Medical China Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2005

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This report, for which the directors of Medical China Limited collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Medical China Limited. The directors of Medical China Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived or after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

– Turnover for the six months ended 30 June 2005 amounted to approximately HK$12,538,000, representing a decrease of 28% as compared to that of the corresponding period in 2004.

– For the six months ended 30 June 2005, the Group sustained a net loss attributable to shareholders of approximately HK$2,861,000, versus a net profit of approximately HK$3,100,000 for the corresponding period in 2004.

– For the six months ended 30 June 2005, loss per share is 0.34 Hong Kong cents (2004: Earnings per share 0.37 Hong Kong cents).

– The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: HK$Nil).

INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board") of Medical China Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for each of the three months and six months ended 30 June 2005, together with the comparative unaudited figures for the corresponding periods of 2004 as follows:

CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2005	2004	**2005**	2004
		$'000	*$'000*	***$'000***	*$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
TURNOVER	3	**8,096**	10,363	**12,538**	17,460
Cost of services/sales		**(4,615)**	(4,124)	**(7,214)**	(8,289)
Gross profit		**3,481**	6,239	**5,324**	9,171
Other income	5	**515**	1,118	**893**	2,342
Selling and distribution expenses		**(1,890)**	(731)	**(3,227)**	(1,638)
Administrative expenses		**(2,336)**	(2,659)	**(4,403)**	(4,666)
Other operating expenses		**(685)**	(1,032)	**(1,156)**	(1,032)
(Loss)/profit from operations		**(915)**	2,935	**(2,569)**	4,177
Finance cost		**(77)**	(4)	**(111)**	(4)
Share of loss of an associate		**–**	(13)	**–**	(5)
(Loss)/profit before taxation	6	**(992)**	2,918	**(2,680)**	4,168
Income tax	7	**(380)**	(767)	**(584)**	(1,195)
(Loss)/profit after taxation		**(1,372)**	2,151	**(3,264)**	2,973
Attributable to:					
Equity holders of the parent		**(1,234)**	2,272	**(2,861)**	3,100
Minority interests		**(138)**	(121)	**(403)**	(127)
(Loss)/profit after taxation		**(1,372)**	2,151	**(3,264)**	2,973
(Loss)/earnings per share	9				
Basic (in Hong Kong cents)		**(0.15)**	0.27	**(0.34)**	0.37

CONSOLIDATED BALANCE SHEET

(Expressed in Hong Kong dollars)

	Note	At 30 June 2005 $'000 (Unaudited)	$'000	At 31 December 2004 $'000 (Audited)	$'000
Non-current assets					
Property, plant and equipment	*10*	**16,383**		19,493	
Construction in progress		**110**		–	
Interest in leasehold land held for lease	*2(c)*	**1,069**		1,089	
Intangible assets	*11*	**58,066**		58,237	
Negative goodwill	*2(b)*	**–**		(3,089)	
			75,628		75,730
Current assets					
Inventories	*12*	**6,377**		7,098	
Trade and other receivables	*13*	**11,125**		6,637	
Deposits with banks	*14*	**58,221**		91,191	
Cash at bank and on hand		**19,014**		9,091	
		94,737		114,017	
Current liabilities					
Bank loan	*15*	**5,634**		1,880	
Trade and other payables	*16*	**42,971**		65,561	
Amounts due to related companies	*17*	**894**		1,790	
Current taxation		**608**		24	
		50,107		69,255	
Net current assets			**44,630**		44,762
NET ASSETS			**120,258**		120,492
CAPITAL AND RESERVES					
Share capital	*18*		**8,350**		8,350
Reserves			**108,530**		108,358
Total equity attributable to equity holders of the parent			**116,880**		116,708
Minority interests			**3,378**		3,784
TOTAL EQUITY			**120,258**		120,492

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Expressed in Hong Kong dollars)

	Six months ended 30 June 2005 *$'000* (Unaudited)	Six months ended 30 June 2004 *$'000* (Unaudited)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(27,238)**	7,884
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	**33,518**	(3,679)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**3,643**	1,882
NET INCREASE IN CASH AND CASH EQUIVALENTS	**9,923**	6,087
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**9,091**	8,139
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**19,014**	14,226
Analysis of cash and cash equivalents		
Cash at bank and on hand	**19,014**	14,226

