



Global Green Tech Group Limited **高寶綠色科技集團有限公司**

(Incorporated in the Cayman Islands with limited liability)

Interim Report

2004

FINANCIAL HIGHLIGHTS

- Turnover was HK\$285.83 million
- Net profit was HK\$42.56 million
- Basic earnings per share were HK\$0.0491
- Cash and cash equivalents amounted to HK\$786.1 million
- Gearing ratio (Total debts / Total assets x 100%) was 17.3%

The Board of Directors (the “Directors”) of the Global Green Tech Group Limited (the “Company”) is pleased to present the interim report and condensed accounts of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30 June 2004, and the consolidated balance sheet as at 30 June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 12 to 28 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

I. Home and Personal Care Products

During the period under review, sales of home and personal care products accounted for 40.69% of Group’s turnover as compared with 44.57% of the Group’s turnover for the same period of last year. Regarding the profitability of the home and personal care products, the gross margin and profitability were also being affected by the increase in price of crude oil. With outbreak of Severe Acute Respiratory Syndrome (“SARS”) in the year 2003, the community was aroused the need to call for better hygiene. The Group believes that home and personal care products will continue to become a stable growth and ongoing momentum of the Group.

II. Industrial Surfactants

Sales of industrial surfactants constituted nearly 32.66% of the Group’s turnover as compared with 27.5% of the Group’s turnover for the same period of last year. During the period under review, there was a continues step rise of crude oil price, resulted the Group’s petroleum-based raw materials experienced a price increase. In view of this, the Group’s business margins and profitability were inevitably affected. With the increasing demand from the textile boom stimulated by the post-WTO quota relaxation as well as the government’s policy to phase out phosphorus detergents in the PRC, the Group continues to benefit from its development of environmental-friendly industrial surfactants.

III. Cosmetics and Skincare – Marjorie Bertagne (“MB”)

During the period under review, sales of MB constituted nearly 19.78% of the Group’s turnover, representing a marginal gain of 3.62% when compared to the same period of last year. To pave way for MB’s long-term business development, continuous efforts have been placed to establish a widespread retail network. As such, 16 counters were set up in Hong Kong and Macau, while 85 were established in the PRC. With regard to the Group’s production facilities, a GMP compliant manufacturing base with 5 production lines was commenced in March 2003, making the Group a pioneer in the skin care manufacturing industry in the PRC.

OPERATIONAL REVIEW (Cont'd)

IV. Biotechnology Products

During the period under review, Global Green continued to engage in the production of biotechnology products in medical and cosmetic applications. This includes its "hEGF" product (effective in revitalizing human skin and heal surface wounds) which together with its other biotechnology products show promising market potential. This diversification has not only widened the Group's revenue base, it also promises a bright future in the years to come.

USE OF PROCEEDS FROM BORROWING AND ISSUE OF SHARES

On 30 January 2004, Credit Suisse First Boston (Hong Kong) Limited ("CSFB") exercised the Additional Option and new bonds of US\$4,080,000 (equivalent to approximately HK\$31,824,000) were issued (the "Additional Tranche 1 Bonds") with identical terms as the Original Tranche 1 Bonds according to the 2001 Subscription Agreement. As at 30 June 2004, there are US\$480,000 of the Additional Tranche 1 Bonds outstanding and not yet converted into shares of the Company. The cash proceeds from issue of the Additional Tranche 1 Bonds, before related expenses, approximately HK\$31,824,000 is used to finance general working capital requirement.

On 19 January 2004, a subsidiary of the Company, Global Chemicals (China) Company Limited ("GCC"), had entered into borrowing agreement with certain banks for provision of HK\$235 million term loan facility at an interest rate of HIBOR plus 1% per annum. GCC shall apply all amounts borrowed by it under the term loan facility towards financing the general corporate funding requirements of the Group. Detail of the arrangement were disclosed in note 10(a) to the accounts. As at 30 June 2004, HK\$235 million has been drawdown and is placed into short term deposits with banks.

During the period, 8,878,200 share options were exercised at an average price of HK\$0.94 per ordinary share with cash proceeds of approximately HK\$8.35 million, before any related expenses. The net proceeds from the exercise of share options were used to finance general working capital requirement of the Group. The exercise of 8,878,200 share options resulted in the issue of 8,878,200 additional shares of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash or cash equivalent of approximately HK\$786.1 million as at the balance sheet date. The Group adopts conservative treasury policies in cash and financial management. Most of the retained cash was placed in Renminbi and Hong Kong Dollar short term deposits and therefore exposure to exchange fluctuations was minimal. The Group also invested in other investments such as bonds and marketable securities to increase financial returns. Shareholders' fund as at 30 June 2004 was HK\$1,142.36 million compared with that of HK\$1,063.44 million as at 31 December 2003, representing an increase of HK\$78.92 million or 7.42%.

The Group capital expenditure for the six months ended 30 June 2004 amounted to HK\$62.37 million were funded from cash generation from operation, bank loans, issue of shares and convertible bonds.

The indebtedness of the Group mainly comprises of trust receipt loans, bank loans, finance leases and convertible bonds which are largely denominated in Hong Kong dollars and Renminbi. The Group borrowings are monitored to ensure a smooth repayment schedule to maturity.

The banking facilities mainly comprised of trust receipt loans and invoice financing loan of tenor up to 120 days from the invoice date. The bank interest rates are mainly fixed by reference to either the Hong Kong Prime rate or the Hong Kong Interbank Offer Rate.

As at 30 June 2004, the Group's banking facilities had been utilized to the extent of approximately HK\$252.40 million, including HK\$235 million of syndication loan.

The Group's inventory turnover period was decreased to 52 days from that of 76 days for the same period last year. The turnover period of debtors and creditors were 76 days and 30 days respectively.

