC which produces and sells different brands of cigarette. In order to protect the trademark of Hongta, the cigarette packaging packs and boxes must contain proper anti-counterfeiting characteristics of Hongta which enable the customers to distinguish from the counterfeit products. Thus, the Materials must be made by the Materials Suppliers. In this regard, Cheng Cheng, as one of the manufacturers of the cigarette packaging packs and boxes, purchase the Materials from the Materials Suppliers. All the cigarette packaging packs and boxes, with the names and the anti-counterfeiting labels of Hongta Cigarettes, will then be sold to the Packs and Boxes Customers for further processing of the Hongta Cigarettes.

Purchase of the Materials by Cheng Cheng from the Material Suppliers as stipulated under the Purchase Orders and the sale of cigarette packaging packs and boxes by Cheng Cheng to the Packs and Boxes Customers as stipulated under the Sales Orders are ordinary and usual course of business of Cheng Cheng which have been carried out by Cheng Cheng for over three years. Based on the financial information provided by Cheng Cheng for the three years ended 31 March 2010, the amount of purchase of materials by Cheng Cheng from Material Suppliers amounted to approximately RMB18.6 million, RMB23.3 million and RMB26.1 million respectively, whilst the amount of sale of cigarette packaging packs and boxes by Cheng Cheng to Packs and Boxes Customers amounted to approximately RMB77.5 million, RMB83.7 million and RMB98.0 million respectively. The Company has entered into the Framework Agreement so as to formulate terms of purchase and sale transactions between Cheng Cheng and associates of Hongta after Completion.

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## LETTER FROM PARTNERS CAPITAL

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The amount of sales to Hongta of cigarettes packaging packs and boxes under Hongtashan (紅塔山) brand, Yuxi (玉溪) brand, other sales under different brand and overseas sales, being the historical amount of transaction under the Sale Orders, for the three years ended 31 March 2010 are illustrated below:

	<b>For the year ended 31 March</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB Million)</i>	<i>(RMB Million)</i>	<i>(RMB Million)</i>
Hongtashan (紅塔山)	52.8	49.6	45.4
Yuxi (玉溪)	9.5	22.9	36.2
Other sales	8.8	–	–
Overseas sales	6.3	11.2	16.4
	<u>77.4</u>	<u>83.7</u>	<u>98.0</u>
Total sales to Hongta	<u><u>77.4</u></u>	<u><u>83.7</u></u>	<u><u>98.0</u></u>

As shown above, the sales amount of cigarettes packaging packs and boxes under Hongtashan brand experienced a slightly decrease whilst the sales amount of cigarettes packaging packs and boxes under Yuxi brand increased rapidly during the past three years. The overseas sales also experienced a significant increase in terms of sales amount during the past three years. We also noted the selling prices of these brands remained relatively stable whilst the sales volume of packaging packs under Yuxi brand and overseas sales increased by over 50% during the past three years. As per discussed with management of Cheng Cheng and Hongta, the selling prices of all cigarette packaging packs and boxes are determined annually via a tendering process. All packaging printing companies are required to submit their proposed selling price of each product to Hongta within a designated period such that Hongta will determine the final price. It is a commercial practice of Hongta to source cigarettes packaging packs and boxes at same price from different packaging printing companies including Cheng Cheng. In addition, we noted that sales to Hongta accounted for 74.1% to 88.8% of Cheng Cheng's total sales for the three years ended 31 December 2009 according to the audited accounts of Cheng Cheng.

The amounts of purchase from Hongta of anti-counterfeiting paper and anti-counterfeiting labels, being the historical amount of transaction under the Purchase Orders, during the three years ended 31 March 2010 are illustrated below:

	<b>For the year ended 31 March</b>		
	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<i>(RMB Million)</i>	<i>(RMB Million)</i>	<i>(RMB Million)</i>
Anti-counterfeiting paper	15.3	17.7	17.1
Anti-counterfeiting labels	3.3	5.6	9.0
	<u>18.6</u>	<u>23.3</u>	<u>26.1</u>
Total purchase from Hongta	<u><u>18.6</u></u>	<u><u>23.3</u></u>	<u><u>26.1</u></u>

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## LETTER FROM PARTNERS CAPITAL

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We believe that the increase of purchase amount will be driven by the quantity of raw materials.