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Expressed in Hong Kong dollars)

	Attributable to equity holders of the parent								
	Share capital $'000	Share premium $'000	Contributed surplus $'000	Exchange reserve $'000	General reserve $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total $'000
At 1 January 2004	8,350	70,733	5,265	(405)	5,783	23,117	112,843	4,062	116,905
Net gains and losses not recognised in the consolidated income statement									
– Currency translation differences	–	–	–	443	–	–	443	18	461
Net profit for the period	–	–	–	–	–	3,100	3,100	(127)	2,973
At 30 June 2004	8,350	70,733	5,265	38	5,783	26,217	116,386	3,953	120,339
At 1 January 2005	8,350	70,733	5,265	(100)	–	32,460	116,708	3,784	120,492
– Adjustment on retained profits in respect of amortization of negative goodwill	–	–	–	–	–	3,089	3,089	–	3,089
– As restated	8,350	70,733	5,265	(100)	–	35,549	119,797	3,784	123,581
Net gains and losses not recognised in the consolidated income statement									
– Currency translation differences	–	–	–	(56)	–	–	(56)	(3)	(59)
Net loss for the period	–	–	–	–	–	(2,861)	(2,861)	(403)	(3,264)
At 30 June 2005	8,350	70,733	5,265	(156)	–	32,688	116,880	3,378	120,258

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. BASIS OF PREPARATION

The unaudited interim financial report has been reviewed by the Company's audit committee. The interim financial report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The financial information relating to the financial year ended 31 December 2004 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on the statutory financial statements for the year ended 31 December 2004 in their report dated 23 March 2005.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit and loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

(b) Amortization of negative goodwill (HKFRS 3 Business combinations)

In prior periods, negative goodwill was amortized on a straight-line basis in accordance with the remaining estimated useful economic lives of the relevant assets acquired.

With effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

This change was adopted by way of an adjustment to the opening balance of the retained profits as at 1 January 2005 of HK$3,089,000. No restatement of comparative figures is required.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With the adoption of HKAS 17 as from 1 January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Such leasehold land will not be revalued. Instead, any pre-paid land premiums for acquiring the land leases, or other lease payments, are amortized on a straight line basis over the lease term. If the property is in the course of development or re-development, or the property is otherwise being used in the production of inventory, the amortization charge is included as part of the costs of the property under development or other inventory. In all other cases the amortization charge for the period is recognised in the income statement immediately.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. As from 1 January 2005 the buildings are also stated at cost less accumulated depreciation to be consistent with the new policy required to be adopted for the land element.

This change has no material impact on the operating results of the Group.

3. TURNOVER

Turnover represents service fees arising from the provision of medical equipment services and related accessories, net of respective taxes; the sale value of testing equipment, net of value added tax, and service fees arising from the provision of medical research and development services, net of business tax.

Pursuant to various agreements with hospitals in the People's Republic of China (the "PRC"), the Group agrees to provide certain medical equipment at the relevant hospitals and in return, share the medical service fees arising from the utilization of the medical equipment after deducting the related direct expenses.

Turnover recognised during the period may be analysed as follows:

	Three months ended 30 June		**Six months ended 30 June**	
	2005	2004	**2005**	2004
	$000	*$000*	***$000***	*$000*
Medical service fees and sale of related accessories	**4,291**	7,609	**6,548**	12,169
Sale of testing equipment	**3,805**	2,752	**5,768**	4,988
Research and development services	**–**	2	**222**	303
	8,096	10,363	**12,538**	17,460

4. SEGMENT INFORMATION

Business segments

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

	Medical services		Sale of medical equipment		Research and development		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**6,548**	12,194	**5,768**	4,963	**222**	303	**12,538**	17,460
Segment result	**1,689**	6,512	**(1,082)**	158	**(1,822)**	(1,545)	**(1,215)**	5,125
Unallocated operating income and expenses							**(1,354)**	(948)
(Loss)/profit from operations							**(2,569)**	4,177
Finance costs							**(111)**	(4)
Share of loss of an associate							**–**	(5)
Income tax							**(584)**	(1,195)
(Loss)/profit after taxation							**(3,264)**	2,973

Geographical segments

The Group operates mainly in the PRC and accordingly no geographical segment information is presented.

