

The logo for Essex Bio-Technology Limited, featuring the word "ESSEX" in a bold, red, sans-serif font inside a white circle, which is set against a yellow rectangular background.

ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8151)

Interim Report | 2006

The background of the entire page is a vibrant, abstract image. It features a large, glowing DNA double helix structure in shades of purple, blue, and green. In the center, a pair of hands wearing white gloves is shown pouring a yellow liquid from a glass beaker into another. Above this, a microscope is visible, and at the bottom, another pair of gloved hands is using a pipette to transfer liquid. The overall color palette is warm, dominated by oranges and yellows, with the DNA helix providing a cool contrast.

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.

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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") is pleased to announce the following unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the three months and six months ended 30 June 2006 together with the comparative figures for the corresponding periods in last financial year.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended		For the six months ended	
		2006 HK\$'000	30 June 2005 HK\$'000	2006 HK\$'000	30 June 2005 HK\$'000
Turnover	3	17,942	12,086	35,831	19,715
Cost of sales		(6,080)	(1,329)	(14,290)	(2,395)
Gross profit		11,862	10,757	21,541	17,320
Other revenue		551	21	708	9,257
Selling and distribution expenses		(7,402)	(6,760)	(12,857)	(10,817)
General and administrative expenses		(3,464)	(2,227)	(5,963)	(4,529)
Finance costs		(32)	(2)	(32)	(4)
Profit before tax	5	1,515	1,789	3,397	11,227
Tax	6	(332)	–	(332)	–
Net profit for the period		1,183	1,789	3,065	11,227
Attributable to:					
Equity holders of the parent		1,212	1,789	2,669	11,227
Minority interests		(29)	–	396	–
		1,183	1,789	3,065	11,227
Earnings per share	8				
Basic		HK0.22 cent	HK0.32 cent	HK0.48 cent	HK2.02 cents
Diluted		HK0.22 cent	HK0.32 cent	HK0.48 cent	HK2.02 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2006 HK\$'000 (Unaudited)	At 31 December 2005 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	10,611	10,286
Construction in progress		5,920	722
Goodwill		1,954	1,954
Other intangible assets	10	4,049	4,218
Pledged bank deposits	13	8,500	–
		31,034	17,180
CURRENT ASSETS			
Inventories		5,799	2,048
Trade receivables	11	13,578	14,875
Prepayments, deposits and other receivables		9,719	7,960
Investments held for trading		737	3,318
Cash and cash equivalents	13	22,034	30,499
		51,867	58,700
CURRENT LIABILITIES			
Secured bank loan		4,324	–
Unsecured other loan		2,691	–
Trade payables	12	316	253
Accrued liabilities, deposits received and other payables		9,353	12,100
Amount due to a minority shareholder of a subsidiary		–	884
Tax payable		332	–
		17,016	13,237
NET CURRENT ASSETS		34,851	45,463
		65,885	62,643
CAPITAL AND RESERVES			
Share capital		55,665	55,524
Reserves		4,620	1,915
Equity attributable to equity holders of the parent		60,285	57,439
Minority interests		5,600	5,204
		65,885	62,643

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve and contributed surplus HK\$'000	Investment revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Attributable to equity holders of the parent HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2005	55,524	970	14	362	10,794	(15,322)	52,342	-	52,342
Changes in fair value on available-for-sale investments	-	-	-	-	(1,576)	-	(1,576)	-	(1,576)
Released on disposal of available-for-sale investments	-	-	-	-	(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)	52,775	-	52,775
At 1 January 2006	55,524	970	479	362	-	104	57,439	5,204	62,643
Exchange differences arising on translation of financial statements of overseas subsidiaries	-	-	36	-	-	-	36	-	36
Exercise of share options	141	-	-	-	-	-	141	-	141
Net profit for the period	-	-	-	-	-	2,669	2,669	396	3,065
At 30 June 2006	55,665	970	515	362	-	2,773	60,285	5,600	65,885

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(3,927)	1,444
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(3,053)	12,432
NET CASH USED IN FINANCING ACTIVITIES	(1,485)	(48)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(8,465)	13,828
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,499	23,360
CASH AND CASH EQUIVALENTS AT END OF PERIOD	22,034	37,188
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	30,534	37,188
LESS: TIME DEPOSITS PLEDGED FOR LOAN FACILITY	(8,500)	–
	22,034	37,188

NOTES:**1. 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.