Debt to equity ratio (total debt over shareholders' equity) and gearing ratio (total interest bearing debt over total assets) were increased to 22.37% and 17.3% respectively as compared with that of 4.87% and 4.31% for the same period last year. Current ratio and quick ratio were improved to 10.4 and 8.24 respectively whilst interest cover was 46.7 times.

PROSPECTS

In view of the global rise and fluctuation in price of crude oil and its financial impact upon all solvent-based raw materials (the "Replacement Materials") required by the Group for manufacturing of its products, the Group has found it necessary to replace most if not all the Replacement Materials with a view to minimizing the Group's exposure to the risk of any further increase and fluctuation in the price of crude oil and the consequential rise in costs in production. To that end, the Group has decided to build its own production facilities for the purpose of manufacturing the Replacement Materials. In September 2004, the Group had paid a sum of approximately HK\$23 million as deposit for application in or towards purchasing a piece of land of approximately 66,800 square meter located next the Group's existing manufacturing building in Dongguan on which a building with total production area approximately 60,000 square meter will be used for the purpose of manufacturing the Replacement Materials at low cost. The total investment of this project is estimated to be approximately HK\$293.8 million. Completion of this project is expected to take place in fourth quarter of the year 2005 and trial run is scheduled to commence in the first quarter of the year 2006. For this significant investment, the Board had decided to temporarily suspend payment of dividends until such time as the gross margin and profitability of the Group have improved to the satisfaction of the Board. The Group will continue to review the price of all series of products and find ways to alleviate the effect of increase in production costs.

Driving for business expansion of home and personal care products, the Group plans to acquire equity interest in certain companies with well-established customers base in regions where the Group does not cover so as to effectively increase its market shares and reduce income tax.

In view of the market potential of the cosmetics products and MB's long-term business development, continuous efforts have been placed to establish a widespread retail network. In additions, the Group also plans to cooperate with a marketing expertise company to establish a new company in which the Group intends to own 70% of the equity interest for carrying on a new line of salon and professional skincare products business catered for beauty salon and special usage. The Group's research and development team is committed to improve existing MB products and develop a comprehensive range of MB's product line which cater for customers from different age groups and genders.

With increasing recognition of the Group's products by local and overseas customers, the Group believes that OEM and premium business will become one of the major sources of income to the Group in future. In this connection, the Group plans to establish a wholly own subsidiary to develop and handle these OEM and premium business.

INTERIM DIVIDEND

The Board does not recommend payment of interim dividend for the six months ended 30 June 2004 (2003: HK\$0.02 per share).

EMPLOYEE AND REMUNERATION POLICIES

The Group's clear and effective management policies have enabled it to maintain good staff relations. It has not encountered any difficulties in recruiting experienced personnel and there has not been any interruption to its operations as a result of labour disputes. The Group provides social security benefits encompassing the mandatory provident fund and health insurance scheme to all its employees. It does not shoulder any material liability arising from the relevant statutory retirement scheme.

As at 30 June 2004, the Group had 734 salaried employees of which 698 and 36 were stationed respectively in the PRC and in Hong Kong. Total staff costs paid during the period was approximately HK\$11.46 million.

SHARE OPTIONS

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the "Old Scheme") was terminated and another share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remain in force and all share options granted prior to such termination continue to be valid and exercisable in accordance therewith. There are no changes in any terms of the schemes during the six month ended 30 June 2004. The detailed terms of the schemes were disclosed in the 2003 annual accounts.

Detail of the share options outstanding as at 30 June 2004 which have been granted under the Old Scheme are as follows:

| Participant | Date of grant ⁽¹⁾ | Exercise price HK\$ ⁽²⁾ | Number of share options | | | Company's share price ⁽³⁾ | | |
|---|------------------------------|---------------------------------------|-------------------------|---------------------------|-----------------------------|--------------------------------------|---|-----------------------------|
| | | | 1 January 2004 | Granted during the period | Exercised during the period | 30 June 2004 | At date of grant HK\$ ⁽²⁾ | At date of exercise HK\$ |
| Executive Directors | | | | | | | | |
| Mr. Choi Woon Man | 4 January 2001 | 0.67 | 78,200 | — | (78,200) | — | 0.82 | 1.32 |
| Mr. Li Kwong Mo, Peter | 4 January 2001 | 0.67 | 3,800,000 | — | (3,800,000) | — | 0.82 | 1.32 |
| | | | <u>3,878,200</u> | <u>—</u> | <u>(3,878,200)</u> | <u>—</u> | | |
| Other employees | | | | | | | | |
| In aggregate | 4 January 2001 | 0.67 | <u>28,800</u> | <u>—</u> | <u>(28,800)</u> | <u>—</u> | 0.82 | 1.34 |
| Share options granted under the Old Scheme | | | <u>3,907,000</u> | <u>—</u> | <u>(3,907,000)</u> | <u>—</u> | | |

SHARE OPTIONS (Cont'd)

Detail of the share options outstanding as at 30 June 2004 which have been granted under the New Scheme are as follows:

