



Hua Han Bio-Pharmaceutical Holdings Limited
華瀚生物製藥控股有限公司
(incorporated in the Cayman Islands with limited liability)



Interim Report 2005

THE MISSION

Strive to be the leading pharmaceutical enterprise specialising in gynecological medicine and medicinal healthcare products for women in the People's Republic of China.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Peter Y. (*Chairman*)

Mr. Xu Peng

Mr. Deng Jie

Mr. Long Xian Feng

Mr. Wu Xian Peng

Independent Non-executive Directors

Professor Kung Hsiang-Fu

Professor Tso Wung-Wai

Mr. Hon Yiu Ming, Matthew

AUDIT COMMITTEE

Professor Kung Hsiang-Fu

(*Chairman of audit committee*)

Professor Tso Wung-Wai

Mr. Hon Yiu Ming, Matthew

COMPANY SECRETARY

Mr. Tang Siu Kun, Stephen

QUALIFIED ACCOUNTANT

Mr. Tang Siu Kun, Stephen

REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 704, 7th Floor

Aon China Building

29 Queen's Road Central

Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking

Corporation Limited

1 Queen's Road Central

Hong Kong

Bank of China

Guiyang Branch, Jiaxiu Sub-branch

Number 253 North Ruijing Road

Guiyang, Guizhou,

PRC

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners

41st Floor, Jardine House

1 Connaught Place, Central

Hong Kong

AUDITORS

Ernst & Young

Certified Public Accountants

15th Floor, Hutchison House

10 Harcourt Road, Central

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Ltd.

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

28th Floor, Bank of East Asia

Harbour View Centre

56 Gloucester Road, Wanchai, Hong Kong

UNAUDITED INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Hua Han Bio-Pharmaceutical Holdings Limited (the “**Company**”) is pleased to present the unaudited consolidated interim financial results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 31 December 2004 (the “**Period**”) together with the comparative figures for the corresponding period in 2003 and the relevant explanatory notes set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (the “**Audit Committee**”) of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
		31 December	
		2004	2003
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	2	324,588	237,310
Cost of sales		(224,651)	(165,804)
Gross profit		99,937	71,506
Other revenue		6,913	6,493
Selling and distribution costs		(12,531)	(11,582)
Administrative expenses		(27,537)	(12,672)
PROFIT FROM OPERATING ACTIVITIES	4	66,782	53,745
Finance costs	5	(3,584)	(2,432)
Share losses of:			
Jointly-controlled entity		–	–
Associate		(385)	–
Amortisation of goodwill on acquisition of an associate		(50)	–
PROFIT BEFORE TAX		62,763	51,313
Tax	6	(11,896)	(7,107)
PROFIT BEFORE MINORITY INTERESTS		50,867	44,206
Minority interests		(183)	(135)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		50,684	44,071
Dividend		–	–
Earnings per share			
– Basic	7	HK7.7 cents	HK7.2 cents
– Diluted	7	HK7.4 cents	HK7.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 31 December 2004 (Unaudited) <i>HK\$'000</i>	As at 30 June 2004 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	8	199,697	125,074
Investment in a jointly-controlled entity		–	–
Investment in an associate		433	868
Long term investment		11,309	–
Intangible assets		(22,426)	(21,200)
Long term deposits		3,745	3,745
Pledged bank deposits		–	20,049
		192,758	128,536
CURRENT ASSETS			
Inventories		19,877	49,460
Accounts receivable	9	227,852	197,607
Prepayments, deposits and other receivables		45,488	77,163
Cash and bank balances		337,274	271,365
		630,491	595,595
CURRENT LIABILITIES			
Accounts payable	10	56,893	81,219
Tax payable		5,824	9,080
Accrued liabilities and other payables		33,769	17,799
Bank loans, secured		89,552	85,074
Finance lease payables		–	40
Dividend payable		13,167	–
		199,205	193,212
NET CURRENT ASSETS		431,286	402,383
TOTAL ASSETS LESS			
CURRENT LIABILITIES		624,044	530,919
NON-CURRENT LIABILITIES			
Bank loans, secured		107,831	57,899
Convertible bonds		5,848	19,495
Deferred tax liabilities		1,175	1,175
		114,854	78,569
MINORITY INTERESTS		41,223	35,824
		467,967	416,526
CAPITAL AND RESERVES			
Issued capital	11	67,680	65,630
Reserves		400,287	337,729
Proposed final dividend		–	13,167
		467,967	416,526
		467,967	416,526

