



Medical China Limited

(Incorporated in Bermuda with limited liability)
Stock Code : 8186



Medical China



2007

Interim Report



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

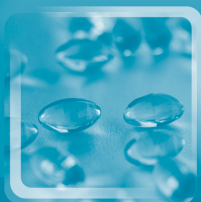
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This report, for which the directors of Medical China Limited collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the “GEM 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.





FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30 June 2007 amounted to approximately HK\$16,626,000, representing a decrease of 2% compared to the corresponding period in 2006.
- For the six months ended 30 June 2007, the Group's loss attributable to equity holders of the Company amounted to approximately HK\$2,456,000, while a profit attributable to equity holders of the Company of approximately HK\$207,000 was recorded during the corresponding period in 2006.
- For the six months ended 30 June 2007, the loss per share was 0.29 Hong Kong cents (2006: earnings per share of 0.02 Hong Kong cents).
- The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: HK\$Nil).
- The Group's medicine plant agricultural operations has been expanded to over 160 mu and, separately, the Group's medicine manufacturing plant is on schedule to begin production in the last quarter of 2007.
- Subsequent to the interim period ended 30 June 2007, the Company announced, on 25 July 2007, that a wholly-owned subsidiary had entered into a very substantial conditional acquisition agreement involving the purchase of a forestry/rubber plantation business in Cambodia. At the same time, announcements were made of the Company entering into a "Placing and Share Subscription Agreement" on 18 July 2007 for a top-up placing of shares and placing of new shares. Shareholders should refer to the details of these announcements for their immediate and future possible impact on the Group.

INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board") of Medical China Limited (the "Company") herein announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for each of the three months and six months ended 30 June 2007, together with the comparative unaudited figures for the corresponding periods of 2006, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
TURNOVER	2	10,658	7,676	16,626	16,896
Cost of services/sales		(5,442)	(3,765)	(9,121)	(8,058)
Gross profit		5,216	3,911	7,505	8,838
Other income	4	377	338	824	452
Selling and distribution expenses		(3,933)	(1,065)	(4,937)	(2,154)
Administrative expenses		(2,353)	(3,006)	(4,806)	(5,345)
Other operating expenses		(649)	(105)	(652)	(607)
Profit/(loss) from operations		(1,342)	73	(2,066)	1,184
Finance costs	5	(2)	(38)	(24)	(124)
Profit/(loss) before taxation	6	(1,344)	35	(2,090)	1,060
Taxation	7	-	-	-	-
Profit/(loss) for the period		(1,344)	35	(2,090)	1,060
Profit/(loss) attributable to:					
Equity holders of the Company		(1,472)	(238)	(2,456)	207
Minority interests		128	273	366	853
		(1,344)	35	(2,090)	1,060
Basic earnings/(loss) per share (in Hong Kong cents)	8	(0.17)	(0.03)	(0.29)	0.02



CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2007		At 31 December 2006	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)		(Audited)	
Non-current assets					
Property, plant and equipment	10	7,255		7,473	
Construction in progress	11	8,080		6,447	
Biological assets	12	6,872		2,426	
Interests in leasehold land held for own use under operating leases	13	2,566		2,509	
Intangible assets	14	28,013		28,090	
		52,786		46,945	
Current assets					
Inventories	15	8,562		5,234	
Trade and other receivables	16	11,699		12,422	
Deposits with banks	17	56,445		57,928	
Cash at bank and on hand		16,150		12,029	
		92,856		87,613	
Current liabilities					
Trade and other payables	18	42,283		30,075	
Bank loan	19	1,539		3,484	
Taxation		445		240	
		44,267		33,799	
Net current assets		48,589		53,814	
NET ASSETS		101,375		100,759	
CAPITAL AND RESERVES					
Share capital	20	8,350		8,350	
Reserves		86,138		86,070	
Total equity attributable to equity holders of the Company		94,488		94,420	
Minority interests		6,887		6,339	
TOTAL EQUITY		101,375		100,759	



