



ESSEX BIO-TECHNOLOGY LIMITED
億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)



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DNA

INTERIM REPORT
2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Essex Bio-Technology Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Essex Bio-Technology Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief :- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board of directors of Essex Bio-Technology Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2005 as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	12,086	9,528	19,715	15,565
Cost of sales		(1,329)	(1,060)	(2,395)	(2,027)
Gross profit		10,757	8,468	17,320	13,538
Other revenue	2	21	3,749	9,257	4,379
Selling and distribution expenses		(6,760)	(5,080)	(10,817)	(8,141)
General and administrative expenses		(2,227)	(2,795)	(4,529)	(4,424)
Profit from operating activities		1,791	4,342	11,231	5,352
Finance costs		(2)	(3)	(4)	(4)
Profit before tax	4	1,789	4,339	11,227	5,348
Tax	5	-	-	-	-
Net profit from ordinary activities attributable to shareholders		1,789	4,339	11,227	5,348
Earnings per share	7				
- Basic		HK0.32 cent	HK0.78 cent	HK2.02 cents	HK0.96 cent
- Diluted		HK0.32 cent	HK0.78 cent	HK2.02 cents	HK0.96 cent

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2005 HK\$'000 (unaudited)	31 December 2004 HK\$'000 (audited)
NON-CURRENT ASSETS			
Intangible assets	8	5,926	6,056
Fixed assets	9	4,146	4,128
Available for sale financial assets		–	3,761
		10,072	13,945
CURRENT ASSETS			
Inventories		766	467
Trade receivables	10	11,565	11,243
Other receivables, deposits and prepayments		2,812	2,341
Cash and bank balances		37,188	23,360
		52,331	37,411
CURRENT LIABILITIES			
Trade and other payables	11	960	1,180
Accruals and deposits received		7,077	6,863
VAT payable		1,568	1,693
Obligations under finance lease		23	72
		9,628	9,808
NET CURRENT ASSETS		42,703	27,603
TOTAL ASSETS LESS CURRENT LIABILITIES		52,775	41,548
CAPITAL AND RESERVES			
Issued capital		55,524	55,524
Reserves		(2,749)	(13,976)
		52,775	41,548

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves							Total HK\$'000
	Issued capital HK\$'000	Share premium account HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve and contributed surplus HK\$'000	Investment revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Reserves/ (deficit) Total HK\$'000	
At 1 January 2004	55,524	970	14	362	-	(22,928)	(21,582)	33,942
Net loss for the period	-	-	-	-	-	5,348	5,348	5,348
At 30 June 2004	55,524	970	14	362	-	(17,580)	(16,234)	39,290
At 1 January 2005	55,524	970	14	362	-	(15,322)	(13,976)	41,548
Redesignation of available for sale financial assets	-	-	-	-	10,794	-	10,794	10,794
At 1 January 2005 as redesignated	55,524	970	14	362	10,794	(15,322)	(3,182)	52,342
Fair value loss on available for sale financial assets	-	-	-	-	(1,576)	-	(1,576)	(1,576)
Realisation on disposal of available for sale financial assets	-	-	-	-	(9,218)	-	(9,218)	(9,218)
Net profit for the period	-	-	-	-	-	11,227	11,227	11,227
At 30 June 2005	55,524	970	14	362	-	(4,095)	(2,749)	52,775

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,444	2,811
NET CASH FLOWS FROM INVESTING ACTIVITIES	12,432	8,092
NET CASH USED IN FINANCING ACTIVITIES	(48)	(48)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,828	10,855
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	23,360	10,522
CASH AND CASH EQUIVALENTS AT END OF PERIOD	37,188	21,377
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	37,188	21,377

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Principal accounting policies and basis of preparation

The Group's unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed interim financial statements have been prepared under the historical cost convention except available for sale financial assets are stated at fair value. The accounting policies and basis of preparation adopted for the preparation of these accounts are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2004.

