



Medical China Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 8186

Medical China

Interim Report 2006



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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 (the “GEM Listing Rules”) 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 at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Medical China



HIGHLIGHTS

- Turnover for the six months ended 30 June 2006 amounted to approximately HK\$16,896,000, representing an increase of 35% as compared to that of the corresponding period in 2005.
- For the six months ended 30 June 2006, the Group's profit attributable to equity holders of the Company amounted to approximately HK\$207,000, while a loss attributable to equity holders of the Company of approximately HK\$2,861,000 was recorded by the Group during the corresponding period in 2005.
- For the six months ended 30 June 2006, earnings per share was 0.02 Hong Kong cents (2005: loss per share of 0.34 Hong Kong cents).
- The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: 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 2006, together with the comparative unaudited figures for the corresponding periods of 2005, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
TURNOVER	2	7,676	8,096	16,896	12,538
Cost of services/sales		(3,765)	(4,615)	(8,058)	(7,214)
Gross profit		3,911	3,481	8,838	5,324
Other income	4	338	515	452	893
Selling and distribution expenses		(1,065)	(1,890)	(2,154)	(3,227)
Administrative expenses		(3,006)	(2,336)	(5,345)	(4,403)
Other operating expenses		(105)	(685)	(607)	(1,156)
Profit/(loss) from operations		73	(915)	1,184	(2,569)
Finance costs	5	(38)	(77)	(124)	(111)
Profit/(loss) before taxation	6	35	(992)	1,060	(2,680)
Income tax	7	–	(380)	–	(584)
Profit/(loss) for the period		35	(1,372)	1,060	(3,264)
Profit/(loss) attributable to:					
Equity holders of the Company		(238)	(1,234)	207	(2,861)
Minority interests		273	(138)	853	(403)
		35	(1,372)	1,060	(3,264)
Earnings/(loss) per share (in Hong Kong cents)					
– Basic	8	(0.03)	(0.15)	0.02	(0.34)

CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2006		At 31 December 2005	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)		(Audited)	
Non-current assets					
Property, plant and equipment	10	8,966		8,842	
Construction in progress	11	835		760	
Interest in leasehold land held for own use under operating lease	12	2,308		2,303	
Intangible assets	13	57,848		57,983	
		69,957		69,888	
Current assets					
Inventories	14	5,876		6,035	
Trade and other receivables	15	15,577		12,868	
Deposits with banks	16	53,429		52,869	
Cash at bank and on hand		16,382		15,398	
		91,264		87,170	
Current liabilities					
Trade and other payables	17	30,685		28,320	
Bank loan	18	4,371		4,326	
Amount due to a director	21	-		200	
Current taxation		25		24	
		35,081		32,870	
Net current assets		56,183		54,300	
NET ASSETS		126,140		124,188	
CAPITAL AND RESERVES					
Share capital	19	8,350		8,350	
Reserves		113,160		112,104	
Total equity attributable to equity holders of the Company		121,510		120,454	
Minority interests		4,630		3,734	
TOTAL EQUITY		126,140		124,188	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June 2006 <i>HK\$'000</i> (Unaudited)	For the six months ended 30 June 2005 <i>HK\$'000</i> (Unaudited)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	1,602	(27,238)
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(703)	33,518
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(78)	3,643
NET INCREASE IN CASH AND CASH EQUIVALENTS	821	9,923
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	15,398	9,091
EFFECT OF FOREIGN EXCHANGE RATE CHANGE	163	–
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	16,382	19,014
ANALYSIS OF CASH AND CASH EQUIVALENTS CASH AT BANK AND ON HAND	16,382	19,014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holders of the Company							Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000			
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 amortisation 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	
At 1 January 2006	8,350	70,733	5,265	2,724	33,382	120,454	3,734	124,188	
Net gains and losses not recognised in the consolidated income statement									
– Currency translation differences	–	–	–	849	–	849	43	892	
Net profit for the period	–	–	–	–	207	207	853	1,060	
At 30 June 2006	8,350	70,733	5,265	3,573	33,589	121,510	4,630	126,140	

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

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 2005 annual financial statements.

The financial information relating to the financial year ended 31 December 2005 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 2005 in their report dated 27 March 2006.

2. 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 utilisation of such medical equipment after deducting the related direct expenses.

Turnover recognised during the respective periods is analysed as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Medical equipment service fees and sale of related accessories	2,281	4,291	4,820	6,548
Sale of testing equipment	5,395	3,805	12,076	5,768
Research and development services	–	–	–	222
	7,676	8,096	16,896	12,538

3. SEGMENT INFORMATION

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. No segment information by geographical segments is presented as the Group mainly operates in one single market, the PRC.