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

From 1 July 2004 to 31 December 2004

	Reserves							Total
	Issued share capital HK\$'000	Share premium account HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Proposed final dividend HK\$'000	
At 1 July 2004	65,630	89,482	2,267	20,117	225,863	337,729	13,167	416,526
Share issue upon exercise of share options	50	270	-	-	-	270	-	320
Share issue upon conversion of convertible bonds	2,000	11,604	-	-	-	11,604	-	13,604
Final dividend declared	-	-	-	-	-	-	(13,167)	(13,167)
Profit for the period	-	-	-	-	50,684	50,684	-	50,684
At 31 December 2004 (unaudited)	<u>67,680</u>	<u>101,356</u>	<u>2,267</u>	<u>20,117</u>	<u>276,547</u>	<u>400,287</u>	<u>-</u>	<u>467,967</u>

From 1 July 2003 to 31 December 2003

	Reserves							Total
	Issued share capital HK\$'000	Share premium account HK\$'000	Asset revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Proposed final dividend HK\$'000	
At 1 July 2003								
As previously reported	56,800	20,765	3,383	12,617	151,513	188,278	12,411	257,489
Prior year adjustment: SSAP 12 – restatement of deferred tax	-	-	(1,175)	-	-	(1,175)	-	(1,175)
Effect of deferred tax attributable to minority shareholders	-	-	59	-	-	59	-	59
As restated	56,800	20,765	2,267	12,617	151,513	187,162	12,411	256,373
Share issue upon exercise of share options	4,800	32,160	-	-	-	32,160	-	36,960
Share issue upon conversion of convertible bonds	3,368	33,271	-	-	-	33,271	-	36,639
Share issue expenses	-	(6,162)	-	-	-	(6,162)	-	(6,162)
Dividend paid	-	-	-	-	-	-	(12,411)	(12,411)
Profit for the period	-	-	-	-	44,071	44,071	-	44,071
At 31 December 2003 (unaudited)	<u>64,968</u>	<u>80,034</u>	<u>2,267</u>	<u>12,617</u>	<u>195,584</u>	<u>290,502</u>	<u>-</u>	<u>355,470</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21,311	13,574
Net cash (outflow)/inflow from investing activities	(10,049)	6,560
Net cash inflow from financing activities	54,647	88,971
	<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS	65,909	109,105
Cash and cash equivalents at beginning of period	271,365	105,019
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	337,274	214,124
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	337,274	214,124
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. **Basis of preparation and accounting policies**

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) in force immediately before the revisions to the Listing Rules took effect on 31 March 2004 and with Statement of Standard Accounting Practice (“**SSAP**”) No.25 (SSAP 25) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets. The principal accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those set out in the Group’s audited financial statements for the year ended 30 June 2004.

2. **Turnover**

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

3. Segment information

The following table presents revenue and profit information for the Group's business segments.