2. Principal accounting policies

The accounting policies and methods of computation used in the preparation of the unaudited consolidated results are consistent with those used in the 2005 audited financial statements. The adoption of the new HKFRSs issued which are effective for accounting periods on or after 1 January 2006 did not result in substantial changes to the accounting policies of the Group and did not have a significant impact on its results of operations and financial position.

3. Turnover

Turnover represents sales value of biopharmaceutical products and agricultural fertilizers supplied to customers less discounts, returns, value added tax and other applicable local taxes.

4. Segment information*(a) Business segments*

The Group comprises the following main business segments:

Biopharmaceutical products : Manufacture and sale of biopharmaceutical products
Agricultural fertilisers : Manufacture and sale of organic and chemical formulated agricultural fertilisers

	Biopharmaceutical products		Agricultural fertilisers		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue from external customers	20,099	19,715	15,732	-	35,831	19,715
Segment result	2,379	1,974	342	-	2,721	1,974
Unallocated net gains					708	9,257
Finance costs					(32)	(4)
Tax					(332)	-
Net profit for the period					3,065	11,227
Segment assets	28,331	25,215	22,868	-	51,199	25,215
Unallocated assets					31,702	37,188
Total assets					82,901	62,403
Segment liabilities	12,151	8,880	3,843	-	15,994	8,880
Unallocated liabilities					1,022	748
Total liabilities					17,016	9,628
Depreciation	752	544	150	-	902	544
Amortization	133	130	36	-	169	130

(b) Geographical segments

All operating assets and operations of the Group during the periods ended 30 June 2005 and 2006 were located in the PRC. Accordingly, no geographical segment information is presented.

5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	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
Gain on disposal of investments held for trading	(391)	–	(401)	(9,218)
Depreciation of property, plant and equipment	451	274	902	544
Amortisation of other intangible assets	84	65	169	130
Staff costs excluding directors' remuneration	1,842	1,377	4,054	2,501
Directors' remuneration	434	434	869	869
Auditors' remuneration	87	87	159	159

6. 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 in Zhuhai, the PRC, are established and carrying on business in the Special Economic Zones of the PRC. They are subject to enterprise income tax at a concessionary rate to 15%. One of the Group's subsidiaries, which engages in production, is entitled to exempt 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. The current period is the first year to enjoy the 50% reduction in enterprise income tax.

The Group's newly acquired subsidiary in Yantai, the PRC, is also established and carrying on business in the PRC as sino-foreign joint venture which is entitled to exempt 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.

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 (2005: 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 (2005: Nil).

7. 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 2006 (2005: Nil).

8. Earnings per share

The calculation of basic earnings per share for the three months and six months ended 30 June 2006 are based on the profit attributable to equity holders of the parent of HK\$1,212,000 (2005: HK\$1,789,000) and HK\$2,669,000 (2005: HK\$11,227,000), and the weighted average of 556,650,000 (2005: 555,244,000) and 555,974,189 (2005: 555,244,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and six months ended 30 June 2006 are based on the profit attributable to equity holders of the parent of HK\$1,212,000 (2005: HK\$1,789,000) and HK\$2,669,000 (2005: HK\$11,227,000), and the weighted average number of 559,875,515 (2005: 556,308,814) and 559,736,187 (2005: 556,762,180) ordinary shares in issue during the period, adjusted for the effects of all dilutive potential shares.

The weighted average of number of shares used in the calculation of diluted earnings per share for the three months and six months ended 30 June 2006 are calculated based on the weighted average of 556,650,000 (2005: 555,244,000) and 555,974,189 (2005: 555,244,000) ordinary shares in issue during the period plus the weighted average of 3,225,515 (2005: 1,064,814) and 3,761,998 (2005: 1,518,180) ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

9. Property, plant and equipment

	Leasehold Improvements HK\$'000	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	757	8,520
Additions	3,385	1,503	273	157	5,318
Acquisition of a subsidiary	–	1,650	25	404	2,079
Disposals	–	–	–	(152)	(152)
Write off	–	(171)	–	–	(171)
Exchange adjustments	–	118	48	14	180
At 31 December 2005 and 1 January 2006	3,385	8,150	3,059	1,180	15,774
Additions	–	977	155	97	1,229
Disposals	–	(20)	–	–	(20)
Exchange adjustments	–	3	–	–	3
At 30 June 2006	3,385	9,110	3,214	1,277	16,986
Accumulated depreciation:					
At 1 January 2005	–	2,237	1,723	433	4,393
Charge for the year	–	483	472	136	1,091
Acquisition of a subsidiary	–	157	5	20	182
Disposals	–	–	–	(125)	(125)
Write off	–	(142)	–	–	(142)
Exchange adjustments	–	50	31	8	89
At 31 December 2005 and 1 January 2006	–	2,785	2,231	472	5,488
Charge for the period	335	376	117	74	902
Write off	–	(19)	–	–	(19)
Exchange adjustments	–	3	1	–	4
At 30 June 2006	335	3,145	2,349	546	6,375
Net book value:					
At 30 June 2006 (unaudited)	3,050	5,965	865	731	10,611
At 31 December 2005 (audited)	3,385	5,365	828	708	10,286

