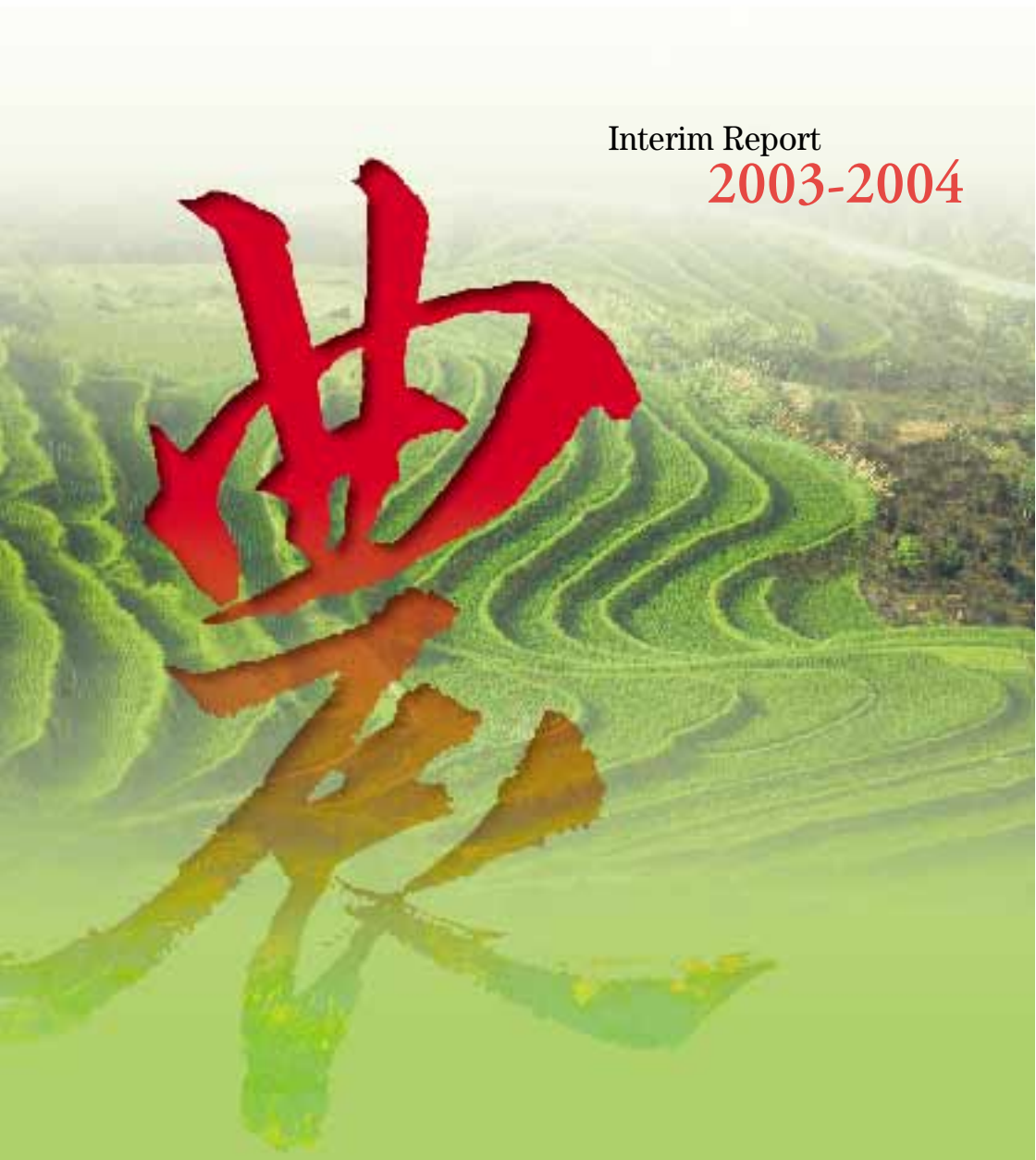




China Agrotech Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report
2003-2004



The Directors of China Agrotech Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31st December, 2003 together with the comparative figures for the corresponding period in 2002 as set out below. This interim report has been reviewed by the Company’s audit committee.