2. Turnover and other revenue

Turnover represents sales value of biopharmaceutical products supplied to customers, less discounts, returns, value added tax and other applicable local taxes. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

An analysis of the Group's turnover and other income is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover:				
Sales of goods	12,086	9,528	19,715	15,565
Other revenue:				
Gain on disposal of available for sale financial assets	–	3,736	9,218	4,156
Gain on disposal of a subsidiary	–	–	–	205
Interest income	21	12	36	16
Sundries	–	1	3	2
	21	3,749	9,257	4,379
Total income	12,107	13,277	28,972	19,944

3. Segment information

(a) *Business segments*

The Group is principally engaged in the manufacture and sale of biopharmaceutical products. Accordingly, no business segmental analysis is presented.

(b) *Geographical segments*

The sales of the Group during the period ended 30 June 2004 and 2005 were made in the PRC.

4. Profit before tax

The Group's profit before tax is arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Depreciation	274	250	544	565
Amortisation of development expenditure	65	–	130	51
Amortisation of goodwill	–	58	–	116
Staff costs excluding directors' remuneration	1,377	1,343	2,501	2,677
Auditors' remuneration	87	182	159	179
Development costs written off	–	649	–	649

5. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit subject to Hong Kong profits tax.

The Group's operating subsidiaries are all established and carrying on business in the Special Economic Zones of the PRC as foreign investment enterprises. They are subject to enterprise income tax at a concessionary rate to 15%. One of the Group's subsidiaries, which is engaged in production, is entitled to seek exemption from enterprise income tax for two years starting from the first year of profitable operations after offsetting accumulated losses brought forward, followed by a 50% reduction in enterprise income tax for the next three years. No provision for PRC enterprise income tax had been made as there was no net assessable income during the period under review.

Deferred tax has not been provided as there was no significant timing differences which would give rise to deferred tax liabilities at the balance sheet date (2004: Nil). The potential tax benefits attributable to tax losses of the Group and the Company have not been recognised due to unpredictability of future profit streams (2004: Nil).

6. Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the period ended 30 June 2005 (2004: Nil).

7. Earnings per share

Basic

The calculation of basic earnings per share for the three months and six months ended 30 June 2005 are based on the net profit from ordinary activities attributable to shareholders of HK\$1,789,000 and HK\$11,227,000, and the weighted average of 555,244,000 ordinary shares in issue during both the three months and six months ended 30 June 2005.

The calculation of basic earnings per share for the three months and six months ended 30 June 2004 are based on the net profit from ordinary activities attributable to shareholders of HK\$4,339,000 and HK\$5,348,000, and the weighted average of 555,244,000 and 555,242,286 ordinary shares in issue during the three months and six months ended 30 June 2004.

Diluted

The calculation of the diluted earnings per share for the three months and six months ended 30 June 2005 are based on the net profit from ordinary activities attributable to shareholders of HK\$1,789,000 and HK\$11,227,000, and 555,244,000 ordinary shares in both periods.

The calculation of the diluted earnings per share for the three months and six months ended 30 June 2004 are based on the net profit from ordinary activities attributable to shareholders of HK\$4,339,000 and HK\$5,348,000, and 556,459,870 and 556,773,497 ordinary shares.

8. Intangible assets

	Development expenditure HK\$'000	Goodwill HK\$'000	Total HK\$'000
Cost:			
At 1 January 2005 and 30 June 2005	6,865	2,319	9,184
Accumulated depreciation:			
At 1 January 2005	2,606	522	3,128
Provided during the period	130	–	130
At 30 June 2005	2,736	522	3,258
Net book value:			
At 30 June 2005	4,129	1,797	5,926
At 31 December 2004	4,259	1,797	6,056

9. Fixed assets

	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At 1 January 2005	5,050	2,713	758	8,521
Additions	254	181	156	591
Disposals	–	–	(154)	(154)
At 30 June 2005	5,304	2,894	760	8,958
Accumulated depreciation:				
At 1 January 2005	2,237	1,723	433	4,393
Provided during the period	217	257	70	544
Disposals	–	–	(125)	(125)
At 30 June 2005	2,454	1,980	378	4,812
Net book value:				
At 30 June 2005	2,850	914	382	4,146
At 31 December 2004	2,813	990	325	4,128