10. Other intangible assets

	Development expenditure HK\$'000	Technical know-how HK\$'000	Total HK\$'000
Cost:			
At 1 January 2005	6,865	–	6,865
Acquisition of a subsidiary	–	211	211
Exchange adjustments	138	–	138
At 31 December 2005, 1 January 2006 and 30 June 2006	7,003	211	7,214
Accumulated depreciation:			
At 1 January 2005	2,606	–	2,606
Acquisition of a subsidiary	–	62	62
Charge for the year	265	8	273
Exchange adjustments	55	–	55
At 31 December 2005 and 1 January 2006	2,926	70	2,996
Charge for the period	133	36	169
At 30 June 2006	3,059	106	3,165
Net book value:			
At 30 June 2006 (unaudited)	3,944	105	4,049
At 31 December 2005 (audited)	4,077	141	4,218

11. 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, net of provision for impairment of trade receivables, as of the balance sheet date:

	At 30 June 2006 HK\$'000 (unaudited)	At 31 December 2005 HK\$'000 (audited)
0 – 60 days	7,499	7,861
61 – 90 days	2,556	2,664
> 90 days	3,523	4,350
	13,578	14,875

12. Trade payables

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

	At 30 June 2006 HK\$'000 (unaudited)	At 31 December 2005 HK\$'000 (audited)
0 – 60 days	247	247
61 – 90 days	49	–
> 90 days	20	6
	316	253

13. Cash and cash equivalents and pledged bank deposits

	At 30 June 2006 HK\$'000 (unaudited)	At 31 December 2005 HK\$'000 (audited)
Cash and bank balances	15,873	16,899
Time deposits	14,661	13,600
	30,534	30,499
Less: Time deposits pledged for a loan facility	(8,500)	–
Cash and cash equivalents	22,034	30,499

MANAGEMENT DISCUSSION AND ANALYSIS

Operation review

During the period under review, the Group is principally engaged in (a) the manufacture and sale of biopharmaceutical products for the treatment and healing of surface wounds and eye wounds and agricultural fertilizers, and (b) the research and development of biopharmaceutical products for the treatment of duodenal ulcers and nervous system damages and diseases and other ophthalmic pharmaceutical projects.

In 2006, the Group will stay focused on driving organic growth from its (a) core biopharmaceutical products through the established distribution network in China, and (b) the business of agricultural fertilizers through its newly acquired subsidiary, Yantai Baoyuan, which is principally engaged in the research, development and production of organic and chemical formulated agricultural fertilizers, in solid and liquid forms, for the agriculture industry in the PRC.

Biopharmaceutical products

In the first half of 2006, turnover from biopharmaceutical products represented over 56.1% or HK\$20.1 million of Group turnover. The progressive sale growth of 貝復舒 (Beifushu) eye-drop is the key contributing factor to the turnover of biopharmaceutical products.

貝復舒 (Beifushu) eye-drop is a self-developed category I biopharmaceutical product based on rb-bFGF for the treatment and healing of corneal wounds.

During the period under review, the Group established 5 new Distributed Representative Offices (“DROs”), bringing a total of 14 DROs which are located in major provinces in the PRC. There are over 1000 hospitals in major provinces in the PRC that carry the Group’s flagship pharmaceutical products.

To cultivate further market coverage and reach for the Group’s genetic products, the Group has conducted over 211 seminars market promotion activities, educating more than 10,000 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.

For the remaining months of 2006, the Group will stay focus on driving organic growth from its core biopharmaceutical products through the established distribution network in China.

Organic and chemical formulated agricultural fertilizers

For the business of agricultural fertilizers, the Group is primarily focusing on penetrating the market in Shandong province for the period under review. It has adopted two pronged marketing development strategies; servicing major customers directly and through distributors to reach out to smaller customers. Currently, the Group’s agricultural fertilizers are formulated specially for the cultivations of fruits, ground nuts, corns and leafy veggies.

The performance of the business of organic and chemical formulated agricultural fertilizers in the first half of 2006 is encouraging.