UNAUDITED ACCOUNTS

Consolidated Profit and Loss Account

	<i>Note</i>	Six months ended	
		31st December,	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	329,331	207,200
Cost of sales		<u>(265,814)</u>	<u>(149,038)</u>
Gross profit		63,517	58,162
Other revenues		1,148	250
Selling and distribution expenses		(17,391)	(26,216)
General and administrative expenses		<u>(20,760)</u>	<u>(9,035)</u>
Operating profit		26,514	23,161
Finance costs		<u>(847)</u>	<u>(436)</u>
Profit before taxation	3	25,667	22,725
Taxation	4	<u>-</u>	<u>-</u>
Profit after taxation		25,667	22,725
Minority interests		<u>933</u>	<u>133</u>
Profit attributable to shareholders		<u><u>26,600</u></u>	<u><u>22,858</u></u>
Basic earnings per share	5	<u><u>HK7.5 cents</u></u>	<u><u>HK6.5 cents</u></u>

CHINA AGROTECH HOLDINGS LIMITED
INTERIM REPORT 2003-2004

Consolidated Balance Sheet

		At 31st December, 2003	At 30th June, 2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
System development costs	6	33,233	37,568
Other intangible assets	7	98,462	105,670
Fixed assets		60,010	56,905
Prepayments and deposits	8	24,501	17,904
CURRENT ASSETS			
Inventories		57,022	56,805
Prepayments, deposits and other receivables		87,432	46,228
Trade receivables	9	69,801	87,911
Restricted bank deposits		30,860	27,850
Cash and bank balances		<u>61,176</u>	<u>28,086</u>
Total current assets		<u>306,291</u>	<u>246,880</u>
CURRENT LIABILITIES			
Consideration payable for acquisition of businesses		(2,356)	(8,010)
Trade and bills payable	10	(104,978)	(134,838)
Accrued charges and sundry payables		(60,711)	(45,431)
Taxation payable		(5,807)	(5,807)
Due to a director		(1,700)	(1,300)
Short-term bank loans, secured	11	<u>(14,512)</u>	<u>-</u>
Total current liabilities		<u>(190,064)</u>	<u>(195,386)</u>
Net current assets		<u>116,227</u>	<u>51,494</u>
Total assets less current liabilities		<u><u>332,433</u></u>	<u><u>269,541</u></u>
Financed by:			
Share capital	12	42,156	35,156
Reserves		<u>284,530</u>	<u>230,877</u>
Shareholders' funds		326,686	266,033
Minority interests		3,862	3,508
Non-current liability			
Long-term bank loan, secured	13	<u>1,885</u>	<u>-</u>
		<u><u>332,433</u></u>	<u><u>269,541</u></u>

Consolidated Cash Flow Statement

	Six months ended	
	31st December,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	8,899	23,271
INVESTING ACTIVITIES		
Interest received	1,072	136
Purchase of fixed assets	(9,403)	(8,080)
Sale of fixed assets	262	-
Payment for product development costs	-	(10,890)
Prepayment for purchase of production base	(10,366)	-
Purchase of businesses	(5,654)	(8,486)
Payment for technical know-how	-	(8,109)
Payment for acquisition of additional interest in a subsidiary	(127)	-
Increase in restricted bank deposits	(3,010)	(4,930)
Translation adjustments	(29)	-
Net cash outflow from investing activities	(27,255)	(40,359)
Net cash outflow before financing	(18,356)	(17,088)
FINANCING		
Issue of new shares	34,082	-
New bank loans	16,397	-
Advances from a director	400	-
Capital contribution from minority shareholders	1,414	1,060
Finance costs paid	(847)	(436)
Net cash inflow from financing	51,446	624
Increase/(decrease) in cash and cash equivalents	33,090	(16,464)
Cash and cash equivalents, beginning of period	28,086	35,545
Cash and cash equivalents, end of period	61,176	19,081