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June 2007 <i>HK\$'000</i> (Unaudited)	For the six months ended 30 June 2006 <i>HK\$'000</i> (Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	7,307	1,602
NET CASH USED IN INVESTING ACTIVITIES	(1,484)	(703)
NET CASH USED IN FINANCING ACTIVITIES	(2,076)	(78)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,747	821
Cash and cash equivalents at beginning of the period	12,029	15,398
Effect of foreign exchange rate changes	374	163
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	16,150	16,382
ANALYSIS OF CASH AND CASH EQUIVALENTS Cash at bank and on hand	16,150	16,382



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to equity holders of the Company						Minority interests	Total
	Share capital	Share premium	Contributed surplus	Exchange reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2006	8,350	70,733	5,265	2,724	33,382	120,454	3,734	124,188
Currency translation differences	-	-	-	3,344	-	3,344	181	3,525
Profit/(loss) for the year	-	-	-	-	(29,378)	(29,378)	2,424	(26,954)
At 31 December 2006	8,350	70,733	5,265	6,068	4,004	94,420	6,339	100,759
At 1 January 2007	8,350	70,733	5,265	6,068	4,004	94,420	6,339	100,759
Currency translation differences	-	-	-	2,524	-	2,524	182	2,706
Profit/(loss) for the period	-	-	-	-	(2,456)	(2,456)	366	(2,090)
At 30 June 2007	8,350	70,733	5,265	8,592	1,548	94,488	6,887	101,375

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim financial report has been reviewed by the Company's audit committee. The unaudited interim financial statements included therein have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") including compliance with HKAS 34 "Interim financial reporting" and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and 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") (the "GEM Listing Rules").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The financial information relating to the financial year ended 31 December 2006 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 2006 in their report dated 26 March 2007.

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 medical equipment, net of value-added tax; and, when applicable, service fees arising from the provision of medical research and development services, net of business taxes.

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 period is analysed as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Medical equipment service fees and sales of related accessories	43	2,281	96	4,820
Sales of medical equipment	10,615	5,395	16,530	12,076
	10,658	7,676	16,626	16,896



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 a single market, namely, 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		Sales of medical equipment		Research and development		Consolidated	
	2007 HK'000	2006 HK'000	2007 HK'000	2006 HK'000	2007 HK'000	2006 HK'000	2007 HK'000	2006 HK'000
Revenue from external customers	96	4,820	16,530	12,076	–	–	16,626	16,896
Segment result	30	2,721	1,068	2,561	(537)	(1,293)	561	3,989
Unallocated operating income and expenses							(2,627)	(2,805)
Profit/(loss) from operations							(2,066)	1,184
Finance costs							(24)	(124)
Taxation							–	–
Profit/(loss) after taxation							(2,090)	1,060

4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	333	255	390	291
Miscellaneous	44	83	434	161
	377	338	824	452

5. FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	2	38	24	124

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	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories	5,254	3,634	8,879	7,551
Depreciation	280	351	499	882
Auditors' remuneration	395	334	529	334
Lease charges in respect of office premises	127	202	251	283
Research and development costs	409	299	649	900
Staff costs (including directors' remuneration)				
– Salaries and wages	1,061	948	1,814	1,931
– Staff retirement benefits	3	5	5	9
Amortisation of intangible assets	90	86	180	171
Amortisation of prepaid lease payments	9	9	19	19