| Participant | Date of grant ⁽¹⁾ | Exercise price HK\$ ⁽²⁾ | Number of share options | | | Company's share price ⁽³⁾ | | |
|---|------------------------------|---------------------------------------|-------------------------|---------------------------|-----------------------------|--------------------------------------|---|-----------------------------|
| | | | 1 January 2004 | Granted during the period | Exercised during the period | 30 June 2004 | At date of grant HK\$ ⁽²⁾ | At date of exercise HK\$ |
| Executive Directors | | | | | | | | |
| Ms. Wong Wai Kwan, Connie | 7 June 2004 | 0.63 | — | 250,000 | — | 250,000 | 0.82 | N/A |
| Mr. Choi Woon Man | 7 June 2004 | 0.63 | — | 150,000 | — | 150,000 | 0.82 | N/A |
| | | | — | 400,000 | — | 400,000 | | |
| Suppliers of goods or services, customers and others | | | | | | | | |
| In aggregate | 22 March 2002 | 1.33 | 1,200,000 | — | — | 1,200,000 | 1.35 | N/A |
| | 29 July 2002 | 1.50 | 10,300,300 | — | — | 10,300,300 | 1.44 | N/A |
| | 8 January 2003 | 1.23 | 5,882,000 | — | — | 5,882,000 | 1.23 | N/A |
| | 9 June 2003 | 1.15 | 14,486,000 | — | (5,000,000) | 9,486,000 | 1.15 | 0.9 |
| | 7 June 2004 | 0.63 | — | 69,100,000 | — | 69,100,000 | 0.63 | N/A |
| | | | <u>31,868,300</u> | <u>69,100,000</u> | <u>(5,000,000)</u> | <u>95,968,300</u> | | |
| Other employees | | | | | | | | |
| In aggregate | 8 January 2003 | 1.23 | 498,000 | — | — | 498,000 | 1.23 | N/A |
| | 9 June 2003 | 1.15 | 863,200 | — | 28,800 | 892,000 | 1.15 | 1.34 |
| | 7 June 2004 | 0.63 | — | 16,600,000 | — | 16,600,000 | 0.63 | N/A |
| | | | <u>1,361,200</u> | <u>16,600,000</u> | <u>28,800</u> | <u>17,990,000</u> | | |
| Share options granted under the New Scheme | | | <u>33,229,500</u> | <u>86,100,000</u> | <u>(4,971,200)</u> | <u>114,358,300</u> | | |
| Total share options granted | | | <u>37,136,500</u> | <u>86,100,000</u> | <u>(8,878,200)</u> | <u>114,358,300</u> | | |

No share options have lapsed during the year.

SHARE OPTIONS (Cont'd)

Note:

- (1) The exercisable period of the above share options is 3 years from the date of the grant as determined by the Directors.
- (2) For the options granted during 2001 and 2002, the exercise price and the Company's share price as at the date of grant have been adjusted following a board resolution passed on 27 August 2002 for the bonus issue of ordinary shares to the shareholders of the Company.
- (3) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average closing price of the shares immediately before the dates on which share options were exercised.

The financial impact of options granted is not recorded in the Company's and Group's accounts until such time as the options are exercised. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed, if any, prior to their exercise date are deleted from the outstanding options.

The Directors do not consider it appropriate to state the value of the options granted during the period as a number of variables which are crucial for the calculation of the options value have not been determined. The Directors believe that any calculation of the value of the options based on a great number of speculative assumptions would not be meaningful and would be misleading.

Subsequent to the balance sheet date, there is no any new share option granted by the Company. An aggregate of 6,166,000 ordinary shares were issued subsequent to the balance sheet date upon the exercise share options at an average exercise price of HK\$0.63 each. The cash proceeds received thereon, before any related expenses, was approximately HK\$3,885,000.

CONTINGENT LIABILITY AND CHARGE OF GROUP ASSETS

The Group did not have any significant contingent liabilities as at 30 June 2004.

As at 30 June 2004, certain of the Group's fixed assets and bank deposits were pledged to its bankers to secure general banking facilities granted to the Group in Hong Kong.

As at 30 June 2004, all banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30 June 2004, the interests (which are all long positions) of the Directors and Chief Executives in the ordinary shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (including interest which they are deemed or taken to have under such provisions of the SFO)), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company were as follows:

| Name of Director | Number of ordinary shares/underlying shares held | | | | Percentage of shareholding |
|---------------------------|--|-------------------------|-------------------------|--|----------------------------|
| | Personal interests | Corporate interests | Family interests | | |
| Mr. Lau Jin Wei, Jim | 5,400,000 (note a)) | — | 80,712,000 (note b)) | | 9.77% |
| Mr. Choi Woon Man | 1,010,200 (note c)) | 79,668,000 (note d)) | — | | 9.16% |
| Mr. Li Kwong Mo, Peter | 6,860,000 (note e)) | — | — | | 0.78% |
| Ms. Wong Wai Kwan, Connie | 250,050 (note f)) | — | — | | 0.03% |
| Mr. Yip Wai Leung, Jerry | 270,000 (note g)) | — | — | | 0.03% |

Notes:

- (a) The personal interest of Mr. Lau Jin Wei, Jim comprises 5,400,000 ordinary shares of the Company.
- (b) There are 80,712,000 ordinary shares of the Company as shown above held by Motivated Workforce Consultants Limited ("MWC"), a company incorporated in the British Virgin Islands. The entire share capital of MWC is owned by Mr. Lau Ru Dong, the father of Mr. Lau Jin Wei, Jim.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN EQUITY OR DEBT SECURITIES (Cont'd)

Notes (Cont'd):

- (c) The personal interest of Mr. Choi Woon Man comprises 860,200 ordinary shares and 150,000 underlying shares in respect of share options granted by the company to him, the details of which are stated in the above section "Share options".
- (d) There are 79,668,000 ordinary shares of the Company as shown above held by Inviting Finance Limited ("IFL"), a company incorporated in the British Virgin Islands. The entire share capital of IFL is owned by Mr. Choi Woon Man.
- (e) The personal interest of Mr. Li Kwong Mo, Peter comprises 6,860,000 ordinary shares.
- (f) The personal interest of Ms. Wong Wai Kwan, Connie comprises 50 ordinary shares and 250,000 underlying shares in respect of share options granted by the company to him, the details of which are stated in the above section "Share options".
- (g) The personal interest of Mr. Yip Wai Leung, Jerry comprises 120,000 ordinary shares and 150,000 underlying shares in respect of share options granted by the company to him, the details of which are stated in the above section "Share options".