5. OTHER INCOME

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Interest income	**438**	438	**816**	718
Amortization of negative goodwill	**–**	720	**–**	1,441
Net gain/(loss) on sales of fixed assets	**–**	(113)	**–**	(113)
Miscellaneous	**77**	73	**77**	296
	515	1,118	**893**	2,342

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is arrived at after charging/(crediting):

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Cost of inventories	**3,893**	2,757	**5,770**	5,605
Depreciation	**1,477**	1,508	**3,049**	2,832
Auditors' remuneration	**300**	300	**300**	300
Operating lease charges in respect of office premises	**106**	274	**200**	425
Research and development costs	**757**	1,165	**1,313**	1,185
Staff costs (including directors' remuneration)				
– salaries and wages	**673**	1,026	**1,382**	2,146
– staff retirement benefits	**5**	64	**9**	110
Amortization of negative goodwill	**–**	(720)	**–**	(1,441)
Amortization of intangible assets	**83**	96	**167**	192

7. INCOME TAX

Taxation in the consolidated income statement represents:

	Three months ended 30 June		Six months ended 30 June	
	2005	2004	**2005**	2004
	$'000	*$'000*	***$'000***	*$'000*
Current tax – PRC Tax for the period	**380**	767	**584**	1,195

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months and six months ended 30 June 2005 (2004: HK$Nil) as the Group did not have any assessable profits chargeable to Hong Kong Profits Tax during the period.

(ii) PRC Income Tax

The Company's subsidiary, Tat Lung Medical Treatment (Shenzhen) Ltd. ("Tat Lung Treatment"), located in the Shenzhen Special Economic Zone in the PRC is subject to PRC income tax at a reduced rate of 15% (2004: 15%).

No provision for PRC Income Tax has been made for the Company's other subsidiaries, China Best Drugs Research (Nanjing) Ltd. ("China Best"), Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa") and China Best Pharmaceutical (Nanjing) Company Limited ("CB Pharmaceutical"), as they did not have assessable profits for the six months ended 30 June 2005 determined in accordance with the relevant income tax rules and regulations in the PRC.

(iii) No provision has been made for deferred taxation as the Group does not have any material deductible or taxable temporary difference (2004: HK$Nil).

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: HK$Nil).

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the three months and six months ended 30 June 2005 is based on the loss attributable to equity shareholders of HK$1,234,000 (2004: profit of HK$2,272,000) and HK$2,861,000 (2004: profit of HK$3,100,000) respectively divided by the weighted average number of 835,000,000 (2004: 835,000,000) ordinary shares in issue during the relevant periods.

(b) Diluted (loss)/earnings per share

No diluted (loss)/earnings per share for the three months and six months ended 30 June 2005 and 30 June 2004 respectively have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

10. PROPERTY, PLANT AND EQUIPMENT

	Medical equipment $'000	Plant, machinery and equipment $'000	Building $000	Motor vehicle $'000	Total $'000
Cost					
At 1 January 2005	29,522	1,760	6,788	1,994	40,064
Additions	–	158	–	–	158
Disposals	(277)	–	–	–	(277)
Exchange adjustments	(15)	(2)	(8)	(2)	(27)
At 30 June 2005	29,230	1,916	6,780	1,992	39,918
Aggregate depreciation					
At 1 January 2005	(18,989)	(542)	(272)	(768)	(20,571)
Charge for the period	(2,599)	(136)	(153)	(161)	(3,049)
Written back on disposals	72	–	–	–	72
Exchange adjustments	10	1	1	1	13
At 30 June 2005	(21,506)	(677)	(424)	(928)	(23,535)
Net book value					
30 June 2005	7,724	1,239	6,356	1,064	16,383
31 December 2004	10,533	1,218	6,516	1,226	19,493