10. Trade receivables

The Group's policy is to allow an average credit period of 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	At 30 June 2005 HK\$'000 (unaudited)	At 31 December 2004 HK\$'000 (audited)
0-60 days	7,490	6,039
61-90 days	2,082	1,681
> 90 days	1,993	3,523
	11,565	11,243

11. Trade and other payables

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

	At 30 June 2005 HK\$'000 (unaudited)	At 31 December 2004 HK\$'000 (audited)
0-60 days	408	658
61-90 days	39	22
> 90 days	513	500
	960	1,180

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

During the period under review, the Group was principally engaged in the manufacture and sale of biopharmaceutical products for the treatment and healing of surface wounds and eye wounds. The Group also engaged in the research and development of biopharmaceutical products for the treatment of duodenal ulcers and nervous system damages and diseases, as well as other optical pharmaceutical projects.

In 2005, the Group stays focused on driving organic growth from its core biopharmaceutical products through the established distribution network in China.

Market Development

The Group continued to execute its plan of establishing a network of direct representative offices (“DROs”) in strategic cities to complement the already established distribution network and are aimed at providing more effective control and management of market coverage and reach. Over 1,000 hospitals in major provinces in the PRC carry the Group’s flagship pharmaceutical products.

The Group currently has nine DROs throughout major provinces in the PRC.

To cultivate further market coverage and reach for the Group’s genetic products, the Group has conducted over 42 seminars and 326 market promotion activities, educating more than 7,000 doctors and medical practitioners on the clinical applications of the Group’s products, in major cities and provinces in the PRC for the period under review.

During the period under review, the Group’s flagship biopharmaceutical products have been successfully approved for the Medical Insurance coverage in 7 major provinces in the PRC.

Products Development

貝復濟凝膠劑型(Beifuji gel formulation) – It is a derivative of the existing commercialised貝復濟(Beifuji) in lyophilized powder and liquid forms. 貝復濟凝膠劑型(Beifuji gel formulation), namely 貝復新(Beifuxin), is comparatively persistent when acting on wounds, which in turn promotes therapeutic efficacy. The Group obtained approval from SFDA in January 2004 for the commercial production of 貝復新(Beifuxin). The requisite GMP certificate was obtained in 2004. The Group started to manufacture and distribute貝復新(Beifuxin) in early 2005.

貝復舒凝膠劑型(Beifushu gel formulation) – It is used for the treatment of corneal wounds. It is a derivative of the flagship category I biopharmaceutical product 貝復舒(Beifushu) eye-drop. The current eye-drop form of 貝復舒(Beifushu) is being used in hospitals. It is perceived to be comparative easy-to-use and more comfortable as a result of a smoother and even distribution when applying on conjunctiva. Moreover, it is more stable in physical nature, which extends the product's persistency. In the period under review, the Group obtained approval from the SFDA for commercial production of 貝復舒凝膠劑型(Beifushu gel formulation) but is pending receipt of the GMP certification in order to commence production.

The Group's genetic drug product spectrum focuses on the treatment and healing of surface wound, corneal wound, duodenal ulcers and nervous system diseases and damages.

Research and Development (“R&D”)

R&D pipeline during the period under review included the following projects:

- 貝復適(Beifushi) – Clinical trials are in progress. 貝復適(Beifushi) is a category I biopharmaceutical product designed for the treatment and healing of duodenal ulcers.
- 貝復泰(Beifutai) – Pre-clinical tests have been concluded and pending SFDA's approval to start clinical trials. 貝復泰(Beifutai) is a category I biopharmaceutical product based on rh-bFGF for the treatment of nervous system diseases and damages.
- rh-GDNF – Pre-clinical tests are in progress. rh-GDNF is a neurotrophic factor for the treatment of nervous system damages and diseases.
- 妥布霉素滴眼液(Tobramycin Eye Drop) – The research and development on this project has been successfully completed during the period under review and is pending receipt of the GMP certification and SFDA'S approval in order to commence production. 妥布霉素滴眼液(Tobramycin Eye Drop) is developed for the treatment and healing of bacterial contamination.
- 雙氯芬酸鈉滴眼液(Diclofenac Sodium Eye Drop) – The research and development on this project has been successfully completed during the period under review and is pending the receipt of the GMP certification and SFDA'S approval in order to commence production. 雙氯芬酸鈉滴眼液(Diclofenac Sodium Eye Drop) is developed for the treatment and healing of keratitis and inflammation after cataract surgery.