As shown above, the purchase amount of the anti-counterfeiting paper was relatively stable whilst that of anti-counterfeiting labels experienced a significant increase during past three years. We also noted the purchase prices were stable whilst the purchase volume increased by over 50% during the past three years. Further, we noted that the costs of anti-counterfeiting paper and anti-counterfeiting labels accounted for 32.7% to 37.3% of Cheng Cheng's total costs of sales for the three years ended 31 December 2009 according to the audited accounts of Cheng Cheng.

Based on the above background and reasons, in particular, (i) the purchase of the Materials from the Material Suppliers as stipulated under the Purchase Orders and the sale of cigarette packaging packs and boxes to the Packs and Boxes Customers as stipulated under the Sales Orders have been carried out by Cheng Cheng for years, and (ii) the Purchase Orders and the Sale Orders are carried out in the ordinary and normal course of business of Cheng Cheng, we consider that it is commercially justified for the Group to enter into the Framework Agreement with the relevant connected parties.

### **Principal terms of the Transactions**

Date:	5 August 2010
Parties:	(i) the Company; (ii) Cheng Cheng; and (iii) Hongta
Subject matter:	(i) Purchase Orders

Cheng Cheng will continue to purchase and Materials Suppliers will continue to sell the Materials which include the specially made anti-counterfeiting paper and anti-counterfeiting label exclusively used for the purpose of manufacturing the cigarette packaging packs and boxes for Hongta Cigarettes on an order-by-order basis.

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## LETTER FROM PARTNERS CAPITAL

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(ii) Sales Orders

Cheng Cheng will continue to sell and the Packs and Boxes Customers will continue to purchase the cigarette packaging packs and boxes on an order-by-order basis.

Terms of  
settlement

(i) Purchase Orders

The credit period for the purchase of the Material shall be set out in the relevant purchase order and shall be made within such time and in such manner in accordance with normal market practice.

(ii) Sales Orders

The credit period for the Packs and Boxes Customers to settle the payment shall be set out in the relevant order and shall be made within such time and in such manner in accordance with normal market practice.

Term: from the effective date of the Framework Agreement to 31 March 2013.

We noted that the Materials under the Purchase Orders are used for the production of cigarette packaging packs and boxes. We have reviewed the Framework Agreement and noted that it is entered into in the ordinary course of business of the Company and on an arm's length basis.

As part of our due diligence exercise, we have reviewed, on sample basis, invoices of the transactions and noted that the price of anti-counterfeiting paper and anti-counterfeiting label under the Purchase Orders offered by the Materials Suppliers to Cheng Cheng was generally comparable to that offered to other customers of the Materials Suppliers. In this regard, we are satisfied that the items supplied by the Material Suppliers to Cheng Cheng were at price no higher than other enterprises. In addition, we have discussed with management of Cheng Cheng and noted that terms of settlement of the Purchase Orders were generally comparable to other customers.

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## LETTER FROM PARTNERS CAPITAL

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The pricing basis of the Purchase Orders is with reference to (i) the historical price of the Materials in the previous transactions between Cheng Cheng and the Materials Suppliers; and (ii) the prevailing market prices of similar types of materials used for manufacturing similar types of cigarette packaging packs and boxes and shall be comparable to the prices of the Materials charged by the Materials Suppliers to other cigarette packaging packs and boxes manufacturers.

Having regard to (i) the transactions contemplated under the Purchase Orders have been carried out between Cheng Cheng and the Material Suppliers for over three years, (ii) the prices of relevant materials are fairly and reasonably determined; and (iii) the terms and conditions are no less favorable than those offered by the Material Suppliers to its customers other than Cheng Cheng, we consider that the Purchase Orders are beneficial to the Company and the entering into of the transactions contemplated under the Purchase Orders under the Framework Agreement and its terms are in the interest of the Company and its shareholders as a whole.

Pursuant to the Framework Agreement, the pricing basis of Sale Orders is with reference to (i) the historical price of the cigarette packaging packs and boxes in the previous transactions between Cheng Cheng and Packs and Boxes Customers; (ii) estimated increase in demand for Hongta Cigarette in the PRC and overseas markets; and (iii) the tender prices. Moreover, the terms of settlement of the Sales Orders were generally comparable to the other customers of Cheng Cheng.