Save as disclosed above, no directors, chief executives or their associates had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, the register of substantial shareholders maintained under Section 336 of the SFO showed that, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital:

| Name of shareholder | Number of ordinary shares | Percentage of the Company's share capital |
|----------------------------|----------------------------------|--|
| MWC | 80,712,000 | 9.16% |
| IFL | 79,668,000 | 9.04% |

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, the Company has not been notified by any other person (other than a director of the Company disclosed above) who has an interest or short position in the shares or underlying shares of the Company pursuant to Section 336 of the SFO as at 30 June 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period, except that the Non-executive Director and the Independent Non-executive Directors are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Articles of Association of the Company. In the opinion of the Directors, this meets the same objective as the Code of Best Practice.

AUDIT COMMITTEE

The Company's Audit Committee comprises two Independent Non-executive Directors, namely Mr. Ou Ying Ji and Mr. Yip Wai Leung, Jerry.

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The unaudited interim report for the six months ended 30 June 2004 has been reviewed by the Audit Committee.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remains applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under transitional arrangement, will be released on the website of the Stock Exchange of Hong Kong Limited as soon as practicable.

BOARD OF DIRECTORS

As at the date of the Board Meeting for this interim results announcement on 24 September 2004, the Board of the Company comprises of four executive Directors, namely Mr. Lau Jin Wei, Jim, Mr. Choi Woon Man, Mr. Li Kwong Mo, Peter and Ms. Wong Wai Kwan, Connie; one non-executive Director, namely Professor Ouyang Fan; two independent non-executive Directors, namely Mr. Yip Wai Leung, Jerry and Mr. Ou Ying Ji.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004

| | Note | Unaudited | |
|-------------------------------------|------|--------------------------|------------|
| | | Six months ended 30 June | |
| | | 2004 | 2003 |
| | | HK\$'000 | HK\$'000 |
| Turnover | 2 | 285,833 | 351,763 |
| Cost of sales | | (177,533) | (194,857) |
| Gross profit | | 108,300 | 156,906 |
| Other revenues | 2 | 5,950 | 2,120 |
| Selling and distribution expenses | | (20,171) | (44,313) |
| Administrative expenses | | (26,092) | (18,365) |
| Other operating expenses | | (17,598) | (2,810) |
| Operating profit | 3 | 50,389 | 93,538 |
| Finance costs | | (1,079) | (1,143) |
| Profit before taxation | | 49,310 | 92,395 |
| Taxation | 4 | (6,734) | (603) |
| Profit after taxation | | 42,576 | 91,792 |
| Minority interests | | (12) | 2 |
| Profit attributable to shareholders | | 42,564 | 91,794 |
| Dividends | 5 | — | 15,349 |
| Basic earnings per share | 6 | HK\$0.0491 | HK\$0.1360 |
| Diluted earnings per share | 6 | HK\$0.0469 | HK\$0.1342 |

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2004

| | Note | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|---|------|--|--|
| Non-current assets | | | |
| Intangible assets | 7 | 55,944 | 61,578 |
| Fixed assets | 7 | 309,187 | 260,232 |
| Deposit for purchase of land | | — | 42,056 |
| Deposits for purchases of other fixed assets | | 52,946 | 92,134 |
| Other deposits and club debenture | | 1,218 | 660 |
| Investment securities | | 63,100 | 63,100 |
| Deferred tax assets | | 3,193 | 3,193 |
| | | 485,588 | 522,953 |
| Current assets | | | |
| Inventories | | 46,380 | 55,253 |
| Trade receivables | 8 | 105,515 | 131,693 |
| Prepayments, deposits and other receivables | | 7,488 | 23,751 |
| Amounts due from related companies | | 6,131 | 10,153 |
| Pledged bank deposits | | 1,015 | 5,113 |
| Other investments | | 38,965 | 5,325 |
| Bank balances and cash | | 786,102 | 420,329 |
| | | 991,596 | 651,617 |
| Current liabilities | | | |
| Trade and bills payable | 9 | 21,186 | 37,834 |
| Accrued liabilities and other payables | | 38,425 | 26,411 |
| Amounts due to related companies | | 2,342 | 2,342 |
| Taxation payable | | 16,598 | 24,799 |
| Bank overdrafts | | — | 53 |
| Short term bank loans | | 12,869 | 3,588 |
| Current portion of long-term liabilities | 10 | 3,930 | 15,304 |
| | | 95,350 | 110,331 |
| Net current assets | | 896,246 | 541,286 |
| Total assets less current liabilities | | 1,381,834 | 1,064,239 |

CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)

As at 30 June 2004

| | <i>Note</i> | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|-------------------------|-------------|--|--|
| Financed by: | | | |
| Share capital | 11 | 88,123 | 83,608 |
| Other reserves | 12 | 727,137 | 687,116 |
| Retained earnings | | | |
| Proposed final dividend | 12 | — | 16,722 |
| Others | 12 | 327,098 | 275,989 |
| Shareholders' funds | | 1,142,358 | 1,063,435 |
| Minority interests | | 705 | 694 |
| Long-term liabilities | 10 | 235,027 | 110 |
| Convertible bonds | | 3,744 | — |
| | | <u>1,381,834</u> | <u>1,064,239</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

| | | Unaudited | |
|---------------------------------|-------------|---------------------------------|---------------------|
| | <i>Note</i> | Six months ended 30 June | |
| | | 2004 | 2003 |
| | | HK\$'000 | HK\$'000 |
| Total equity as at 1 January | | 1,063,435 | 708,823 |
| Profit for the period | 12 | 42,564 | 91,794 |
| Dividends | 12 | — | (11,995) |
| Exchange fluctuation reserves | 12 | (56) | — |
| Issue of shares | | 8,335 | 214,055 |
| Conversion of bonds into shares | | 28,080 | — |
| Share issue expenses | | — | (5,154) |
| | | <hr/> 1,142,358 <hr/> | <hr/> 997,523 <hr/> |
| Total equity as at 30 June | | 1,142,358 | 997,523 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