7. TAXATION

(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 2007 (2006: HK\$Nil) as the Group did not have any assessable profits chargeable to 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% (2006: 15%). Another subsidiary, Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa"), is subject to PRC income tax at the rate of 33% (2006: 33%). In accordance with 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 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 is deemed necessary as the Group does not have any material deductible or taxable temporary differences for the six months ended 30 June 2007 (2006: 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 2007 is based on the loss attributable to equity holders of the Company of HK\$1,472,000 (2006: loss of HK\$238,000) and HK\$2,456,000 (2006: earnings of HK\$207,000), respectively, divided by the weighted average number of 835,000,000 (2006: 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 2007 and 30 June 2006 have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: 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 2006	6,940	11,068	2,292	1,865	22,165
Additions	29	–	–	431	460
Transfer from construction in progress	18	–	–	–	18
Disposals	–	(10,728)	–	–	(10,728)
Cost adjustment*	(894)	–	–	–	(894)
Exchange adjustments	246	169	53	62	530
At 31 December 2006	6,339	509	2,345	2,358	11,551
Additions	–	–	–	54	54
Disposals	–	(100)	–	–	(100)
Exchange adjustments	198	6	47	71	322
At 30 June 2007	6,537	415	2,392	2,483	11,827
Aggregate depreciation					
At 1 January 2006	590	10,729	1,087	917	13,323
Charge for the year	8	278	507	442	1,235
Written back on disposals	–	(10,728)	–	–	(10,728)
Exchange adjustments	21	164	24	39	248
At 31 December 2006	619	443	1,618	1,398	4,078
Charge for the period	146	12	163	178	499
Written back on disposals	–	(100)	–	–	(100)
Exchange adjustments	21	4	28	42	95
At 30 June 2007	786	359	1,809	1,618	4,572
Net book value					
At 30 June 2007	5,751	56	583	865	7,255
At 31 December 2006	5,720	66	727	960	7,473

* Represents the adjustment to building cost transferred from construction in progress during the year 2004 upon final settlement of the related construction contract.



11. CONSTRUCTION IN PROGRESS

	<i>HK\$'000</i>
At 1 January 2006	760
Additions during the year	4,781
Cost adjustment (<i>Note 10</i>)	894
Transfer to property, plant and equipment (<i>Note 10</i>)	(18)
Exchange adjustments	30
At 31 December 2006	6,447
Additions during the period	1,432
Exchange adjustments	201
At 30 June 2007	8,080

12. BIOLOGICAL ASSETS

	<i>HK\$'000</i>
At 1 January 2006	–
Additions during the year	2,426
At 31 December 2006	2,426
Additions during the period	4,370
Exchange adjustments	76
At 30 June 2007	6,872

Biological assets represent trees in a plantation forest and are stated at fair values less estimated point-of-sale costs. The trees are at an early stage of cultivation for the production of Gui Hua Shu (桂花樹). The directors consider that the fair value of the trees approximates the cost incurred after taking into consideration the growing conditions and the time duration to maturity.



13. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	<i>HK\$'000</i>
Cost	
At 1 January 2006	2,386
Additions during the year	164
Exchange adjustments	85
At 31 December 2006	2,635
Exchange adjustments	81
At 30 June 2007	2,716
Accumulated amortisation	
At 1 January 2006	83
Charge for the year	39
Exchange adjustments	4
At 31 December 2006	126
Charge for the period	19
Exchange adjustments	5
At 30 June 2007	150
Net book value	
At 30 June 2007	2,566
At 31 December 2006	2,509

- (a) The leasehold land entitlements held by the Group are under medium-term leases and situated outside Hong Kong.
- (b) At 30 June 2007, one of the leasehold land assets amounting to HK\$1,086,000 (31 December 2006: HK\$1,074,000) had been pledged to a bank as security for Group bank borrowing facilities.

14. INTANGIBLE ASSETS

	Medical research projects <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2006	83,940	2,413	86,353
Exchange adjustments	67	55	122
At 31 December 2006	84,007	2,468	86,475
Exchange adjustments	62	77	139
At 30 June 2007	84,069	2,545	86,614
Accumulated amortisation			
At 1 January 2006	27,625	745	28,370
Impairment loss provision	29,667	–	29,667
Charge for the year	–	2	2
Exchange adjustments	–	346	346
At 31 December 2006	57,292	1,093	58,385
Charge for the period	–	180	180
Exchange adjustments	–	36	36
At 30 June 2007	57,292	1,309	58,601
Net book value			
At 30 June 2007	26,777	1,236	28,013
At 31 December 2006	26,715	1,375	28,090

15. INVENTORIES

	At 30 June 2007 <i>HK\$000</i>	At 31 December 2006 <i>HK\$000</i>
Raw materials	2,337	2,325
Work in progress	1,259	1,026
Finished goods	4,966	1,883
	8,562	5,234



16. TRADE AND OTHER RECEIVABLES

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Trade debtors	4,166	4,243
Other receivables, deposits and prepayments	7,533	8,179
	11,699	12,422

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

Included in trade and other receivables are trade debtors aged as follows:

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Within 3 months from the date of billing	1,748	1,771
3 to 6 months from the date of billing	563	1,496
6 to 12 months from the date of billing	1,855	976
	4,166	4,243

Trade debts are normally due within 90 days from the date of billing.