Having compared the cigarette packs and boxes' selling prices of Cheng Cheng to Hongta and to other customers, we note that the selling price to Hongta is higher than those to other customers. In addition, we note that Cheng Cheng, as similar to other packaging printing companies, may not have adequate bargaining power on price determination of cigarette packaging packs and boxes with Packs and Boxes Customers as the price is primarily determined by Hongta. However, having regard to (i) same selling price is charged by Hongta to all package printing companies including Cheng Cheng for a given cigarette packaging packs and boxes and (ii) price of cigarette packaging packs and boxes is determined via tendering process, we are of the view that the Framework Agreement under the Sales Orders are on normal commercial terms and fair and reasonable so far as the independent Shareholders are concerned.

We are of the view that the Framework Agreement sets out the principal terms for the Transactions to be conducted or entered into in accordance with applicable normal practice of the market on arm's length basis.

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## LETTER FROM PARTNERS CAPITAL

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### Proposed Annual Caps

We summarise below the proposed annual cap for the maximum value to be paid by Cheng Cheng to Materials Suppliers under the Purchase Orders (“**Annual Purchase Caps**”) and the maximum value to be paid by Hongta to Cheng Cheng under the Sale Orders (“**Annual Sale Caps**”) for the three years ending 31 March 2013:

	Actual amount for the year ended 31 March 2010 <i>(RMB Million)</i>	Proposed Annual Caps For the year ending 31 March		
		2011 <i>(RMB Million)</i>	2012 <i>(RMB Million)</i>	2013 <i>(RMB Million)</i>
Annual Sale Caps	98.0	107	119	131
Annual Purchase Caps	26.1	29	33	36

#### **1. Annual Sale Caps**

The Annual Sale Caps for the three years ending 31 March 2013 were determined by the Company with reference to:

- (i) the historical aggregate amount sold to the Packs and Boxes Customers by Cheng Cheng in previous transaction for the year ended 31 March 2010 of approximately RMB98 million;
- (ii) the actual sales orders placed by the Packs and Boxes Customers to Cheng Cheng for the cigarette packaging packs and boxes amounted to approximately RMB26.6 million for the period from 1 April 2010 to 30 June 2010; and
- (iii) the anticipated increase in demand of orders in view that Hongta has adopted the designs of the cigarette packaging packs and boxes for two brands of Hongta Cigarettes which are designed by Cheng Cheng.

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## LETTER FROM PARTNERS CAPITAL

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We noted that the State Tobacco Monopoly Administration of the PRC has implemented strategy of nurturing key tobacco group to focus on brand consolidation. According to the State Tobacco Monopoly Administration's annual conference report, the top 30 key high-end brands recorded a more impressive growth rate of 15.7% in terms of volume as compared to 2008. As the tobacco groups continue to consolidate their brands and operations, the Directors consider that key players, such as Hongta and its upstream suppliers including Cheng Cheng, could benefit from the market/industry consolidation.

The Annual Sale Cap for the year ended 31 March 2011 is the annualised amount based on the actual amount of sales of Cheng Cheng to the Pack and Boxes Customers for the cigarette packaging packs and boxes for the three months period from 1 April 2010 to 30 June 2010, which represents an annual growth rate of approximately 10% over the actual sales value made from Packs and Boxes Customers for the year ended 31 March 2010. Such 10% growth rate is applied for the determination of the Annual Sale Caps for the year ending 31 March 2012 and 2013. According to the financial information provided by Cheng Cheng for the three years ended 31 March 2010, the compound annual growth rate of the sales amount was approximately 12.5% which is consistent with the actual sales annual growth rate for the year ended 31 March 2010.

Having regard to (i) the historical growth rate of approximately 10% for the year ended 31 March 2010 is generally adopted for the determination of the relevant Annual Sale Caps for the three years ending 31 March 2013; (ii) such growth rate of 10% is lower than the market growth rate of 15.7% of the top 30 key high-end brands in terms of volume as compared to 2008 according to the State Tobacco Monopoly Administration's annual conference report, and (iii) the compound annual growth rate of the sales amount of Cheng Cheng is in line with the proposed annual growth rate, we concur with the Directors that the Annual Sale Caps are fair and reasonable.