FINANCIAL REVIEW

The Group reported approximately HK\$19.7 million in turnover, an increase of 26.7% over the corresponding period of last year.

Overall gross profit for the six months ended 30 June 2005 increased to approximately HK\$17.3 million when compared to approximately HK\$13.5 million recorded in the same period of last year.

The Group registered the profit attributable to shareholders of approximately HK\$11.2 million for the six months ended 30 June 2005, an increase of over 109.9% when compared to the same period of last year. The significant increase is largely attributed to a gain of approximately HK\$9.2 million from the disposal of available for sale financial assets during the period under review.

Selling and distribution expenses increased to approximately HK\$10.8 million for the six months ended 30 June 2005 when compared to approximately HK\$8.1 million recorded in the same period of last year. The increase was mainly attributable to the increase of marketing and promotional activities and increase of sales commission payable that were associated with the higher sales volume of the Group's genetic products in the period under review.

Administration expenses slightly increased to approximately HK\$4.5 million in the six months ended 30 June 2005 when compared to approximately HK\$4.4 million recorded in the same period of last year. The increase is mainly attributed to the increase in research and development costs for the two new projects in the R&D pipeline during the period under review.

The Group maintained a healthy financial position with approximately HK\$37.2 million cash on hand as at 30 June 2005 (31 December 2004: approximately HK\$23.4 million).

The Group continues to adopt a prudent treasury policy with all bank deposits in either Hong Kong Dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

Capital structure

There has been no change in the capital structure of the Company during the period under review. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debts.

Significant investment

As at 30 June 2005, the Group did not have any significant investments.

Material acquisitions and disposals of subsidiaries/future plans for material investment

There had been no material acquisitions and disposals during the period under review. At present, the Company and the Group have no plans for material investments or capital assets.

Gearing ratio

The gearing ratio of the Group, based on total liabilities to shareholders' funds, was 0.18 times as at 30 June 2005 (31 December 2004: 0.24 times).

Liquidity and financial resources

The Group generally financed its operations with internally generated cash flows.

As at 30 June 2005, the Group had cash and cash equivalents of approximately HK\$37.2 million as compared to approximately HK\$23.4 million as at 31 December 2004.

Foreign exchange exposure

It is the Group's policy to deposit in local currencies to minimise currency risk.

Charges on group assets and contingent liabilities

As at 30 June 2005, the Group did not have any charges on its assets.

Contingent liability

The Group did not have any significant contingent liabilities as at 30 June 2005.

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the group's assets, liabilities and commitments can meet its funding requirements.

Employee information

As at 30 June 2005, the Group had 113 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the period under review and the previous period amounted to approximately HK\$3.4 million and approximately HK\$3.5 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Staff remuneration is reviewed by the Group from time to time depending on performance. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending on the financial performance of the Group.

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 its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name	Number of issued ordinary shares of HK\$0.10 each in the Company				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Ngiam Mia Je Patrick	2,250,000	–	288,458,000 (note 1) 6,666,667 (note 2)	–	297,374,667
Fang Haizhou	2,000,000	–	–	–	2,000,000
Zhong Sheng	1,500,000	–	–	–	1,500,000

Notes:

- 288,458,000 shares were held by Essex Holdings Limited ("Essex Holdings") which is owned as to 50% by Ngiam Mia Je Patrick and as to 50% by Ngiam Mia Kiat Benjamin. Therefore, Ngiam Mia Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Essex Holdings at general meetings.
- 6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which is wholly owned by Essex Investment (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares and therefore, Ngiam Mia Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meeting.