| | | Unaudited | |
|--|--|---------------------------------|---------------------|
| | | Six months ended 30 June | |
| | | 2004 | 2003 |
| | | HK\$'000 | HK\$'000 |
| Net cash inflow from operating activities | | 115,549 | 109,053 |
| Net cash used in investing activities | | (12,346) | (37,651) |
| Net cash inflow from financing activities | | 262,623 | 196,872 |
| | | <hr/> 365,826 <hr/> | <hr/> 268,274 <hr/> |
| Increase in cash and cash equivalents | | 420,276 | 163,435 |
| Cash and cash equivalents at 1 January | | <hr/> 786,102 <hr/> | <hr/> 431,709 <hr/> |
| Cash and cash equivalents at 30 June | | 786,102 | 431,709 |
| Analysis of balances of cash and cash equivalents: | | <hr/> 786,102 <hr/> | <hr/> 431,709 <hr/> |
| Bank balances and cash | | 786,102 | 431,709 |

NOTES TO CONDENSED ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”), 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed accounts should be read in conjunction with the 2003 annual accounts.

2. SEGMENT INFORMATION

The Group is organised into the following main business segments:

- (a) Home and personal care products segment - manufacture of home and personal care products for sale to wholesalers and retailers in the general consumer market;
- (b) Industrial products segment - manufacture of industrial surfactants for sale principally to textile and garment manufacturers and traders;
- (c) Cosmetics and skin care products segment - manufacture of cosmetics and skin care products under the brand name of Marjorie Bertagne for sale to authorised distributors and retailers in the general consumer market;
- (d) Biotechnology products segment - manufacture of biotechnology products with medical and cosmetic applications; and
- (e) Others – sales of Best Micro-organism System (“BMS”) wastewater and sewage treatment equipment.

There are no sales or other transactions between the business segments.

2. SEGMENT INFORMATION (Cont'd)

An analysis of the Group's revenue and results for the period by business segment is as follows:

| | Unaudited Six months ended 30 June 2004 | | | | | Consolidated HK\$'000 |
|---|---|------------------------------------|---|--|--------------------|--------------------------|
| | Home and personal care products HK\$'000 | Industrial products HK\$'000 | Cosmetics and skin care products HK\$'000 | Bio- technology products HK\$'000 | Others HK\$'000 | |
| Turnover | <u>116,317</u> | <u>93,355</u> | <u>56,549</u> | <u>19,612</u> | <u>—</u> | <u>285,833</u> |
| Segment results | <u>17,050</u> | <u>2,184</u> | <u>26,108</u> | <u>7,343</u> | <u>(181)</u> | 52,504 |
| Interest income and unallocated revenues | | | | | | 5,950 |
| Corporate and unallocated expenses | | | | | | <u>(8,065)</u> |
| Operating profit | | | | | | 50,389 |
| Finance costs | | | | | | <u>(1,079)</u> |
| Profit before taxation | | | | | | 49,310 |
| Taxation | | | | | | <u>(6,734)</u> |
| Profit after taxation | | | | | | 42,576 |
| Minority interests | | | | | | <u>(12)</u> |
| Profit attributable to shareholders | | | | | | <u>42,564</u> |

2. SEGMENT INFORMATION (Cont'd)

| | Unaudited Six months ended 30 June 2003 | | | | | Consolidated HK\$'000 |
|---|---|------------------------------------|---|--|--------------------|--------------------------|
| | Home and personal care products HK\$'000 | Industrial products HK\$'000 | Cosmetics and skin care products HK\$'000 | Bio- technology products HK\$'000 | Others HK\$'000 | |
| Turnover | <u>156,777</u> | <u>96,737</u> | <u>54,572</u> | <u>34,317</u> | <u>9,360</u> | <u>351,763</u> |
| Segment results | <u>34,994</u> | <u>14,050</u> | <u>26,809</u> | <u>18,263</u> | <u>4,648</u> | 98,764 |
| Interest income and unallocated revenues | | | | | | 2,120 |
| Corporate and unallocated expenses | | | | | | (7,346) |
| Operating profit | | | | | | 93,538 |
| Finance costs | | | | | | (1,143) |
| Profit before taxation | | | | | | 92,395 |
| Taxation | | | | | | (603) |
| Profit after taxation | | | | | | 91,792 |
| Minority interests | | | | | | 2 |
| Profit attributable to shareholders | | | | | | <u>91,794</u> |

3. OPERATING PROFIT

Operating profit is stated after charging the followings:

| | Unaudited Six months ended 30 June | |
|--|---------------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Charging | | |
| Amortisation of intangible assets | 5,634 | 5,633 |
| Cost of inventories sold | 153,870 | 175,643 |
| Depreciation of fixed assets | 13,418 | 9,575 |
| Interest on bank loans and overdrafts wholly repayable within five year | 920 | 797 |
| Interest on finance leases | 159 | 346 |
| Research and development costs | 15,586 | 3,310 |
| Staff costs | <u>11,464</u> | <u>10,587</u> |

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2003: 17.5%) on the estimated assessable profit for the period.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the subsidiaries of the Group operate.