### **2. Annual Purchase Caps**

The Annual Purchase Caps for the three years ending 31 March 2013 were determined by the Company with reference to:

- (i) the actual amount paid by Cheng Cheng to the Material Suppliers in the previous transactions for the year ended 31 March 2010 of approximately RMB 26.1 million; and

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## LETTER FROM PARTNERS CAPITAL

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- (ii) the actual amount of orders placed by Cheng Cheng to the Material Suppliers for the purchase of anti-counterfeiting paper and anti-counterfeiting labels amounted to approximately RMB7.9 million for the period from 1 April 2010 to 30 June 2010.

The Annual Purchase Cap for the year ended 31 March 2011 is roughly the annualised amount based on the actual amount of purchase of Cheng Cheng from the Material Suppliers of RMB7.9 million for the three months period from 1 April 2010 to 30 June 2010, which represents an annual growth rate of approximately 10% over the actual purchase value made from the Material Suppliers for the year ended 31 March 2009. Such 10% growth rate is referred to for the determination of the Annual Purchase Caps for the year ending 31 March 2012 and 2013.

According to the financial information provided by Cheng Cheng, we also noted that the historical annual compound growth rate of the purchase amounts was approximately 18.5% for the three years ended 31 March 2010. However, as purchase amounts are driven by the sales amounts, we believe that the annual growth rate of the Annual Purchase Caps could be in line with that of the Annual Sales Caps of approximately 10%.

Having regard to (i) the historical growth rate of approximately 10% in the year ended 31 March 2010 is generally adopted for the determination of the relevant Annual Purchase Caps for the three years ending 31 March 2013; (ii) such growth rate of 10% is lower than the historical growth rate of 12.3% of actual amount of purchase by Cheng Cheng from the Material Suppliers for the two years ended 31 March 2009 and 2010; and (iii) the potential growth rate of purchase amounts could be consistent with that of sales amounts of approximately 10%, we concur with the Directors that the Annual Purchase Caps are fair and reasonable.

### **On-going compliance with the Listing Rules**

Pursuant to Rule 14A.37 and Rule 14A.36(1) the Listing Rules, the Company will seek the approval by the Independent Shareholders of the Framework Agreement for the three years ending 31 March 2013 subject to the following conditions:

**1. *The transactions contemplated under the Framework Agreement is entered into:***

- (a) in the ordinary and usual course of the business of the Group;

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## LETTER FROM PARTNERS CAPITAL

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- (b) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available from or to independent third parties; and
- (c) in accordance with the terms of the Framework Agreement that are fair and reasonable and in the interests of the Independent Shareholders as a whole; and

**2. *The transacted amount of the transactions under the Framework Agreement shall not exceed the Annual Purchase Caps and Annual Sale Caps***

Taking into account of the conditions attached to the Framework Agreement, in particular, (i) the basis of setting the proposed annual caps is fair and reasonable; and (ii) the compliance with all other relevant requirement under the Listing Rules (which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the transaction contemplated under the continuing connected transactions pursuant to Rule 14A.35(3) and (4) of the Listing Rules), we consider that the Company has taken appropriate measures to govern the Company in carrying out the continuing connected transactions, thereby safeguarding the interests of the Independent Shareholders thereunder.

### RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the terms of the Framework Agreement, the Annual Purchase Caps and Annual Sale Caps are on normal commercial terms, are in the ordinary course of business of the Group, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM for approving the Framework Agreement, the Annual Purchase Caps and Annual Sale Caps.

Yours faithfully,  
For and on behalf of  
**Partners Capital International Limited**  
**Alan Fung**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

## 2. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN SHARE OPTIONS

### (a) Interests and short positions of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of each Director or the chief executives (within the meaning of the Listing Rules) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange were as follows:

<b>Name of director</b>	<b>Nature of Interest</b>	<b>Number of shares held</b>	<b>% of existing issued shares</b>
FANG Wen Quan	Corporate interest	1,187,594,704 <i>(Note)</i>	63.50

*Note:*

These 1,187,594,704 Shares are beneficially owned by Tianda Group. Mr. FANG Wen Quan has a 100% equity interests in Tianda Group and, accordingly, is deemed to have a corporate interest in the 1,187,594,704 shares of Tianda Group.