Consolidated Statement of Changes in Equity

	Six months ended 31st December, 2003						Six months ended 31st December, 2002	
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	Total <i>HK\$'000</i>
At beginning of period	35,156	71,468	8,006	1,188	282	149,933	266,033	239,049
Issue of new shares	7,000	27,082	-	-	-	-	34,082	-
Translation adjustments	-	-	-	-	(29)	-	(29)	-
Profit attributable to shareholders	-	-	-	-	-	26,600	26,600	22,858
At end of period	<u>42,156</u>	<u>98,550</u>	<u>8,006</u>	<u>1,188</u>	<u>253</u>	<u>176,533</u>	<u>326,686</u>	<u>261,907</u>

Note:

1. Basis of presentation and principal accounting policies

The interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants (as applicable to condensed interim accounts) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The principal accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 30th June, 2003 except for the adoption of SSAP 12 (Revised) "Income Taxes" issued by Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January, 2003,

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous period, partial provision was made for deferred tax using the income statement liability method, whereby a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of the above new SSAP has no material impact on the Group's consolidated profit and loss account for the six months ended 31st December, 2003 and 2002. Accordingly, no prior period adjustment is required.

2. Segment information

a. Primary reporting format-business segments

The Group is organised into two major business segments: (i) manufacturing and selling of plant growth regulatory products (“PGR(s)”), chemical pesticides and fertilisers and bio-pesticides (the “manufacturing operation”); and (ii) trading of fertilisers, pesticides and other agricultural products (the “trading operation”).

Other operations of the Group mainly comprise businesses of investment holding and provision of plant protection technical services, neither of which are of a sufficient size to be reported separately.

An analysis of the Group’s turnover and segment results is as follows:

(i) For the six months ended 31st December, 2003

	Manufacturing operation	Trading operation	Other operations	Elimination	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover					
External sales	123,412	204,995	924		329,331
Inter-segment sales	1,558	453	-	(2,011)	-
	<u>124,970</u>	<u>205,448</u>	<u>924</u>		<u>329,331</u>
Segment results	<u>38,489</u>	<u>(11,288)</u>	<u>(1,759)</u>		25,442
Interest income					1,072
Finance costs					(847)
Minority interests					<u>933</u>
Profit attributable to shareholders					<u>26,600</u>

CHINA AGROTECH HOLDINGS LIMITED
INTERIM REPORT 2003-2004

(ii) For the six months ended 31st December, 2002

	Manufacturing operation <i>HK\$'000</i>	Trading operation <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Group <i>HK\$'000</i>
Turnover					
External sales	70,269	136,931	-		207,200
Inter-segment sales	1,933	-	-	(1,933)	-
	<u>72,202</u>	<u>136,931</u>	<u>-</u>		<u>207,200</u>
Segment results	<u>36,731</u>	<u>(10,305)</u>	<u>(3,276)</u>		23,150
Interest income					11
Finance costs					(436)
Minority interests					<u>133</u>
Profit attributable to shareholders					<u>22,858</u>

b. Secondary reporting format-geographical segments

No geographical analysis of the Group's turnover and segment results is presented as all of the Group's turnover is attributable to business conducted in Mainland China.

3. Profit before taxation

Profit before taxation is stated after charging and crediting the following items:

	Six months ended	
	31st December,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>After charging:-</i>		
Staff costs (including directors' emoluments)	5,578	4,214
Research and development expenses	-	392
Amortisation of intangible assets		
- System development costs	4,335	-
- Goodwill	4,758	3,064
- Product development costs	1,696	861
- Technical know-how	4,523	-
Advertising and promotion expenses	5,110	12,899
Operating lease rentals of premises and motor vehicles	2,027	989
Interest on bank loans and facilities wholly repayable within five years	847	436
Depreciation of owned fixed assets	<u>6,138</u>	<u>4,304</u>
<i>After crediting:-</i>		
Interest income from bank deposits	1,072	136
Gain on disposal of fixed assets	<u>102</u>	<u>-</u>

4. Taxation

The Company is exempted from taxation in the Cayman Islands until 2019. No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong.