Interest in underlying shares of the Company:

Pursuant to a pre-IPO share options scheme (the "Pre-Scheme") adopted by the Company on 13 June 2001, the Company had granted Pre-Scheme share options on the Company's ordinary shares to 149 employees (included 3 executive directors). Details of share options to subscribe for shares in the Company granted to the directors were as follows:

Directors of the Company	Number of share options beneficially and directly held by the directors and outstanding as at 30 June 2005	Percentage of the share options to the Company's issued share capital as at 30 June 2005
Ngiam Mia Je Patrick	2,250,000	0.41%
Fang Haizhou	2,000,000	0.36%
Zhong Sheng	1,500,000	0.27%

Save as disclosed above, as at 30 June 2005, none of the directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2005, the following company had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Essex Holdings Limited	288,458,000	51.95%
Ngiam Mia Je Patrick	297,374,667 (note 1)	53.56%
Ngiam Mia Kiat Benjamin	295,449,667 (note 2)	53.21%
Lauw Hui Kian	297,374,667 (note 3)	53.56%

Notes:

1. (a) 2,250,000 shares are registered directly in the name of Ngiam Mia Je Patrick;
(b) 288,458,000 shares are held by Essex Holdings; and
(c) 6,666,667 shares are held by Dynatech.
2. (a) 325,000 shares are registered directly in the name of Ngiam Mia Kiat Benjamin.
(b) 288,458,000 shares are held by Essex Holdings; and
(c) 6,666,667 shares are held by Dynatech.
3. (a) 297,374,667 shares are held by Ngiam Mia Je Patrick, the spouse of Lauw Hui Kian.

Save as disclosed above, as at 30 June 2005, there was no person or company (other than the directors and chief executive of the Company whose interests are set out in the section “Directors’ and chief executive’s interests and short position in shares, underlying shares and debentures” above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

DIRECTORS’ INTERESTS IN CONTRACTS

No director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the period under review.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Save as disclosed under the headings “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” and “Share option schemes”, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the period under review.

SHARE OPTION SCHEMES

Pre-IPO share option scheme (the “Pre-Scheme”)

The Company adopted the Pre-Scheme on 13 June 2001. The Company had granted pre-IPO share options to 149 employees (including 3 executive directors of the Company) of the Group to subscribe for a total of 39,725,000 shares at a subscription price ranging from HK\$0.10 to HK\$0.35 per share. No further share options would be granted under the Pre-Scheme after listing of the Company's shares on the GEM. All these share options were granted on 13 June 2001. The Pre-Scheme remains in force for a period of 10 years with effect from 13 June 2001. Each grantee has paid HK\$1 to the Company as the consideration for such grant.

Name of participant	At 1 January 2005	Exercised/ lapsed	At 30 June 2005	Exercise price of share options HK\$
Directors				
Ngiam Mia Je Patrick	2,250,000	–	2,250,000	0.10
Fang Haizhou	2,000,000	–	2,000,000	0.10
Zhong Sheng	1,500,000	–	1,500,000	0.10
146 other employees	12,306,000	–	12,306,000	0.10 to 0.35
	18,056,000	–	18,056,000	

Post-IPO share option scheme (the “Post-Scheme”)

On 13 June 2001, a further share option scheme (the “Post-Scheme”) was approved and was subsequently revised on 20 June 2003. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. No share options were granted by the Company under the Post-Scheme during the period under review.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and, subject to the following deviation, complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review, except that:

A4.2 Not all directors are subject to retirement by rotation at least once every three years.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors throughout the period ended 30 June 2005.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr Fung Chi Ying, Mr Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi. All of them are independent non-executive directors of the Company.

The Group's unaudited results for the six ended 30 June 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been.

DIRECTORS OF THE COMPANY

Executive directors of the Company as at the date of this report are Mr Ngiam Mia Je Patrick, Mr Fang Haizhou and Mr Zhong Sheng and the independent non-executive directors of the Company as at the date of this report are Mr Fung Chi Ying, Mr Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick

Chairman

Hong Kong

12 August 2005