The amount of taxation charged to the consolidated profit and loss account represents:

| | Unaudited | |
|--|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Current taxation: | | |
| Hong Kong profits tax | 140 | 603 |
| Overseas taxation (note (b)) | 13,254 | — |
| | 13,394 | 603 |
| Less: Overprovision in previous period | (6,660) | — |
| Taxation charge | 6,734 | 603 |

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Profit before taxation | 49,310 | 92,395 |
| Tax at applicable tax rate (note (a)) | 4,059 | 32,350 |
| Adjustment for overprovision previous period | (6,660) | — |
| Income not subject to taxation | (6) | — |
| Expenses not deductible for taxation purposes | 88 | 1,140 |
| Tax losses not recognised | 9,253 | 1,645 |
| Utilisation of previously unrecognised tax losses | — | (297) |
| Preferential tax treatment (note (b)) | — | (34,235) |
| Taxation charge | 6,734 | 603 |

Notes:

- (a) The applicable taxation rates represent the rates of taxation prevailing in the countries in which the group companies operate.
- (b) Overseas tax provision is required to be made in respect of Dongguan Proamine Chemicals Co., Limited ("Dongguan Proamine"), a wholly owned subsidiary of the Company established in the PRC. In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax is 33%. On 30 June 2003, Dongguan Proamine was accredited by the Department of Science and Technology of Guangdong Province as a Hi-Tech Enterprise of Guangdong Province. Being a Hi-Tech Enterprise registered in Dongguan, it is entitled to a reduced state income tax of 15% for the period from 1 January 2003 to 31 December 2005.

5. DIVIDEND

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Interim, paid, of HK\$Nil (2003: HK\$0.02) per ordinary share | <u>—</u> | <u>15,349</u> |

- (a) At a meeting held on 22 September 2003, the Directors declared an interim dividend of HK\$0.02 per share for the year ending 31 December 2003. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.
- (b) At a meeting held on 24 September 2004, the Directors did not recommend payment of interim dividend for the period ending 30 June 2004.

6. EARNINGS PER SHARE

The calculation of earnings per share of the Group for the period is as follows:

| | Unaudited | |
|---|---------------------------------|--------------------|
| | Six months ended 30 June | |
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Profit attributable to shareholders | <u>42,564</u> | <u>91,794</u> |
| | No. of shares | No. of shares |
| Weighted average number of ordinary shares in issue during the period | 866,816,000 | 674,894,000 |
| Basic earnings per share | <u>HK\$0.0491</u> | <u>HK\$0.1360</u> |
| | HK\$'000 | HK\$'000 |
| Profit attributable to shareholders | <u>42,564</u> | <u>91,794</u> |
| | No. of shares | No. of shares |
| Weighted average number of ordinary shares in issue during the period | 866,816,000 | 674,894,000 |
| Add: Number of ordinary shares deemed to be issued on full conversion of the convertible bonds | 3,668,000 | 22,000 |
| Add: Number of ordinary shares deemed to be issued at no consideration on exercise of all outstanding share options | <u>36,179,000</u> | <u>9,314,000</u> |
| | 906,663,000 | 684,230,000 |
| Diluted earnings per share | <u>HK\$0.0469</u> | <u>HK\$0.1342</u> |

7. CAPITAL EXPENDITURE

| | Unaudited | |
|--|----------------------|--------------------------|
| | Licences HK\$'000 | Fixed assets HK\$'000 |
| Opening net book amount as at 1 January 2004 | 61,578 | 260,232 |
| Additions | — | 62,373 |
| Amortisation/depreciation charge (<i>Note 3</i>) | (5,634) | (13,418) |
| Closing net book amount as at 30 June 2004 | <u>55,944</u> | <u>309,187</u> |

8. TRADE RECEIVABLES

At 30 June 2004, the ageing analysis of the trade receivables was analysed as follows:

| | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|-----------------|--|--|
| Within 30 days | 49,764 | 67,676 |
| 31 – 60 days | 30,981 | 38,189 |
| 61 – 90 days | 28,966 | 19,637 |
| Over 90 days | 2,784 | 13,171 |
| Less: provision | (6,980) | (6,980) |
| | <u>105,515</u> | <u>131,693</u> |

The normal credit period granted to the customers of the Group is 30 to 90 days

9. TRADE AND BILLS PAYABLE

| | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|----------------|--|--|
| Trade payables | 21,186 | 27,644 |
| Bills payable | — | 10,190 |
| | <u>21,186</u> | <u>37,834</u> |

9. TRADE AND BILLS PAYABLE (Cont'd)

At 30 June 2004, the ageing analysis of the trade and bills payable was analysed as follows:

| | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|----------------|--|--|
| Within 30 days | 16,905 | 29,021 |
| 31 – 60 days | 1,036 | 2,106 |
| 61 – 90 days | 319 | 1,600 |
| Over 90 days | 2,926 | 5,107 |
| | 21,186 | 37,834 |

10. LONG-TERM LIABILITIES

| | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|---|--|--|
| Secured bank loans repayable: | | |
| Within one year | 3,765 | 8,155 |
| In the second year | — | — |
| In the third to fifth year | — | — |
| Total secured bank loans | 3,765 | 8,155 |
| Unsecured bank loans repayable: | | |
| Within one year | — | — |
| In the second year (Note (a)) | 117,500 | — |
| In the third to fifth year (Note (a)) | 117,500 | — |
| Total unsecured bank loans | 235,000 | — |
| Obligations under finance leases repayable: | | |
| Within one year | 205 | 7,566 |
| In the second year | 34 | 137 |
| In the third to fifth year | — | — |
| Less: future finance charges on finance leases | (47) | (444) |
| Present value of obligations under finance leases | 192 | 7,259 |
| Total long-term liabilities | 238,957 | 15,414 |
| Current portion of long-term liabilities | (3,930) | (15,304) |
| | 235,027 | 110 |

10. LONG-TERM LIABILITIES (Cont'd)

Note:

- (a) On 19 January 2004, GCC entered into a Term Loan Facility Agreement (the "Agreement") with certain banks (the "Banks") for financing the general corporate funding requirements of the Group.

Maximum available facility under the Agreement is HK\$235,000,000, which can be drawn at a maximum number of three loans during the period from 19 January 2004 to 18 July 2004 (the "Availability Period") in accordance with the terms of the Agreement.

GCC shall repay the loans outstanding at the end of the Availability Period by four successive half-year instalments, the first instalment to be paid on the date falling 18 months after the date of the Agreement (i.e. 18 July 2005) and thereafter on the last day of each successive half-yearly period.