	Manufacturing (Unaudited)		Trading (Unaudited)		Consolidated (Unaudited)	
	Six months ended		Six months ended		Six months ended	
	31 December		31 December		31 December	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external customers	<u>174,378</u>	<u>118,369</u>	<u>150,210</u>	<u>118,941</u>	<u>324,588</u>	<u>237,310</u>
Segment profits	<u>76,803</u>	<u>51,946</u>	<u>3,386</u>	<u>4,408</u>	<u>80,189</u>	<u>56,354</u>
Interest income and unallocated gain					2,452	1,528
Net unallocated expenses					<u>(15,859)</u>	<u>(4,137)</u>
Profit from operating activities					66,782	53,745
Finance costs					<u>(3,584)</u>	<u>(2,432)</u>
Share of losses of:						
Jointly-controlled entity					-	-
Associate					(385)	-
Amortisation of goodwill on acquisition of an associate					<u>(50)</u>	<u>-</u>
Profit before tax					62,763	51,313
Tax					<u>(11,896)</u>	<u>(7,107)</u>
Profit before minority interests					50,867	44,206
Minority interests					<u>(183)</u>	<u>(135)</u>
Net profit from ordinary activities attributable to shareholders					<u><u>50,684</u></u>	<u><u>44,071</u></u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

4. Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	(Unaudited)	
	Six months ended	
	31 December	
	2004	2003
	HK\$'000	HK\$'000
Cost of inventories sold	167,301	121,878
Staff costs	11,238	6,665
Depreciation	3,163	2,374
(Gain)/loss on disposal of fixed assets	(115)	178
Amortisation of intangible assets, net	454	(2,590)
Interest income on bank balances	(2,452)	(1,528)
	<u>(2,452)</u>	<u>(1,528)</u>

5. Finance costs

	(Unaudited)	
	Six months ended	
	31 December	
	2004	2003
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	3,509	2,220
Finance lease	1	7
Convertible bonds	74	205
	<u>3,584</u>	<u>2,432</u>

6. Tax

No provision for Hong Kong profits tax has been made for the Period as the Group did not generate any assessable profits arising in Hong Kong during the Period (2003: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC income tax rate applicable to the Group is principally 33% (2003:33%). Certain subsidiaries established in certain regions in Mainland China have qualified for certain tax incentives in the form of a reduced income tax rate of 15% instead of the statutory rate of 33% effectively from 1 January 2002.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. Tax (continued)

	(Unaudited) Six months ended 31 December	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Current – Mainland China	11,896	7,107
Share of tax attributable to:		
Jointly-controlled entity	–	–
Associate	–	–
	–	–
Total tax charge for the Period	11,896	7,107

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the regions in which the Company and its subsidiaries, an associate and a jointly-controlled entity are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2004

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Profit/(loss) before tax	<u>(13,093)</u>	<u>75,856</u>	<u>62,763</u>
Tax at the applicable tax rate	(2,291)*	25,032**	22,741
Effect of preferential tax rate	–	(13,305)	(13,305)
Income not subject to tax	–	(288)	(288)
Expenses not deductible for tax purposes	2,291	–	2,291
Tax losses utilised from previous year	–	(35)	(35)
Estimated tax losses not recognised	–	492	492
Tax charge at the Group's effective rate	<u>–</u>	<u>11,896</u>	<u>11,896</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. Tax (continued)

Group – 2003

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	<u>(3,390)</u>	<u>54,703</u>	<u>51,313</u>
Tax at the applicable tax rate	(593)*	18,052**	17,459
Effect of preferential tax rate	–	(9,183)	(9,183)
Income not subject to tax	–	(1,729)	(1,729)
Expenses not deductible for tax purposes	593	–	593
Tax losses utilised from previous periods	<u>–</u>	<u>(33)</u>	<u>(33)</u>
Tax charge at the Group's effective rate	<u>–</u>	<u>7,107</u>	<u>7,107</u>

* *The standard Hong Kong profits tax rate is 17.5% for the period ended 31 December 2004 (2003:17.5%)*

** *The standard Mainland China corporate income tax rate is 33%.*

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

7. Basic and diluted earnings per share

The calculation of basic and diluted earnings per share of HK\$0.10 each of the Company (each a "Share") for the Period are as follows:

	(Unaudited)	
	Six months ended	
	31 December	
	2004	2003
Net profit from ordinary activities attributable to shareholders for the purpose of calculating basic earnings per Share <i>(HK\$'000)</i>	50,684	44,071
Increase in net profit for deemed conversion of potential ordinary Shares <i>(HK\$'000)</i>	74	205
Adjusted profit for the purpose of calculating dilutive earnings per Share <i>(HK\$'000)</i>	50,758	44,276
Number of Shares		
Weighted average number of ordinary Shares for the purpose of calculating basic earnings per Share <i>('000)</i>	660,824	610,833
Effect of dilutive potential ordinary Shares <i>('000) (note a)</i>	22,559	19,349
Weighted average number of ordinary Shares for the purpose of calculating diluted earnings per Share <i>('000)</i>	683,383	630,182

Note:

- a. Number of Shares deemed to be issued on full conversion of convertible bonds and to be issued at nil consideration on exercise of all outstanding share options are 11,073,000 Shares (2003: 11,155,000 Shares) and 11,486,000 Shares (2003: 8,194,000 Shares) respectively.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

8. Fixed assets

	<i>HK\$'000</i>
Balance at 1 July 2004	125,074
Acquisition of subsidiaries	77,642
Other additions	2,386
Disposal of subsidiaries	(2,242)
Depreciation (<i>note 4</i>)	(3,163)
	<hr/>
Balance at 31 December 2004	<u>199,697</u>

9. Accounts receivable

The aging analysis of the Group's accounts receivable is as follows:

	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000
Within 90 days	134,690	131,714
91 – 180 days	70,823	54,768
181 – 365 days	22,252	11,125
Over 1 year	87	–
	<hr/>	<hr/>
	<u>227,852</u>	<u>197,607</u>

10. Accounts payable

The aging analysis of the Group's accounts payable is as follows:

	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000
Within 90 days	40,459	64,478
91 – 180 days	9,476	11,649
181 – 365 days	5,221	4,151
Over 1 year	1,737	941
	<hr/>	<hr/>
	<u>56,893</u>	<u>81,219</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

11. Share capital

The following is a summary of the movements in the authorised and issued share capital of the Company:

		Number of authorised Shares (<i>'000</i>)	Number of issued Shares (<i>'000</i>)	Nominal value of issued Shares which have been paid up or credited as paid up <i>HK\$'000</i>
	<i>Notes</i>			
Share capital as at 1 July 2003		2,000,000	568,000	56,800
Shares issued during the Period	<i>(a)</i>	—	81,684	8,168
Share capital as at 31 December 2003		<u>2,000,000</u>	<u>649,684</u>	<u>64,968</u>
Shares issued during the Period	<i>(b)</i>	—	6,618	662
Share capital as at 30 June 2004		<u>2,000,000</u>	<u>656,302</u>	<u>65,630</u>
Shares issued during the Period	<i>(c)</i>	—	20,504	2,050
Share capital as at 31 December 2004		<u>2,000,000</u>	<u>676,806</u>	<u>67,680</u>

The changes in the Company's share capital were as follows:

- (a) During the six months ended 31 December 2003, share options granted to private investors by the Company before listing were exercised which resulted in the issue of 48,000,000 Shares. Also, part of convertible bonds were converted into 33,684,000 Shares.
- (b) During the six months ended 30 June 2004, share options granted under the share option scheme of the Company were exercised which resulted in the issue of 1,750,000 Shares. Also, part of convertible bonds were converted into 4,868,000 Shares.
- (c) During the six months ended 31 December 2004, share options granted under the share option scheme of the Company were exercised which resulted in the issue of 500,000 Shares. Also, part of convertible bonds were converted into 20,004,000 Shares.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

12. Operating lease arrangements

(a) *As lessor*

The Group leases its leasehold land and buildings under operating lease arrangements, with leases negotiated for terms of one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases which its tenants falling due as follows:

	31 December 2004 HK\$'000	30 June 2004 HK\$'000
Within one year	1,178	707
In the second to fifth years, inclusive	856	1,260
	<u>2,034</u>	<u>1,967</u>

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2004 HK\$'000	30 June 2004 HK\$'000
Within one year	815	645
In the second to fifth years, inclusive	407	2,708
After five years	-	1,947
	<u>1,222</u>	<u>5,300</u>

13. Commitments

As at 31 December 2004, the Group had contracted commitments of HK\$3,049,000 (30 June 2004: HK\$3,049,000) in respect of purchases of technical knowhow.