11. INTANGIBLE ASSETS

	Medical research projects $'000	Others $'000	Total $'000
Cost			
At 1 January 2005	83,897	2,331	86,228
Exchange adjustment	(2)	(3)	(5)
At 30 June 2005	83,895	2,328	86,223
Accumulated amortisation			
At 1 January 2005	(27,625)	(366)	(27,991)
Charge for the year	–	(167)	(167)
Exchange adjustment	–	1	1
At 30 June 2005	(27,625)	(532)	(28,157)
Net book value			
At 30 June 2005	56,270	1,796	58,066
At 31 December 2004	56,272	1,965	58,237

12. INVENTORIES

	At 30 June 2005 ***$'000***	At 31 December 2004 *$'000*
Raw materials	**2,270**	2,772
Work in progress	**30**	795
Finished goods	**4,077**	3,531
	6,377	7,098

13. TRADE AND OTHER RECEIVABLES

	At 30 June 2005 *$'000*	At 31 December 2004 *$'000*
Trade receivables	**5,026**	1,746
Other receivables, deposits and prepayments	**6,099**	4,891
	11,125	6,637

All of the trade and other receivables are expected to be recovered within one year.

An ageing analysis of trade receivables (net of specific allowances for bad and doubtful debts) is as follows:

	At 30 June 2005 *$'000*	At 31 December 2004 *$'000*
Within three months	**4,544**	1,274
Three to six months	**457**	353
Six to twelve months	**25**	119
	5,026	1,746

Debts are normally due within 60 days from the date of billing.

14. DEPOSITS WITH BANKS

All deposits with banks are denominated in Renminbi ("RMB") and kept in the PRC.

The conversion of the RMB balances into foreign currencies and the transfer of these balances out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

15. BANK LOAN

At 30 June 2005, the bank loan is repayable as follows:

	At 30 June 2005 $'000	At 31 December 2004 $'000
Within one year or on demand	**5,634**	1,880

The above bank loan was secured by a charge on the interest in leasehold land held for own use under an operating lease of the Group with an aggregate carrying value of HK$1,069,000 (31 December 2004: HK$1,089,000) at 30 June 2005.

16. TRADE AND OTHER PAYABLES

	At 30 June 2005 $'000	At 31 December 2004 $'000
Trade payables	**4,289**	3,191
Other payables and accrued liabilities	**38,682**	62,370
	42,971	65,561

All of trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	At 30 June 2005 $'000	At 31 December 2004 $'000
Due within three months or on demand	**2,623**	3,191
Due after three months but within six months	**1,115**	–
Due after six months but within one year	**551**	–
	4,289	3,191

17. AMOUNTS DUE TO RELATED COMPANIES

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

18. SHARE CAPITAL

	No. of shares ('000)	At 30 June 2005 and 31 December 2004 $'000
Authorised		
Ordinary shares of $0.01 each	2,000,000	20,000
Issued and fully paid		
At 1 January and 30 June 2005	835,000	8,350

19. COMMITMENTS

Capital commitments

Capital commitments in respect of capital contribution to subsidiaries outstanding at 30 June 2005 not provided for in the interim financial report were as follows:

	At 30 June 2005 ***$'000***	At 31 December 2004 *$'000*
Contracted for	**8,925**	28,860

Operating lease commitments

At 30 June 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	At 30 June 2005 ***$'000***	At 31 December 2004 *$'000*
Within one year	**376**	579
After one year but within five years	**92**	–
After five years	**–**	–
	468	579

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one or two years, with an option to renew the lease when all terms are renegotiated. The leases do not include contingent rentals.

20. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with related parties:

		Three months ended 30 June		Six months ended 30 June	
		2005	2004	**2005**	2004
	Note	***$'000***	*$'000*	***$'000***	*$'000*
Sales	*(i)*	–	732	–	738
Purchases	*(ii)*	–	51	–	73

Note:

(i) The Group sold certain medical equipment and accessories to a minority shareholder of a subsidiary during the six months ended 30 June 2004 amounted to HK$738,000.