No provision for Mainland China enterprise income tax was made for Mainland China subsidiaries as they were either in tax loss position or exempted from enterprise income tax during the six months ended 31st December, 2003 (2002: nil).

There was no material unprovided deferred taxation for both interim periods.

5. Earnings per share

The calculations of basic earnings per share for the six months ended 31st December, 2003 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$26,600,000 (2002: HK\$22,858,000) and the weighted average number of 352,326,000 shares in issue during the six months ended 31st December, 2003 (2002: 351,565,000 shares, as adjusted for the bonus issue of three new shares for every ten shares on 20th December, 2002).

No information on diluted earnings per share is presented because there were no dilutive potential ordinary shares in existence during the six months ended 31st December, 2003 and 2002.

6. System Development Costs

	Total <i>HK\$'000</i>
Cost:	
At 1st July, 2003 and at 31st December, 2003	<u><u>43,348</u></u>
Accumulated amortisation:	
At 1st July, 2003	5,780
Charge for the period	<u>4,335</u>
At 31st December, 2003	<u><u>10,115</u></u>
Net book value:	
At 31st December, 2003	<u><u>33,233</u></u>
At 30th June, 2003	<u><u>37,568</u></u>

CHINA AGROTECH HOLDINGS LIMITED
INTERIM REPORT 2003-2004

7. Other intangible assets

	Goodwill (a) <i>HK\$'000</i>	Product development costs <i>HK\$'000</i>	Technical know-how <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1st July, 2003	45,703	22,637	59,932	128,272
Goodwill on acquisition	<u>3,769</u>	<u>-</u>	<u>-</u>	<u>3,769</u>
At 31st December, 2003	<u>49,472</u>	<u>22,637</u>	<u>59,932</u>	<u>132,041</u>
Accumulated amortisation:				
At 1st July, 2003	8,930	7,076	6,596	22,602
Charge for the period	<u>4,758</u>	<u>1,696</u>	<u>4,523</u>	<u>10,977</u>
At 31st December, 2003	<u>13,688</u>	<u>8,772</u>	<u>11,119</u>	<u>33,579</u>
Net book value:				
At 31st December, 2003	<u>35,784</u>	<u>13,865</u>	<u>48,813</u>	<u>98,462</u>
At 30th June, 2003	<u>36,773</u>	<u>15,561</u>	<u>53,336</u>	<u>105,670</u>

(a) Goodwill

The Group entered into arrangements with separate agricultural resources trading companies whereby the agricultural resources trading companies agreed to form joint ventures with the Group in carrying out trading operation of pesticides, fertilisers and other agricultural products, and provision of plant protection technical services. In connection with these arrangements, the agricultural resources trading companies transferred their businesses, which primarily consisted of customer base and management expertise, into the joint ventures for an agreed consideration payable by the Group. The aggregate consideration was recorded as goodwill. The amount of goodwill of approximately HK\$3,769,000 arised during the period was transferred from prepayment of the last year.

8. Prepayments and deposits

	At 31st December, 2003 <i>HK\$'000</i>	At 30th June, 2003 <i>HK\$'000</i>
Deposit for lease of production lines	10,366	10,366
Prepayment for consultancy database	3,769	3,769
Prepayment for purchase of business	-	3,769
Prepayment for purchase of production base (a)	<u>10,366</u>	<u>-</u>
	<u>24,501</u>	<u>17,904</u>

- (a) In August 2003, the Group entered into an agreement with two independent fertiliser manufacturers for the acquisition of production facilities, factory premises and land use rights of the manufacturers, and for obtaining the right to use the trademark of the manufacturers for five years. The aggregate consideration of the acquisition was approximately HK\$14,858,000, of which approximately HK\$12,031,000 would be settled by cash and the remaining amount would be settled by assuming the bank borrowings of HK\$2,827,000 of the manufacturers.

During the period, a prepayment of approximately HK\$10,366,000 was made.