14. Contingent liabilities

As at 31 December 2004, the Group did not have any material contingent liabilities (30 June 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Engaged principally in the research and development, manufacture and sales of gynecological medicine and medicinal healthcare products for women in the People's Republic of China (the "PRC"), the Group has, by continuously capitalising on its national sales channel and its extensive marketing network, been able to achieve a positive return for the Period.

BUSINESS REVIEW

Notwithstanding the severe competition in the pharmaceutical market, the Group was able to maintain a steady performance in the Period. The Group firmly believed that its outstanding market performance was attributed to its fundamental strategy of focusing its development to become the leading pharmaceutical enterprise in the field of gynecological medicines and medicinal healthcare products for women. Our highly regarded brand name, competitive product lines and attractive product mix, extensive marketing network and nationwide distribution channel as well as our strategy of "**Prestigious Brand Name Building, Legend Products and Nationwide Sales Network**" undertaken have all contributed to the growth of our operations.

FINANCIAL PERFORMANCE

During the Period, the Group recorded a turnover of approximately HK\$324.6 million, in which approximately HK\$174.4 million was attributable to the turnover of the Group's products, representing a growth of 47.3% as compared with approximately HK\$118.4 million in the corresponding period last year, while the revenue from the trading activities was approximately HK\$150.2 million.

Gross profit of the Group's product for the Period was approximately HK\$92.9 million, representing a growth of 43.6% over that for the corresponding period last year of approximately HK\$64.7 million. The gross profit of trading products for the Period was approximately HK\$7.0 million. Profit attributable to shareholders of the Group for the Period was approximately HK\$50.7 million, representing an increase of approximately 15.0% as compared with HK\$44.1 million in the corresponding period last year.

PRESCRIPTION DRUGS

Gynecological Anti-inflammatory Products

The **Yeosure Series** (日舒安系列), one of the product lines of gynecological anti-inflammatory products, recorded a turnover of approximately HK\$58.9 million, accounting for approximately 33.8% of the total turnover of the Group's products and representing an increase of approximately 31.7% as compared with the corresponding period last year.

Gynecological Anti-tumour Products

The **Camptothecine Series** (喜樹碱系列), **Jin Xi Su** (金喜素) and **Qiang Xi** (強喜), naturally sourced gynecological anti-tumour injection medicines, brought in a total sales of approximately HK\$40.3 million, representing about 23.1% of the Group's total products turnover and an increase of 12.9% as compared with the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PRESCRIPTION DRUGS (continued)

Gynecological Endocrine Products

Yeosure Puerperant's Health Drink (日舒安婦康沖劑), a gynecological endocrine product, produced a total sales of approximately HK\$10.9 million, representing approximately 6.3% of the total turnover of the Group's products and an increase of 92.5% as compared with the same period last year.

Medicine for Children

Cefadroxil Granules and Capsules (毅達顆粒及膠囊), an antibiotic for children, produced a total sales of HK\$18.3 million, representing approximately 10.5% of the total turnover of the Group's products and an increase of 73.0% as compared with the same period last year.

OVER-THE-COUNTER ("OTC") DRUGS

Gynecological Endocrine Products

Huangqi Granules (黃芪顆粒), a gynecological endocrine product, achieved an outstanding performance in the OTC market and the sales of which was approximately HK\$18.0 million, representing 10.3% of the total turnover of the Group's products and an increase of 69.8% as compared to the corresponding period the last year.