(ii) A minority shareholder of a subsidiary sold certain medical equipment and accessories to the Group during the six months ended 30 June 2004 amounted to HK$73,000.

(iii) At 30 June 2005, the Group had an outstanding balance of advance from the minority shareholder of a subsidiary which amounted to approximately HK$94,000 (2004: HK$746,000). The maximum balance of advance from the minority shareholder during the period was approximately HK$847,000 (during the year 2004: HK$1,454,000). The amount due is unsecured, interest-free and has no fixed terms of repayment.

The directors of the Company are of the opinion that the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business.

Apart from the above, there were no other material related party transactions entered into by the Group during the period.

BUSINESS REVIEW

For the six months ended 30 June 2005, the Group's turnover was generated from provision of RFAS tumour equipment and relevant auxiliary services to various hospitals in the PRC; manufacture and sales of medical testing equipment and provision of research and development services of Chinese and western drugs and medicines.

As at 30 June 2005, the number of RFAS tumour therapeutic centers established by the Group jointly with hospitals in the PRC decreased to 50. The reason was that upon the expiry of co-operation agreements with some hospitals, the Group was required to transfer equipment to those hospitals at no consideration according to the terms of the co-operation agreements but maintained relationship as a supplier of related accessories. In addition, as some hospitals initiated their therapeutic operations not as good as expected, the Group had withdrawn the related RFAS tumour therapeutic equipment after negotiation with the hospitals. The Group would repair the returned equipments and seek suitable hospital in an effort to forge co-operation.

The production and sale of D-series automatic biochemical equipment showed a disappointing performance for the first six months of this year, as the quality of the products was not standardized. This consequently affected the growth in sales of the products. However, the Group has committed to enhance the quality of the products and has been actively expanding the domestic and foreign markets. It is anticipated that the sales will be greatly improved during the second half year.

China Best proceeded with the research and development of Chinese and western drugs and medicines as planned. Apart from four drugs (3 Chinese drugs and 1 western drug) which have obtained approval documents for clinical trial and have gone through clinical tests, there are four Chinese drugs undergoing toxin tests, one Chinese drug undergoing supplementary test, and one western drug have obtained production approval.

OUTLOOK

The Group will continue to focus on business diversification and will keep on strengthening and expanding the existing RFAS treatment services, the manufacture and sale of medical testing equipment, and the service of research and development of drugs.

The Group is closely monitoring and seeking business opportunities with development potential, by taking advantage of its existing network and relationships, so as to increase the future stream of revenue of the Group.

FINANCIAL REVIEW

During the period under review, the basic loss per share was Hong Kong cents 0.34 (30 June 2004: earning per share of Hong Kong cents 0.37). The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2005 (30 June 2004: HK$Nil).

As at 30 June 2005, shareholders' funds of the Group amounted to approximately HK$116,880,000 (31 December 2004: HK$116,708,000). Current assets amounted to approximately HK$94,737,000 (31 December 2004: HK$114,017,000) of which approximately HK$77,235,000 (31 December 2004: HK$100,282,000) were bank deposits and cash at bank and on hand. The Group's current liabilities amounted to approximately HK$50,107,000 (31 December 2004: HK$69,255,000) of which trade and other payables and short term bank loan represented approximately HK$42,971,000 (31 December 2004: HK$65,561,000) and HK$5,634,000 (31 December 2004: HK$1,880,000) respectively. The Group obtained the said short term bank loan from a PRC Authorized Credit Union with pledge and security of the interest in leasehold land held for own use under an operating lease at carrying value of HK$1,069,000 at 30 June 2005 (31 December 2004: HK$1,089,000). The gearing ratio of the Group calculated on the basis of short term bank loan over total assets. As at 30 June 2005, the Group had a gearing ratio of 3.3% (31 December 2004: 0.99%).

The Group's transactions are denominated in Renminbi, Hong Kong dollars and US dollars. During the six months ended 30 June 2005, the exchange rates of such currencies have been stable. The Group has not entered into any hedging arrangement.