As at the Latest Practicable Date, Shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or 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, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or, who is directly or indirectly, interested in ten per cent. 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, were as follows:

Name of shareholders	Capacity	Number of shares held	% of existing issued shares
Tianda Group	Beneficial owner	1,187,594,704 <i>(Note a)</i>	63.50
South Hong Investment Limited	Beneficial owner	214,992,932 <i>(Note b)</i>	11.50
Hongta	Interest in controlled corporation	214,992,932 <i>(Note b)</i>	11.50

*Notes:*

- (a) These 1,187,594,704 Shares are beneficially owned by Tianda Group. Mr. FANG Wen Quan, the Chairman and Managing Director, has a 100% equity interests in Tianda Group and, accordingly, is deemed to have a corporate interest in the 1,187,594,704 shares of Tianda Group.
- (b) These 214,992,932 shares are beneficially owned by South Hong Investment Limited (“**South Hong**”). South Hong was beneficially owned as to approximately 92.28% by Hongta. Accordingly, Hongta is deemed to be interested in the 214,992,932 shares owned by South Hong.
- (c) Mr. FANG Wen Quan, Mr. LI Suiming and Mr. LIU Huijiang are also directors of South Hong; Mr. LI Suiming is the president of Hongta Tobacco (Group) Limited and Mr. LIU Huijiang is deputy general manager of Yunnan Hongta.

**3. COMPETING BUSINESS INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling Shareholder) in a business which competes or may compete, either directly or indirectly, with the business of the Group.

**4. SERVICE CONTRACTS**

As at the Latest Practicable Date, there were no existing or proposed service contracts between any of the Directors or proposed directors of the Company and any member of the Group (excluding contracts expiring or terminable by any member of the Group within one year without payment of compensation, other than statutory compensation).

**5. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

Up to the Latest Practicable Date, none of the Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2010, being the date to which the latest published audited financial statements of the Company were made up.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group taken as a whole.

**6. EXPERT AND CONSENT**

The following is the qualifications of the expert who has given an opinion or advice on the information contained in this Circular:

<b>Name</b>	<b>Qualifications</b>
Partners Capital	a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Partners Capital was not beneficially interested in the share capital of any member of the Group, nor did it has 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 has any interest, either direct or indirect, in any assets which had been since 31 March 2010 (being the date to which the latest published audited accounts of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, Partners Capital has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter, report and/or summary of its opinion (as the case may be) and references to its name in the form and context in which it appears herein.

**7. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2010, the date to which the latest published audited accounts of the Company were made up.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Framework Agreement is available for inspection from 9:00 a.m. to 5:00 p.m. (Monday to Friday) at Suite 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Hei Avenue, Central, Hong Kong from the date of this Circular up to 27 August 2010 (both days inclusive).

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## NOTICE OF EGM

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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 IS HEREBY GIVEN** that an extraordinary general meeting of Yunnan Enterprises Holdings Limited (the “Company”) will be held at Suites 2405-2410, 24th Floor, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong on Friday, 27 August 2010 at 11:30 a.m. (or as soon thereafter as the annual general meeting of the Company convened for the same day and place shall have been concluded or adjourned) for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolution of the Company:

### ORDINARY RESOLUTION

“**THAT** the agreement (the “**Framework Agreement**”) entered into among the Company, Zhuhai Special Economic Zone Cheng Cheng Printing Co., Ltd. and Hongta Tobacco (Group) Limited for the purchase of the specially made anti-counterfeiting papers and anti-counterfeiting labels and sale of the cigarette packaging packs and boxes and the respective annual caps and the transactions contemplated thereunder be and are hereby approved and any one director of the Company be and is hereby authorised to exercise all the powers of the Company and take all other steps as they may in their opinion to be desirable or necessary in connection with the Framework Agreement and generally to exercise all the powers of the Company as they deem desirable or necessary in connection with the forgoing.”

By order of the Board of  
**Yunnan Enterprises Holdings Limited**  
**FANG Wen Quan**  
*Chairman*

Dated 12 August 2010

\* For identification purpose only

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## NOTICE OF EGM

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*Notes:*

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. Whether or not you intend to attend the Meeting in person, you are encouraged to complete and return the proxy form in accordance with the instructions printed thereon. Completion and return of a proxy form will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.
3. In order to be valid, the proxy form, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at the Company's principal place of business 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.
4. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of a poll.