Business segments

The Group comprises the following main business segments:

Medical services: provision of medical equipment for the treatment of cancer.

Sales of medical equipment: manufacture and sale of medical equipment.

Research and development: development of drugs.

	Medical services		Sale of medical equipment		Research and development		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	4,820	6,548	12,076	5,768	-	222	16,896	12,538
Segment result	2,721	1,689	2,561	(1,082)	(1,293)	(1,822)	3,989	(1,215)
Unallocated operating income and expenses							(2,805)	(1,354)
Profit/(loss) from operations							1,184	(2,569)
Finance costs							(124)	(111)
Income tax							-	(584)
Profit/(loss) after taxation							1,060	(3,264)

4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	255	438	291	816
Miscellaneous	83	77	161	77
	338	515	452	893

5. FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	38	77	124	111

6. PROFIT/(LOSS) BEFORE TAXATION

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

	For the three months ended 30 June		For the six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories	3,634	3,893	7,551	5,770
Depreciation	351	1,477	882	3,049
Auditors' remuneration	334	300	334	300
Operating lease charges in respect of office premises	202	106	283	200
Research and development costs	299	757	900	1,313
Staff costs (including directors' remuneration)				
– salaries and wages	948	673	1,931	1,382
– staff retirement benefits	5	5	9	9
Amortisation of intangible assets	86	83	171	167
Amortisation of prepaid lease payments	9	9	19	19

7. INCOME TAX

Taxation in the consolidated income statement represents:

	For the three months ended 30 June		For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Current tax – PRC Tax for the period	–	380	–	584

(a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the three months and six months ended 30 June 2006 (2005: HK\$Nil) as the Group did not have any assessable profits chargeable to Hong Kong Profits Tax during the period.

(b) 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 the reduced rate of 15% (2005: 15%). Another subsidiary, Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa"), is subject to PRC income tax at the rate of 33% (2005: 33%). According to the relevant income tax rules and regulations in the PRC, Tat Lung Treatment and Sinnowa obtained approval from the state tax bureau that they are entitled to a 100% relief from PRC income tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any.

No provision for PRC income tax has been made for the Company's other subsidiaries, China Best Drugs Research (Nanjing) Ltd. ("China Best"), China Best Pharmaceutical (Nanjing) Company Ltd. ("CB Pharmaceutical") and Guilin Simei Biotechnology Ltd. ("Guilin Simei") as they did not have assessable profits for the three months and six months ended 30 June 2006 determined in accordance with the relevant income tax rules and regulations in the PRC.

(c) No provision for deferred taxation has been made as the Group did not have any material deductible or taxable temporary difference for the three months and six months ended 30 June 2006 (2005: HK\$Nil).

8. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months and six months ended 30 June 2006 is based on the loss attributable to equity holders of the Company of HK\$238,000 (2005: loss of HK\$1,234,000) and profit attributable to equity holders of the Company of HK\$207,000 (2005: loss of HK\$2,861,000) respectively divided by the weighted average number of 835,000,000 (2005: 835,000,000) ordinary shares in issue during the relevant periods.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share for the three months and six months ended 30 June 2006 and 30 June 2005 respectively have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: HK\$Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Medical equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant, machinery and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
At 1 January 2005	6,788	29,522	1,994	1,760	40,064
Additions	–	–	500	213	713
Impairment loss	–	(6,265)	(8)	(143)	(6,416)
Disposals	–	(12,430)	(218)	–	(12,648)
Exchange adjustments	152	241	24	35	452
At 31 December 2005	6,940	11,068	2,292	1,865	22,165
Additions	–	–	–	102	102
Transfer from construction in progress (<i>Note 11</i>)	800	–	–	17	817
Exchange adjustments	74	50	16	18	158
At 30 June 2006	7,814	11,118	2,308	2,002	23,242
Aggregate depreciation					
At 1 January 2005	272	18,989	768	542	20,571
Charge for the year	309	4,018	401	360	5,088
Written back on disposal	–	(12,430)	(91)	–	(12,521)
Exchange adjustments	9	152	9	15	185
At 31 December 2005	590	10,729	1,087	917	13,323
Charge for the period	157	323	210	192	882
Exchange adjustments	7	48	6	10	71
At 30 June 2006	754	11,100	1,303	1,119	14,276
Net book value					
30 June 2006	7,060	18	1,005	883	8,966
31 December 2005	6,350	339	1,205	948	8,842

11. CONSTRUCTION IN PROGRESS

	<i>HK\$'000</i>
At 1 January 2005	–
Additions during the year	760
At 31 December 2005	760
Additions during the period	884
Transfer to property, plant and equipment (<i>Note 10</i>)	(817)
Exchange adjustments	8
At 30 June 2006	835