During the period under review, a subsidiary of the Group, Baoyuan Bio-Agri Technology (Yantai) Ltd. (“Yantai Baoyuan”) has been appointed by the Soil & Fertilizer General Station of Shandong Province as one of the authorized manufacturers in Shandong Province, responsible for the production and supply of the formulated fertilizers required by Shandong Soil & Fertilizer Network.

The main objectives of the Project of Formulated Fertilization Based on Soil Testing organized by the Ministry of Agriculture in Shandong province are to provide free technical services of formulated fertilization based on soil testing to approximately 5 million farmers and to provide training to 250,000 farmers. The adoption of formulated fertilizers can increase the fertilizer utilization rate by 3 to 5%. Yantai Baoyuan has been appointed as one of the 16 authorized manufacturers for the supply of 600,000 tons of formulated fertilizers for the Project of Formulated Fertilization Based on Soil Testing in Shandong Province in 2006.

In order to meet the demand in 2006 second half and onward, on 12 June 2006, the Group has entered into a workshop acquisition agreement, an equipment and machinery acquisition agreement (“E&M Acquisition Agreement”) and a research and development centre construction agreement (“Construction Agreement”) for the expansion of its production facilities.

Further details of the acquisitions are set out in the circular of the Company dated 30 June 2006.

Further, Yantai Baoyuan was granted the certificate of ISO9001 for the recognition of its systematic quality control management from research and development to production. The certification is valid till 24 May 2009.

In 2006, the Group will grow and expand the business of agricultural fertilizers through its newly acquired subsidiary, Yantai Baoyuan, which is principally engaged in the research, development and production of organic and chemical formulated agricultural fertilizers, in solid and liquid forms, for the agriculture industry in the PRC.

Financial review

The Group reported approximately HK\$35.8 million in turnover for the period ended 30 June 2006, an increase of 81.7% over the corresponding period of last year. Sales of flagship pharmaceutical products slightly increased by 2% to approximately HK\$20.1 million as compared to approximately HK\$19.7 million in the same period of last year. Sales of organic and chemical formulated agricultural fertilizers generated from the newly acquired subsidiary, Yantai Baoyuan, amounted to approximately HK\$15.7 million in the first half of 2006.

Overall gross profit for the period ended 30 June 2006 significantly increased to approximately HK\$21.5 million when compared to approximately HK\$17.3 million recorded in same period of last year. The increase is mainly attributed to the contributions from Yantai Baoyuan.

The Group registered a profit attributable to equity holders of the parent of approximately HK\$2.7 million for the period ended 30 June 2006.

Selling and distribution expenses increased to approximately HK\$12.9 million for period ended 30 June 2006 when compared to approximately HK\$10.8 million recorded in the same period of last year. The increase was mainly attributable to the increase in marketing and promotional activities and sales commission payable that were associated with the higher sales volume of the Group’s organic and chemical formulated agricultural fertilizers in the period under review.

General and administration expenses increased to approximately HK\$6 million in the period ended 30 June 2006 when compared to approximately HK\$4.5 million recorded in the corresponding previous period. The increase was the result of cost incurred by the newly acquired subsidiary in Yantai.

The Group had cash and bank balances of approximately HK\$30.5 million as at 30 June 2006 (31 December 2005: HK\$30.5 million) from which HK\$8.5 million was pledged for a loan facility. Bank loan as at 30 June 2006 was RMB4.5 million (equivalent to approximately HK\$4.3 million) (31 December 2005: Nil).

Capital structure

There has been no change in the capital structure of the Company during period under review. The capital of the Company comprises only ordinary shares. The Company and the Group has bank borrowing of RMB4.5 million at 30 June 2006 (31 December 2005: Nil).

Significant investments

As at 30 June 2006, the Group did not have any significant investments except for those described under the paragraph headed "Material acquisitions and disposals of subsidiaries/Future plans for material investment".

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

On 12 June 2006, the Board announced that the Company, through its indirectly non-wholly subsidiary, Yantai Baoyuan, has entered into the Workshop Acquisition Agreement, the E&M Acquisition Agreement and the Construction Agreement for the expansion of its production facilities.

Pursuant to the Workshop Acquisition Agreement, Yantai Baoyuan would pay a consideration of approximately RMB4,600,000 (equivalent to approximately HK\$4,466,000) in cash for the acquisition of the Workshops.

Pursuant to the E&M Acquisition Agreement, Yantai Baoyuan would pay an aggregate consideration of approximately RMB1,370,000 (equivalent to approximately HK\$1,330,000) in cash for the acquisition of the Equipment and Machinery.