17. DEPOSITS WITH BANKS

All deposits with banks are denominated in Renminbi ("RMB") and held 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 on foreign exchange control promulgated by the PRC government.

18. TRADE AND OTHER PAYABLES

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Trade creditors	5,107	2,630
Other payables and accrued liabilities	37,176	27,445
	42,283	30,075

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

Included in trade and other payables are trade creditors aged as follows:

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Due within 3 months or on demand	4,325	1,097
Due after 3 months but within 6 months	448	123
Due after 6 months but within 1 year	334	1,410
	5,107	2,630

19. BANK LOAN

The bank loan is repayable as follows:

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Within one year or on demand	1,539	3,484

The above bank loan is secured by buildings and leasehold land assets of the Group with an aggregate carrying value HK\$6,793,000 at 30 June 2007 (2006: HK\$6,750,000).

20. SHARE CAPITAL

	No. of shares '000	At 30 June 2007 and 31 December 2006 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 2007	835,000	8,350



21. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 30 June 2007 contracted but not provided for in the interim financial report were as follows:

	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
Capital contributions to the subsidiaries	–	5,758
Property, plant and equipment	5,677	11,365
	5,677	17,123

(b) Operating lease commitments

At 30 June 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	At 30 June 2007	At 31 December 2006
	HK\$'000	HK\$'000
Within 1 year	298	460
After 1 year but within 5 years	42	108
After 5 years	243	314
	583	882

The Group leases a number of properties under operating leases which typically run for an initial period of one or two years, with options to renew, at which time all key terms are renegotiated. The leases do not include contingent rentals.

22. MATERIAL RELATED PARTY TRANSACTIONS

The Group do not have any business transactions with connected parties and related companies which are subject to common control during the period.

23. SUBSEQUENT EVENTS

Subsequent to the interim period ended 30 June 2007, the Company announced, on 25 July 2007, that a wholly-owned subsidiary had entered into a very substantial conditional acquisition agreement involving the purchase of a forestry/rubber plantation business in Cambodia. At the same time, announcements were made of the Company entering into a "Placing and Share Subscription Agreement" on 18 July 2007 for a top-up placing of shares and placing of new shares. Shareholders should refer to the details of these announcements for their immediate and future possible impact on the Group.



BUSINESS REVIEW

The Group's RFAS radio frequency treatment business faces rigorous competition from local and foreign competitors and no new co-operation contracts were signed with domestic hospitals during the period. The number of Group therapeutic centers in local hospitals in the PRC remained the same as the 1st quarter of 2007.

The Group's sales of medical equipment reached HK\$16,530,000 at the end of the second quarter of 2007, an increase by 37% as compared to that of the corresponding period last year. In order to strengthen sales, the Group has increased its budgets on research and development of a particular principal product and begun to renovate its existing factory in order to improve efficiency and Group results. The construction of a new factory designed to manufacture drugs and medicines is in progress.

Agricultural activities in the first half of 2007 are on schedule and the Group has now achieved completion of 20% of its overall plans. The Group will continue its plantation development program including construction of supporting facilities during the second half of 2007.

OUTLOOK

The Group will continue developing its existing businesses and forecasts that sales of medical equipment will further increase in the second half year of 2007. Construction work on the new factory is expected to be completed by the fourth quarter and, at the same time, trial production on drugs and medicines will begin before the end of 2007.

The Group is continuing to seek business opportunities by taking advantage of its existing network and relationships, in order to increase future Group revenue streams.