The outstanding loans will bear an interest at HIBOR plus 1% per annum and the interest payments will be made by the end of each interest period as selected by GCC at the time when it draws the loans pursuant to the Agreement. GCC may select an interest period of one, two, three or six months or any other period agreed between GCC and the Banks.

The Company has executed an irrevocable and unconditional guarantee in favour of the Banks with respect to this term loan facility offered to GCC.

11. SHARE CAPITAL

| | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|--|--|--|
| <i>Authorised:</i> | | |
| 2,000,000,000 ordinary shares of HK\$0.10 each | <u>200,000</u> | <u>200,000</u> |
| <i>Issued and fully paid:</i> | | |
| 881,228,659 (2003: 836,076,914) ordinary shares of HK\$0.10 each | <u>88,123</u> | <u>83,608</u> |

During the period, the following movements in the issued share capital of the Company were recorded:

| | Unaudited Number of shares | Share Capital HK\$'000 |
|---|---|---------------------------------------|
| At 1 January 2003 | 599,741,366 | 59,974 |
| Exercise of share options | 133,275,500 | 13,328 |
| Conversion of convertible bonds | 3,059,561 | 306 |
| Placement of shares | 100,000,000 | 10,000 |
| Exercise of warrants | 487 | — |
| | <hr/> | <hr/> |
| At 31 December 2003 and at 1 January 2004 | 836,076,914 | 83,608 |
| Exercise of share options | 8,878,200 | 888 |
| Conversion of convertible bonds | 36,273,545 | 3,627 |
| | <hr/> | <hr/> |
| At 30 June 2004 | <u>881,228,659</u> | <u>88,123</u> |

12. RESERVES

| | Unaudited | | | | | | | |
|---|----------------|---------------------|----------------------|----------------------|--------------------|----------------------|-------------------|------------------|
| | Share premium | Investment property | | Assets | Statutory reserves | Exchange | Retained earnings | Total |
| | | Capital reserve | revaluation reserves | revaluation reserves | | fluctuation reserves | | |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| At 1 January 2004 | 630,889 | 900 | 116 | 7,228 | 47,771 | 212 | 292,711 | 979,827 |
| Issue of shares | 7,448 | — | — | — | — | — | — | 7,448 |
| Conversion of convertible bonds into shares | 24,452 | — | — | — | — | — | — | 24,452 |
| Share issue expenses | — | — | — | — | — | — | — | — |
| Profit for the period | — | — | — | — | — | — | 42,564 | 42,564 |
| Balance sheet rate conversion | — | — | — | — | — | (56) | — | (56) |
| Transfer to statutory reserve | — | — | — | — | 8,177 | — | (8,177) | — |
| Final dividend paid | — | — | — | — | — | — | — | — |
| At 30 June 2004 | <u>662,789</u> | <u>900</u> | <u>116</u> | <u>7,228</u> | <u>55,948</u> | <u>156</u> | <u>327,098</u> | <u>1,054,235</u> |
| Representing: | | | | | | | | |
| 2004 proposed interim dividend | | | | | | | — | |
| Others | | | | | | | 327,098 | |
| | | | | | | | <u>327,098</u> | |

| | Unaudited | | | | | | | |
|--------------------------------|----------------|---------------------|----------------------|----------------------|--------------------|----------------------|-------------------|----------------|
| | Share premium | Investment property | | Assets | Statutory reserves | Exchange | Retained earnings | Total |
| | | Capital reserve | revaluation reserves | revaluation reserves | | fluctuation reserves | | |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| At 1 January 2003 | 365,761 | 900 | 137 | 6,347 | 34,541 | 212 | 240,951 | 648,849 |
| Issue of shares | 197,282 | — | — | — | — | — | — | 197,282 |
| Share issue expenses | (5,154) | — | — | — | — | — | — | (5,154) |
| Profit for the period | — | — | — | — | — | — | 91,794 | 91,794 |
| Transfer to statutory reserve | — | — | — | — | 10,374 | — | (10,374) | — |
| Final dividend paid | — | — | — | — | — | — | (11,995) | (11,995) |
| At 30 June 2003 | <u>557,889</u> | <u>900</u> | <u>137</u> | <u>6,347</u> | <u>44,915</u> | <u>212</u> | <u>310,376</u> | <u>920,776</u> |
| Representing: | | | | | | | | |
| 2003 proposed interim dividend | | | | | | | 15,349 | |
| Others | | | | | | | 295,027 | |
| | | | | | | | <u>310,376</u> | |

13. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties under an operating lease negotiated for a term of four years. The terms of the lease provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2004, the Group had future aggregate minimum lease receipts under the non-cancellable operating lease as follows:

| | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|---|--|--|
| Not later than one year | 1,680 | 1,680 |
| Later than one year and not later than five years | <u>—</u> | <u>840</u> |
| | <u>1,680</u> | <u>2,520</u> |

(b) As lessee

The Group leases certain land and buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 30 June 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|---|--|--|
| Not later than one year | 4,981 | 5,727 |
| Later than one year and not later than five years | 4,977 | <u>4,278</u> |
| | <u>9,958</u> | <u>10,005</u> |

14. CAPITAL AND OTHER COMMITMENTS

At 30 June 2004, the Group had the following commitments in addition to the operating lease commitments as detailed in note 13:

| | Unaudited 30 June 2004 HK\$'000 | Audited 31 December 2003 HK\$'000 |
|--|--|--|
| Capital commitments – contracted but not provided for: | | |
| Purchase of land | — | 14,019 |
| Purchases of other fixed assets | <u>11,542</u> | <u>23,638</u> |
| | <u>11,542</u> | <u>37,657</u> |
| Other commitments for: | | |
| Investment commitment of subsidiaries | <u>53,681</u> | <u>681</u> |
| | <u>53,681</u> | <u>681</u> |

The Group did not have any other major commitments at 30 June 2004 (31 December 2003: Nil).