Pursuant to the Construction Agreement, Yantai Baoyuan would pay a consideration of approximately RMB2,100,000 (equivalent to approximately HK\$2,039,000) in cash to engage Yantai Fuan for the construction of the Yantai Baoyuan Research and Development Centre.

The Workshop Acquisition Agreement, the E&M Acquisition Agreement and the Construction Agreement, together, constitute a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules.

The investment in Yantai Baoyuan is part of the Group's expansion plan into another bio-technology related industry, on the basis that it shall contribute to the positive growth and enhance the Shareholders' value of the Group. In view of the satisfactory performance of Yantai Baoyuan, the management of Yantai Baoyuan and the directors considered that without the expansion of its production facilities, Yantai Baoyuan may not be able to cope with the future demand of the biological fertilisers in 2007 and thereafter. The directors expect that the operation of the new production facilities and the Yantai Baoyuan Research and Development Centre under the Construction Agreement will commence in or about the end of 2006. The directors consider that the Workshop Acquisition Agreement, the E&M Acquisition Agreement and the Construction Agreement will further strengthen the Group's production capacities and profitability in the future.

Details of the acquisitions are stated in the Company's announcement of 12 June 2006 and circular issued on 30 June 2006.

Save as aforesaid, there had been no material acquisitions and disposals during the period. 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 0.26 times as at 30 June 2006 (31 December 2005: 0.21 times).

Liquidity and financial resources

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

As at 30 June 2006, the Group had cash and cash equivalents of approximately HK\$30.5 million from which HK\$8.5 million was pledged for a loan facility. Cash and bank balances as at 31 December 2005 was approximately HK\$30.5 million. Bank loan as at 30 June 2006 was RMB4.5 million (equivalent to approximately HK\$4.3 million) (31 December 2005: Nil).

Foreign exchange exposure

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

Charges on Group assets and contingent liabilities

As at 30 June 2006, the Group has pledged its bank deposits of HK\$8.5 million to secure a loan facility. Save as aforesaid, the Group did not have any other significant contingent liabilities.

Segmental information

The segmental information of the Group's products is set out on page 5.

Employees

As at 30 June 2006, the Group has a total of 213 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\$4.9 million and approximately HK\$3.4 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. 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.

Each of the three executive directors has entered into a director's service agreement with the Company. Under the service agreements, they have been appointed to act as executive directors for an initial term of three years commencing from 27 June 2001 and expiring on 26 June 2004. It was extended by another service contract for a fixed term of three years commencing from 27 June 2004 to 26 June 2007. The annual remuneration were fixed in the respective service agreement and each of them is also entitled to a management bonus which shall be in an aggregate amount equal to 6% of the consolidated net profits after taxation and minority interests but before extraordinary items for the relevant financial year, provided that such consolidated profits shall exceed HK\$5,000,000, which is payable within three months after the availability of the audited consolidated accounts of the Group for the relevant financial year.

Save as disclosed hereof, no information on relation to the Group's performance has changed materially from the information disclosed in the Company's 2005 annual report.

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 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of issued ordinary shares of HK\$0.10 each in the Company				Total	Approximate percentage of the Company's issue share capital
	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	53.42
Fang Haizhou	2,000,000	–	–	–	2,000,000	0.36
Zhong Sheng	1,500,000	–	–	–	1,500,000	0.27

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:

Share options granted under the Pre-Scheme:

Directors of the Company	Number of share options beneficially and directly held by the directors and outstanding as at 30 June 2006	Approximate percentage of the Company's issued share capital as at 30 June 2006
Ngiam Mia Je Patrick	2,250,000	0.40
Fang Haizhou	2,000,000	0.36
Zhong Sheng	1,500,000	0.27

Note: Save as disclosed above, as at 30 June 2006, 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 the 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 2006, the following persons 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	Capacity and Nature of interest	Number of shares held	Approximate percentage of the Company's Issued share capital
Essex Holdings Limited	Corporate owned	288,458,000	51.82
Ngiam Mia Je Patrick	Beneficially and corporate owned	297,374,667 (note 1)	53.42
Ngiam Mia Kiat Benjamin	Beneficially and corporate owned	295,449,667 (note 2)	53.08
Lauw Hui Kian	Family owned	297,374,667 (note 3)	53.42

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 2006, there was no person (other than the directors and chief executive of the Company whose interests are set out under the paragraph headed "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.

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 2006.

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 2006.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and 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.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with 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 months ended 30 June 2006 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 made.

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

11 August 2006