9. Trade receivables

The Group generally requires its customers to pay a deposit shortly before delivery of merchandise, with the balance of the sales amount payable within credit periods ranging from 30 to 90 days. Aging analysis of trade receivables is as follows:

	At 31st December, 2003	At 30th June, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	35,104	48,937
31 to 60 days	13,581	20,737
61 to 90 days	3,625	8,349
Over 90 days	22,579	14,976
	<hr/>	<hr/>
	74,889	92,999
Less: Provision for bad and doubtful debts	(5,088)	(5,088)
	<hr/>	<hr/>
	69,801	87,911
	<hr/> <hr/>	<hr/> <hr/>

10. Trade and bills payable

Aging analysis of trade and bills payable is as follows:

	At 31st December, 2003	At 30th June, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	12,788	43,498
31 to 60 days	24,469	22,220
61 to 90 days	15,540	11,449
91 to 180 days	52,181	57,671
	<hr/>	<hr/>
	104,978	134,838
	<hr/> <hr/>	<hr/> <hr/>

11. Short-term bank loans, secured

The short-term bank loans bear interest at rates ranging from 4.5% to 7.6% per annum.

A short-term bank loan of approximately HK\$9,423,000 (denominated in Renminbi) is secured by bank deposit of HK\$10,000,000 (denominated in Hong Kong dollars); and the other short-term bank loans are secured by corporate guarantees provided by certain subsidiaries of the Group.

12. Share capital

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30th June, and 31st December, 2003	<u>500,000</u>	<u>50,000</u>
Issued and fully paid:		
At 30th June, 2003	351,565	35,156
Issue of new shares (<i>note</i>)	<u>70,000</u>	<u>7,000</u>
At 31st December, 2003	<u>421,565</u>	<u>42,156</u>

Note: See "Placing and Subscription of Shares" section for details.

13. Long-term bank loan, secured

The long-term bank loan bears interest at a rate of approximately 7.5% per annum, is secured by certain fixed assets of the Group and is repayable within the second to fifth year, inclusive.

14. Commitments

a. Capital and other commitments:

	At 31st December, 2003 HK\$'000	At 30th June, 2003 HK\$'000
Contracted but not provided for:		
- Fixed assets	1,665	-
- Research and development costs	2,535	5,692
- Promotion and advertising expenses	1,885	4,342
- Consultancy database	<u>3,769</u>	<u>3,769</u>
	<u>9,854</u>	<u>13,803</u>

b. Operating lease commitments:

At 31st December, 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	At 31st December, 2003	At 30th June, 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	2,569	3,011
In the second to fifth year inclusive	1,394	2,544
After the fifth year	-	122
	<u>3,963</u>	<u>5,677</u>

15. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31st December, 2003 (2002: Nil).

BUSINESS REVIEW AND OUTLOOK

Overall Results

For the six months ended 31st December, 2003, the Group's consolidated turnover was approximately HK\$329,331,000 (2002: HK\$207,200,000) and net profit attributable to shareholders was approximately HK\$26,600,000 (2002: HK\$22,858,000), representing a growth of approximately 59% and 16% respectively as compared to the last financial period.

The increase in consolidated turnover was attributable to the increase in sales of PGR; the commencement of mass production and sales of a biological pesticide ("BtA") during the period; the full-period operation of the leased production bases in Hunan Province for production of chemical pesticides; as well as the continuous growth of the trading business of agricultural resources products.

However, as the trading business only contributed a relatively lower gross profit margin of approximately 3% while the growth in turnover was approximately 50% and represented 62% of the consolidated turnover, the overall gross profit margin of the Group was lowered and the net profit attributable to shareholders only increased by a lesser extent of 16%.