12. INTEREST IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

	<i>HK\$'000</i>
Cost	
At 1 January 2005	1,133
Additions during the year	1,227
Exchange adjustments	26
At 31 December 2005	2,386
Exchange adjustments	25
At 30 June 2006	2,411
Accumulated amortisation	
At 1 January 2005	44
Charge for the year	38
Exchange adjustments	1
At 31 December 2005	83
Charge for the period	19
Exchange adjustments	1
At 30 June 2006	103
Net book value	
At 30 June 2006	2,308
At 31 December 2005	2,303

- (a) The leasehold lands held by the Group are under medium-term leases and situated outside Hong Kong.
- (b) At 30 June 2006, one of the leasehold lands amounted to HK\$1,067,000 (31 December 2005: HK\$1,076,000) had been pledged to a bank as security for the Group's bank borrowing.

13. INTANGIBLE ASSETS

	Medical research projects	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost			
At 1 January 2005	83,897	2,331	86,228
Exchange adjustments	43	82	125
At 31 December 2005	83,940	2,413	86,353
Exchange adjustments	19	(4)	15
At 30 June 2006	83,959	2,409	86,368
Accumulated amortisation			
At 1 January 2005	27,625	366	27,991
Charge for the year	–	379	379
At 31 December 2005	27,625	745	28,370
Charge for the period	–	171	171
Exchange adjustments	–	(21)	(21)
At 30 June 2006	27,625	895	28,520
Net book value			
At 30 June 2006	56,334	1,514	57,848
At 31 December 2005	56,315	1,668	57,983

14. INVENTORIES

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Raw materials	1,580	1,793
Work in progress	1,716	653
Finished goods	2,580	3,589
	5,876	6,035

15. TRADE AND OTHER RECEIVABLES

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Trade debtors	5,582	5,821
Other receivables, deposits and prepayments	9,995	7,047
	15,577	12,868

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

Included in trade and other receivables are trade debtors with the following ageing analysis:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Within 3 months of the date of billing	3,643	4,582
3 to 6 months of the date of billing	914	660
6 to 12 months of the date of billing	1,025	579
	5,582	5,821

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

16. 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.

17. TRADE AND OTHER PAYABLES

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Trade creditors	2,693	2,807
Other payables and accrued liabilities	27,992	25,513
	30,685	28,320

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

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Due within 3 months or on demand	970	1,315
Due after 3 months but within 6 months	488	186
Due after 6 months but within 1 year	1,235	1,306
	2,693	2,807

18. BANK LOAN

The bank loan was repayable as follows:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Within one year or on demand	4,371	4,326

The above bank loan was secured by the buildings and prepaid lease payments of the Group with an aggregate carrying value of HK\$8,127,000 at 30 June 2006.

19. SHARE CAPITAL

	No. of shares '000	At 30 June 2006 and 31 December 2005 HK\$'000
<i>Authorised</i>		
Ordinary shares of \$0.01 each	2,000,000	20,000
<i>Issued and fully paid</i>		
At 1 January and at 30 June 2006	835,000	8,350

20. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2006 contracted but not provided for in the interim financial report were as follows:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Capital contributions to the subsidiaries	10,481	6,596
Property, plant and equipment	7,140	8,184
	17,621	14,780

(b) Operating lease commitments

At 30 June 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Within 1 year	354	459
After 1 year but within 5 years	84	173
After 5 years	240	243
	678	875

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.

21. MATERIAL RELATED PARTY TRANSACTIONS

- (a) The Group had the following significant business transactions with its connected parties and related companies which are subject to common control during the period:

	Notes	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Advance from a director	(i)	–	200
Advance to Innova	(ii)	874	865

Notes:

- (i) During the year ended 31 December 2005, the Group borrowed from one of the Company's executive directors, Mr. Li Wo Hing, an amount of HK\$200,000. The amount was fully settled during the six months ended 30 June 2006.
- (ii) During the year ended 31 December 2005, the Group advanced to Innova an amount of RMB900,000, which has not been settled as at 30 June 2006. This advance was equivalent to approximately HK\$874,000 at 30 June 2006 (31 December 2005: HK\$865,000). It is interest-free, unsecured and repayable on demand.
- (b) In addition to the transactions and balances disclosed elsewhere in this financial report, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel is as follows:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Short-term employee benefits	272	544

Total remuneration is included in staff costs (Note 6).



BUSINESS REVIEW

The Group's RFAS radio frequency treatment business faced rigorous competition from local and foreign competitors. No new co-operation contract was signed with domestic hospital during the period. On the other hand, the number of RFAS tumour therapeutic centers established by the Group with hospitals in the PRC dropped from 21 to 14 during the six months ended 30 June 2006.