As a result of the above efforts, on 25 July 2007, the Company announced that a wholly-owned subsidiary had entered into a very substantial conditional agreement involving the purchase of a forestry/rubber plantation in Cambodia as set out in note 23 of the interim financial statements. Shareholders should refer to this announcement for details of the possible influence on future operations of this transaction is consummated.



FINANCIAL REVIEW

During the period under review, the basic loss per share was Hong Kong cents 0.29 (2006: earnings per share of Hong Kong cents 0.02). The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: HK\$Nil).

As at 30 June 2007, total equity attributable to equity holders of the Group amounted to approximately HK\$94,488,000 (31 December 2006: HK\$94,420,000). Current assets amounted to approximately HK\$92,856,000 (31 December 2006: HK\$87,613,000) of which approximately HK\$72,595,000 (31 December 2006: HK\$69,957,000) were bank deposits and cash at bank and on hand. The Group's current liabilities amounted to approximately HK\$44,267,000 (31 December 2006: HK\$33,799,000) of which trade and other payables and a short term bank loan represented approximately HK\$42,283,000 (31 December 2006: HK\$30,075,000) and HK\$1,539,000 (31 December 2006: HK\$3,484,000), respectively. The Group obtained the short term bank loan from a PRC Authorised Credit Union using the security of its interest in a leasehold land asset held for own use under an operating lease with a carrying value of HK\$1,086,000 at 30 June 2007 (31 December 2006: HK\$1,074,000). The gearing ratio of the Group, calculated on the basis of its short term bank loan over total assets, as at 30 June 2007 was 1.1% (31 December 2006: 2.6%).

The Group's transactions are denominated in Renminbi, Hong Kong dollars and US dollars and the Group has not entered into any hedging arrangements during the period under review.

As at 30 June 2007, the Group had no outstanding hedging instruments (2006: HK\$Nil).

Other than the set up of a wholly-owned subsidiary in the second quarter, the Group made no new acquisitions nor did it dispose of any subsidiaries or affiliated companies during the six months ended 30 June 2007.

Shareholder attention is drawn to the announcement on 25 July 2007, referred to as a "Subsequent Event" in the interim financial statements in respect of the Company entering into an agreement for a proposed top-up placing of shares and placing of new shares which could generate up to approximately HK\$226 million in funds subsequent to 30 June 2007.

As at 30 June 2007, the Group had no material contingent liabilities.



EMPLOYEE INFORMATION

As at 30 June 2007, the Group had 225 (2006: 184) employees. The total of employee remuneration, including that of directors, for the six months ended 30 June 2007 amounted to HK\$1,814,000 (2006: HK\$1,931,000).

In addition to a share option scheme approved and adopted by the Company on 14 September 2001, the Group provides 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 obligations to its employees in the PRC according to the relevant regulations in the PRC.

OTHER INFORMATION

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

As at 30 June 2007, 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:



Name	Number of ordinary shares of HK\$0.01 each in the share capital of the Company held	Nature of interests	Percentage of interest
Mr. Li Wo Hing	32,800,000	Personal	3.93%
	212,320,000	Corporate (<i>Note</i>)	25.43%
	245,120,000		29.36%
Dr. Li Nga Kuk, James	32,800,000	Personal	3.93%
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 2007, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of 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 2007, 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 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 DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, so far as is known to the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had any interests 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
PMM (Note)	212,320,000	Beneficial owner	25.43%
China Equity Associates L.P.	73,870,000	Beneficial owner	8.85%

Note: As at 30 June 2007, 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 2007, so far as is known to any directors or the chief executive of the Company, no other person (other than a director or the chief executive of the Company) had any interests 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.

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 2007.

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

During the six months ended 30 June 2007, 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 have any other conflicts of interests with the Group.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

During the six months ended 30 June 2007, 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 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 systems of the Group and to provide advice and comments to the directors.



As at 30 June 2007, the Committee was composed of the 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 2007, 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 2007 and are 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 its code of conduct regarding directors' transactions in securities throughout the six months ended 30 June 2007. The Company's directors confirmed that they complied with such code of conduct and required standards for dealings throughout the six months ended 30 June 2007.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 11 August 2007