CHINA AGROTECH HOLDINGS LIMITED
INTERIM REPORT 2003-2004

A summary of the turnover, gross profit, gross profit margin and segment results by scope of business, say, manufacturing and selling of agricultural resources products (PGRs, BTA and others), trading of agricultural resources products and other operations is as follows:

	Manufacturing and selling of agricultural resources products		Trading of agricultural resources products		Other operations		Total	
	Six months ended 31st December, 2003		Six months ended 31st December, 2002		Six months ended 31st December, 2003		Six months ended 31st December, 2002	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	123,412	70,269	204,995	136,931	924	-	329,331	207,200
Gross profit	57,472	51,481	5,421	6,681	624	-	63,517	58,162
Gross profit margin	47%	73%	3%	5%	68%	-	19%	28%
Segment results	38,489	36,731	(11,288)	(10,305)	(1,759)	(3,276)	25,442	23,150

AGRICULTURAL RESOURCES PRODUCTION BUSINESS

Plant Growth Regulators

The turnover and operating profit derived from PGR business were approximately HK\$75,453,000 (2002: HK\$70,269,000) and HK\$37,747,000 (2002: HK\$36,731,000) respectively, representing an increase of 7% and 3% respectively as compared to the last financial period. The slight increases were due to the increase in sales volume of PGR by 30% (2003: 801 tonnes, 2002: 616 tonnes), the effect of which was offset by the cutting of selling price of PGR by 20% since January 2003 as a market strategy to increase the product's competitiveness.

The increase in sales volume was mainly attributable to the increase in sales of PGR for vegetables, fruits and rice by 30% to 40%; and the launch of two new types of PGRs, namely, PGR for tea and PGR for soya beans since June 2003 which together contributed a sales volume of 63 tonnes for the period.

Also, as the cost of raw materials decreased during the period, the gross profit margin was able to maintain at 70%.

Biological Pesticide (BtA)

Commercial production of BtA commenced in March 2003 and contributed to a turnover and operation profit (excluding amortisation of acquisition cost of the intellectual property) of approximately HK\$27,608,000 and HK\$5,764,000 respectively for the six months ended 31st December, 2003, based on a sales volume of 451 tonnes. The Directors believe that when the effects of promotion activities were reflected, the BtA operation will generate more satisfactory contribution to the Group.

Leasing of Production Bases in Hunan Province

In order to increase the pace of expansion of the Group's market shares in Hunan province, the Group leased from two large agricultural resources manufacturers their production bases in Hunan province in April 2003. Under the leasing agreements, apart from the rights to use all of the production facilities, the Group has rights to produce, sell and utilise the intellectual property rights of all existing agricultural resources products of the production bases; as well as the brand names and sales network of the products. During the six months ended 31st December, 2003, the production bases contributed a turnover of approximately HK\$20 million from sales of chemical pesticides. However, as the production bases incurred considerable administrative expenses during the early stage after handover, it suffered a slight operating loss of approximately HK\$0.5 million during the period. The Group believes that when the operation is smoothened, the production bases will generate profit and synergetic effect with the Group's agricultural resources trading business in Hunan Province.

Acquisition of Production Base in Hubei Province

In August, 2003, the Group entered into an agreement with two independent fertiliser manufacturers for the acquisition of their production facilities, factory premises and land use rights, and for obtaining the right to use their trademark for sale of chemical fertilisers for five years, at a consideration of approximately HK\$14,858,000. As at 31st December, 2003, only part of the assets were transferred to the Group with good title, a prepayment of approximately HK\$10,366,000 was made. Upon the completion of the handover of the production base and inspection and modification of production facilities, mass production of chemical fertilisers will commence.

Investments in Other Hi-tech Agricultural Resources Products

During the last financial year, the Group made investments in R&D of a pesticide specifically for killing Meloidogyne (a severe plant disease affecting agricultural production) and the conjugation of the Group's PGR with an amino-acidic liquid fertiliser. The R&D is expected to be completed in 2004. Also, the Group acquired the intellectual property rights in relation to the production of three types of compound fertilisers in the last year. Upon the selection of suitable manufacturers, the products will be put into commercial production.

AGRICULTURAL RESOURCES TRADING BUSINESS

For the six months ended 31st December, 2003, turnover from the trading business amounted to approximately HK\$204,995,000 (2002: HK\$136,931,000), representing an increase of approximately 50% from the last financial period and contributed to 62% (2002: 66%) of the consolidated turnover of the Group, demonstrating the rapid growth of the trading business and its role as an important contribution to the Group.