The Group's sale of testing equipment achieved HK\$5,395,000 during the second quarter of 2006 and increased by 42% as compared to that of the corresponding period last year.

The Group is continuing with its research and development projects for various Chinese and Western drugs and medicines as planned. The construction of factory designed to manufacture drugs and medicines is in progress.

OUTLOOK

The Group will continue developing its existing businesses and forecasts that sales of testing equipment and revenue from research and development services will increase further during the second half year of 2006. In addition, the Group is closely monitoring and seeking business opportunities by utilising its expertise and existing network and connections with its hospital network in its efforts to increase the future stream of revenue of the Group.

FINANCIAL REVIEW

During the period under review, the basic earnings per share was Hong Kong cents 0.02 (2005: loss per share of Hong Kong cents 0.34). The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: HK\$Nil).

As at 30 June 2006, total equity attributable to equity holders of the Group amounted to approximately HK\$121,510,000 (31 December 2005: HK\$120,454,000). Current assets amounted to approximately HK\$91,264,000 (31 December 2005: HK\$87,170,000) of which approximately HK\$69,811,000 (31 December 2005: HK\$68,267,000) were bank deposits and cash at bank and on hand. The Group's current liabilities amounted to approximately HK\$35,081,000 (31 December 2005: HK\$32,870,000) of which trade and other payables and short term bank loan represented approximately HK\$30,685,000 (31 December 2005: HK\$28,320,000) and HK\$4,371,000 (31 December 2005: HK\$4,326,000) respectively. The Group obtained the said short term bank loan from a PRC Authorised Credit Union with pledge and security of the buildings and prepaid lease payments at carrying value of HK\$8,127,000 at 30 June 2006. The gearing ratio of the Group calculated on the basis of short term bank loan over total assets. As at 30 June 2006, the Group had a gearing ratio of 2.7% (31 December 2005: 2.8%).

The Group's transactions are denominated in Renminbi, Hong Kong dollars and US dollars. During the six months ended 30 June 2006, the exchange rates of such currencies have been stable. The Group has not entered into any hedging arrangement.

During the six months ended 30 June 2006, the Company's subsidiary China Best Pharmaceutical (Nanjing), a wholly foreign owned enterprise established in Nanjing, the PRC, has increased its registered capital from US\$4,000,000 to US\$5,000,000. The Company has further contributed US\$500,000 as capital contribution during the period. Therefore, as at 30 June 2006, the Company's total investment in this subsidiary amounted to US\$4,500,000.

The Group made no acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2006.

As at 30 June 2006, the Group had no material contingent liabilities.



EMPLOYEES' INFORMATION

As at 30 June 2006, the Group has 184 (2005: 141) employees. The total of employee remuneration, including that of the directors, for the six months ended 30 June 2006 amounted to HK\$1,931,000 (2005: HK\$1,382,000).

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 2006, the interests and short positions of the directors and the 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 Rules 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 (<i>Note</i>)	25.43%
	245,120,000		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 the 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 of the Company held directly by PMM.

Save as disclosed above, as at 30 June 2006, none of the directors or the 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 the SFO, to be entered in the register referred to therein or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the minimum standards 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.

As at 30 June 2006, none of the directors or the 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.

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 the 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 2006, so far as is known to any of the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had an interest or short positions 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	Number of shares held	Capacity	Percentage of interest
1. PMM (<i>note</i>)	212,320,000	Beneficial owner	25.43%
2. China Equity Associates L.P.	84,040,000	Beneficial owner	10.06%

Note: As at 30 June 2006, 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 interest in the 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 2006, so far as is known to any of the directors or the chief executive of the Company, no other person (other than a director or the 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' INTEREST 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 2006.

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

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPETING INTERESTS

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

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the six months ended 30 June 2006, the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 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 deal 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.

Mr. Guo Guoqing resigned as independent non-executive director of the Company on 22 June 2006. Mr. Chan Kim Chung, Daniel was appointed as independent non-executive director of the Company on 16 June 2006 and replaced the role of Mr. Guo as an audit Committee member of the Company. As at 30 June 2006, the Committee comprised three independent non-executive directors, namely, Messrs. Fan Wan Tai, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel.

During the six months ended 30 June 2006, the Committee held two meetings for the purpose of reviewing the Company’s reports and financial statements, and providing advice and recommendations to the board of directors.

The Committee members have reviewed the Company’s unaudited interim financial report for the six months ended 30 June 2006, which was of the opinion that the preparation of such results complied with applicable accounting standards.

The Company adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors’ transactions in securities of the Company throughout the six months ended 30 June 2006. The Company’s directors confirmed that they have complied with such code of conduct and required standards for dealings throughout the six months ended 30 June 2006.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 11 August 2006