15. CONTINGENT LIABILITIES

At 30 June 2004, the Company had provided corporate guarantees to banks for banking facilities provided to its subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$252,403,000 (31 December 2003: HK\$29,245,000), including the syndication loan of HK\$235 million (note 10(a)), as at the balance sheet date.

16. RELATED PARTIES TRANSACTIONS

During the period, the Group has entered into the following significant related party transactions in its ordinary course of business and on terms mutually agreed between the relevant parties:

- (a) Global Bio-Engineering Limited (“Global Bio-Eng”), a wholly owned subsidiary of the Company, has entered into a tenancy agreement with Oriental Fame Investments Limited (“Oriental Fame”), in which Mr. Choi Woon Man, a Director of the Company, has a controlling interest. Rental expenses paid to Oriental Fame during the period amounted to HK\$498,000 (2003: HK\$498,000).
- (b) During the period, Dongguan Proamine has purchased certain sewage treatment equipment from Shanghai Jindi Bio-Technology Engineering Co., Ltd. (“Shanghai GI”) at a total contract sum of approximately HK\$1,757,000. Shanghai GI is a subsidiary of Bio-Treat in which the Group has an equity interest of 8%. As at 30 June 2004, approximately HK\$351,000 was paid to Shanghai GI and the remaining balance of approximately HK\$1,406,000 is unsecured, interest free and repayable on demand.
- (c) Dongguan Proamine has sales of biotechnology products totalling approximately HK\$7,652,000 (2003: HK\$10,589,000) to 北京博康健基因科技有限公司 (“北京博康健”), a wholly owned subsidiary of Bio-Tech Pharm Group Limited (“Bio-Tech Pharm”), in which the Group has an equity interest of 4.5%. The trade receivable from北京博康健 as at 30 June 2004 was approximately HK\$3,072,000 (31 December 2003: HK\$4,597,000). The balance is unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers.
- (d) Dongguan Proamine has sales of biotechnology products totalling approximately HK\$7,613,000 (2003: HK\$12,266,000) to 深圳華生元基因工程發展有限公司 (“深圳華生元”) during the period. 深圳華生元 is another wholly owned subsidiary of Bio-Tech Pharm. The trade receivable from 深圳華生元 as at 30 June 2004 was approximately HK\$3,059,000 (31 December 2003: HK\$4,716,000). The balance is unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers.
- (e) On 30 June 2003, Dongguan Proamine entered into a tenancy agreement with Golden Idea Bio-Engineering (Dongguan) Co., Ltd. (“Dongguan GI”), a wholly owned subsidiary of Bio-Treat. Dongguan Proamine leases its investment properties located in the PRC to Dongguan GI. Rental income recognised during the period amounted to HK\$840,000 (2003: HK\$840,000). At 30 June 2004, the balance due from Dongguan GI was HK\$Nil (31 December 2003: HK\$840,000) and is unsecured and interest-free and repayable on demand. The future aggregate minimum lease receipts under the operating lease as at the balance sheet date are set out in note 13(a) to the accounts.

16. RELATED PARTIES TRANSACTIONS (Cont'd)

- (f) On 2 May 2002, Global Bio-Eng entered into a licence agreement with GI Group as varied by a supplemental licence agreement dated 1 March 2003 pursuant to which Global Bio-Eng was granted a sole and exclusive right to utilise GI Group's BMS Biological Process Technology in wastewater treatment projects and to sell GI Group's BMS wastewater treatment and waste management products, in Hong Kong and Singapore for an initial term of ten years (commencing from 2 May 2002) with an option for renewal for up to five years (the "Terminated Licence Agreement"). Global Bio-Eng shall pay a royalty equivalent to 10% of all gross income either received or receivable by it in respect of the grant of the said licence and the supply of BMS wastewater treatment and waste management products.

On 30 October 2003, pursuant to the Restructuring Exercise as set out in note 14(a), Ocean Force, GI Group and Global Bio-Eng entered into a new licence agreement (the "New Licence Agreement") pursuant to which inter alia (i) the Terminated Licence Agreement was terminated with effect from 30 October 2003 and (ii) Ocean Force granted to Global Bio-Eng an exclusive right to utilise BMS wastewater treatment and waste management products in Hong Kong and Singapore for an initial term of 10 years (commencing 2 May 2002) with an option for renewal for up to five years. The commercial terms of the New Licence Agreement are substantially similar to that of the Terminated Licence Agreement.

Pursuant to the New Licence Agreement, Global Bio-Eng has to pay Ocean Force a total of HK\$Nil (2003: HK\$936,000), being 10% of the income from the sale of equipment during the period. At 30 June 2004, the balance due to Ocean Force was HK\$936,000 (31 December 2003: HK\$936,000) and is unsecured and interest-free and repayable on demand.

17. SUBSEQUENT EVENTS

- (a) Subsequent to the balance sheet date, the Additional Tranche 1 Bonds of US\$480,000 (equivalent to approximately HK\$3,744,000) were convertible into 6,368,624 ordinary shares of the Company.
- (b) An aggregate of 6,166,000 ordinary shares were issued subsequent to the balance sheet date upon the exercise of the outstanding share options. The cash proceeds received thereon, before any related expenses, was approximately HK\$3,885,000.
- (c) On 16 September 2004, the Group had paid a sum of approximately HK\$23 million as deposit to for application in or towards purchasing a piece of land of approximately 66,800 square meter located next the Group's existing manufacturing building in Dongguan on which a building with total production area approximately 60,000 square meter will be used for the purpose of manufacturing the Replacement Materials at low cost.

By Order of the Board
Lau Jin Wei, Jim
Chairman

Hong Kong, 24 September 2004