In order to promote the cross-province agricultural resources distribution and retail business and to enhance the reputation and brand name of the Group, the Group incurred approximately HK\$2 million on nationwide advertising and promotion activities and market researches during the period.

The trading business was quantity-driven with a relatively low gross profit margin of approximately 3%, and therefore, requires a considerable high turnover level in order to generate adequate gross profit to cover promotion and advertising expenses and amortisation of computer system development cost and goodwill arising from business acquisitions. As a result of the successful management of trading business in the financial period under review, the business recorded a remarkable turnover of approximately HK\$204,995,000 and achieved a mitigation of operating loss (excluding amortisation of goodwill arising from business acquisitions and computer system development costs) to approximately HK\$2,195,000 (2002: operating loss of approximately HK\$7,241,000, excluding amortisation of goodwill arising from business acquisitions).

In the years to come, the Group believes the trading business in different provinces will be more strengthened, the customer networks will become more mature and enlarged and the synergetic effect will be more pronounced. As such, the trading business will contribute to a remarkable profit for the Group in the near future.

PLANT PROTECTION TECHNICAL SERVICES

The Group started to provide comprehensive plant protection technical services to some agriculture produce exporters and large farmlands in 2003 and recorded a service income of approximately HK\$924,000 for the six months ended 31st December, 2003. Such business is expected to generate synergetic effect with the Group's nationwide agricultural resources trading business.

In order to provide high value-added services and one-stop agriculture solution to agricultural producers, the Group invested approximately HK\$7.5 million on the development of a distant diagnose system for plant diseases and pests of agriculture produces in the last year. The development of the distant diagnose system is expected to be completed at the end of 2004.

LIQUIDITY AND FINANCIAL RESOURCES

Financial resources

The Group generally finances its operations with internally generated cashflow and bank facilities for its capital expenditures and other capital requirements.

As at 31st December, 2003, the cash and bank balances and restricted bank deposits of HK\$92,036,000 included HK\$34,336,000 which was denominated in Hong Kong dollars and HK\$57,700,000 which was denominated in Renminbi.

With respect to foreign exchange exposure, as the Group's earnings and borrowings are primarily denominated in Renminbi and that the exchange rate between Renminbi and Hong Kong dollar was steady during the period under review, it has no significant exposure to foreign exchange rate fluctuations. During the period under review, the Group had not used any financial instruments for hedging purposes.

Borrowings and banking facilities

As at 31st December, 2003, the Group had bank borrowings of HK\$16,397,000 which was denominated in Renminbi (notes 11 and 13), and the amount due to a director (non interest bearing) was HK\$1,700,000. As at 31st December, 2003, the Group had bills payable of HK\$71,091,000 which was denominated in Renminbi and the entire amount was secured by pledged bank deposits of the Group of HK\$20,860,000 which was also denominated in Renminbi.

As at 31st December, 2003, the Group maintained a gearing ratio of 5.5%. This is based on the division of the aggregated amount of bank loans and amount due to a director by shareholders' equity as at 31st December, 2003.

Commitments

As at 31st December, 2003, the Group had outstanding contracted capital commitments of approximately HK\$9,854,000 (note 14), as well as operating lease commitments of approximately HK\$3,963,000.

Contingent liabilities

As at 31st December, 2003, the Group had no material contingent liabilities.

Remuneration Policies and Share Option Scheme

The Group incurred total salaries and other remunerations of approximately HK\$5,578,000 with a total number of about 930 staff during the six months ended 31st December, 2003.

Remuneration packages comprised salary, mandatory provident fund and year-ended bonus based on individual merits. A share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed at the extraordinary general meeting of the Company held on 31st December, 2001. During the six months period ended 31st December, 2003, options in respect of 30,000,000 shares were granted to the relevant participants under the Share Option Scheme.