On 28 March 2005, a wholly-owned subsidiary named as Guilin Simei Biotechnology Ltd. with registered capital of US$1,000,000 was incorporated and it was principally planned to engage in the development and sale of tropical plants for Chinese drugs and medicine usages.

Apart from the aforesaid, the Group held no other significant investment and made no other acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2005.

As at 30 June 2005, the Group had no material contingent liabilities.

EMPLOYEES' INFORMATION

As at 30 June 2005, the Group has 141 (2004: 132) employees. The total of employee remuneration, including that of the directors, for the six months ended 30 June 2005 amounted to HK$1,382,000 (2004: HK$2,256,000).

In addition to the Share Option Scheme had conditional approved and adopted by the Company on 14 September 2001, the Group also provide a mandatory provident fund scheme for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement fund to its employees in the PRC according to the relevant regulation of the PRC.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Interests in the Company's shares:

Name	Number of ordinary shares of HK$0.01 each (the "Shares") in the share capital of the company held	Nature of interests	Percentage of interest
Dr. Li Nga Kuk, James	32,800,000	Personal	3.93%
Mr. Li Wo Hing	32,800,000	Personal	3.93%
	212,320,000	Corporate *(Note)*	25.43%
	Aggregate: 245,120,000		**Aggregate: 29.36%**
Mr. Li Tai To, Titus	16,400,000	Personal	1.96%

Note: By a letter of undertaking dated 14 December 2001, Mr. Ng Kwai Sang undertook to grant a right of first refusal to Mr. Li Wo Hing regarding his 5% shareholding in the share capital of People Market Management Limited ("PMM"), which is in turn owned as to 28.57% by Mr. Li Wo Hing . At 2 February 2005, Mr. Li Wo Hing purchased 7,142 shares of PMM, which represented 35.71% of total issued shares of PMM, from Mr. Ng Kwai Sang. Therefore, Mr. Li Wo Hing is deemed to be interested in 212,320,000 shares held directly by PMM.

Save as disclosed above, as at 30 June 2005, none of the directors or chief executive of the Company had any interests or short positions 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, pursuant to section 352 of SFO, to be entered in the register referred to therein or were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standard of dealings by directors, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 14 December 2001, the Company had conditionally approved and adopted a Share Option Scheme pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company under the Share Option Scheme.

As at 30 June 2005, none of the directors or chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries or its holding company a party to any arrangement to enable the directors or chief executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, so far as is known to the directors or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of substantial shareholder	No. of shares held	Capacity	Percentage of interests
1. PMM *(note)*	212,320,000	Beneficial owner	25.43%
2. China Equity Associates L.P.	85,200,000	Beneficial owner	10.20%

Note: As at 30 June 2005, PMM owned 212,320,000 shares, representing approximately 25.43% of the issued share capital of the Company. The issued share capital of PMM is owned as to 64.28% by Mr. Li Wo Hing, as to 17.86% by Dr. Li Nga Kuk, James, as to 8.93% by Mr. Li Tai To, Titus and as to 8.93% by Mr. Li Yue Erth. Mr. Li Wo Hing's indirect interests in these 212,320,000 shares through PMM are also disclosed in the paragraph headed "Directors' and Chief Executive's interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 30 June 2005, so far as is known to any directors or chief executive of the Company, no other person (other than a director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted during the six months ended 30 June 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPETING OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) has engaged in any business that compete or may compete with the business of the Group or has any other conflict of interests with the Group.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the six months ended 30 June 2005, the Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

As required by the Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Committee") with written terms of reference which deals with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the directors.

The Committee comprises three independent non-executive directors, namely Messrs. Guo Guoqing, Fan Wan Tat and Tam Wai Leung, Joseph.

During the six months ended 30 June 2005, the Committee held two meeting for the purpose of reviewing the Company's reports and financial statements, and providing advice and recommendations to the Board.

The Group's unaudited consolidated interim financial statements for the six months ended 30 June 2005 have been reviewed by the Committee, which was of the opinion that the preparation of such results complied with applicable accounting standards.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong 10 August 2005