PLACING AND SUBSCRIPTION OF SHARES

On 18th December, 2003, Mr. Wu Shaoning (“Mr. Wu”), a Director and a substantial shareholder of the Company, entered into an unconditional placing agreement with the Company and ICEA Capital Limited, a placing agent, in respect of the placing of up to 70,000,000 existing shares of the Company by Mr. Wu through ICEA Capital Limited to independent places on a best efforts basis at a placing price of HK\$0.50 per share (the “Placing”).

On the same date, Mr. Wu entered into a conditional subscription agreement with the Company in respect of the subscription of up to 70,000,000 new shares of the Company by Mr. Wu at a price of HK\$0.50 per share (the “Subscription”).

The Placing was completed on 23rd December, 2003 and a total of 70,000,000 existing shares were placed to independent places. The Subscription was completed on 30th December, 2003 and a total of 70,000,000 new shares were subscribed by Mr. Wu. The net proceeds of approximately HK\$34 million would be used as general working capital of the Company in respect of its trading operations in Mainland China.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN SECURITIES

As at 31st December, 2003, the interests and short positions of the Directors and Chief Executives in the shares, underlying shares and debentures of the Company or any 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 under Section 352 of the SFO were as follows:

Long positions in shares of the Company

Name of Director	Number of ordinary shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Wu Shaoning	182,000,000	-	-	182,000,000	43.17%

Long positions in underlying shares of the Company

Share options in the Company

Name of Director	Date of grant	Exercise price HK\$	Exercisable period	No. of shares in respect of options outstanding as at 31st December, 2003
Mr. Wu Shaoning	01/12/2003	0.55	01/01/2004 - 30/12/2011	3,500,000
Mr. Yang Zhuoya	01/12/2003	0.55	01/01/2004 - 30/12/2011	3,500,000

Save as disclosed above, none of the directors, chief executives or their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31st December, 2003, so far as is known to the Directors, the following person and corporation (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Mr. Tung Fai	Beneficial owner	36,400,000	8.63%
Atlantis Investment Management Ltd A/C Atlantis China Fund	Investment manager	22,000,000	5.22%

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed under the headings "Share Option Scheme" below and "Placing and Subscription of Shares" and "Directors' and Chief Executives' Interests in Securities" above, at no time during the six months ended 31st December, 2003 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or Chief Executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

On 31st December, 2001, the Company adopted the Share Option Scheme, the principal terms of which are set out in the Company's Annual Report 2003.

Details of the movements of the outstanding share options granted under the Share Option Scheme of the Company during the period under review were as follows:

Name or Category of participant	Number of Shares in respect of Options			Date of grant	Exercisable period	Exercise price per share HK\$
	Balance as at 1st July, 2003	Granted during the period	Outstanding as at 31st December, 2003			
<i>Directors:</i>						
Mr. Wu Shaoning	-	3,500,000	3,500,000	01/12/2003	01/01/2004 - 30/12/2011	0.55
Mr. Yang Zhuoya	-	3,500,000	3,500,000	01/12/2003	01/01/2004 - 30/12/2011	0.55
<i>Employees:</i>						
In aggregate	-	23,000,000	23,000,000	01/12/2003	01/01/2004 - 30/12/2011	0.55
Total	-	30,000,000	30,000,000			

Note:

1. No option has been exercised, lapsed and cancelled during the six months ended 31st December, 2003.
2. Since no option has been exercised during the six months ended 31st December, 2003, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.
3. The closing price immediately before the date of grant of options granted on 1st December, 2003 was HK\$0.53.

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

The Company did not redeem any of its listed securities during the six months ended 31st December, 2003. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the six months ended 31st December, 2003.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period for the six months ended 31st December, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Audit Committee comprises Ms. He Zhongpei and Mr. Lam Ming Yung, the two independent non-executive directors of the Company. The audit committee has reviewed with the Company's management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the unaudited interim accounts of the Company for the six months ended 31st December, 2003.

On behalf of the Board
Wu Shaoning
Chairman

Hong Kong, 29th March, 2004