MERGERS AND ACQUISITIONS

During the Period, the Group successfully acquired 70% equity interest of Guangdong Qunhe Pharmaceutical Company Limited (廣東群禾藥業有限公司) ("**Guangdong Qunhe**") and 80.4% equity interest of 貴陽德昌祥藥業有限公司 (Guiyang De Chang Xiang Pharmaceutical Company Limited) ("**DCX**"). Such acquisitions allowed the Group to expand its product lines of gynecological products and to set foot in the market of medicinal healthcare products for women which manifests a strong potential of growth. This was an initiative of significance for the Group to improve its overall efficiency and competitiveness.

Guangdong Qunhe under our Group has expanded the medicinal healthcare product lines of "**Magic 美即**", from originally four products to now 29 products under three main product series in the Period, covering facial treatment, eye treatment and body treatment. The products are sold to 13 cities, including Beijing, Guangzhou, Shenzhen, Wuhan, Chengdu, Chongqing and Dalin and it is expected that an addition of 5 to 10 self-developed new products would be brought to the market this year.

During the Period, Guangdong Qunhe entered into a contract with a well-known chain store, "Watsons", for its PRC market and has formally become the supplier of "Watsons". Such arrangement allows the medicinal healthcare products of "**Magic**" to be sold in 104 chain stores under "Watsons" in the PRC. The product series of "**Magic**" was awarded the Golden Award of "New Product with Strongest Potential" by "Watsons" in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

MERGERS AND ACQUISITIONS *(continued)*

During the Period, our “**Magic**” **Series** of medicinal healthcare products was also awarded “The Most Favorite International Cosmetics Brand Name of Shenzhen Citizens” by China Cosmetics Association (Shenzhen Branch) and “深圳晶報” jointly.

During the Period, five newly established production lines of DCX, an enterprise acquired by the Group, had successfully been granted Good Manufacturing Practice (“**GMP**”) certification issued by the State Food and Drug Administration (“**SFDA**”) of the PRC. DCX then became the largest manufacturer in Guizhou producing traditional Chinese medicine pills and such certifications laid a foundation that allows the Group to fully manifest the strength of various gynecological products as held by DCX, to expand the scale of sales of the gynecological products (especially that of the **Fuke Zhaizaowan** (婦科再造丸) (a proprietary product that has been sold in the market for 67 years under 德昌祥 brand)) as well as to enhance its profitability.

During the Period, by capitalising on the sales and distribution channel of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司), the Group had successfully brought our products, including **Jin Xi Su** (金喜素) and **Qiang Xi** (強喜), **Cefadroxil** (毅達), **Yeosure Series** (日舒安系列), **Huangqi** (黃芪) and “**Magic 美即**” to more hospitals and drugstores.

RESEARCH AND DEVELOPMENT

To broaden the Group’s product mix and to sustain the presistent growth of the operations, the Group will continue to put a strong emphasis and commit resources for the development of new products. During the Period, the Group successfully developed **Paclitaxel Injection** (紫杉醇注射液), a naturally sourced gynecological anti-tumor injection medicine simulated by the Group, and had applied for registration and production approval document with SFDA. It is expected that the product would be allowed for manufacturing and launched in the market in 2005.

The Group has formulated the manufacturing process and completed the quality studies of **Omeprazole Sodium For Injection** (奧美拉唑鈉注射劑), a product developed by the Group for gastrointestinal ulcer, during the Period. The Group has also compiled all the relevant production information for registration with SFDA and an application has been made for the production approval. It is expected the product will be registered in 2005.

During the Period, the Group had engaged Beijing Venture-Sunshine Pharmaceutical Technology Company Limited (北京萬全陽光醫藥科技有限公司), a subsidiary of Venturepharm Laboratories Limited, a Hong Kong listed company, to undertake the second and the third phases of clinical trials of **Fu Shu Le Tablets** (婦舒樂片), a Chinese medicine under Category Six New Medicine for curing gynecological atropic vaginitis, which is common for women at menopause. It is expected that the clinical trials will be completed by the first half of 2006, and by that time the Group will apply for the registration of the new medicine with SFDA.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

RESEARCH AND DEVELOPMENT (continued)

In addition, the other research and development projects on new medicines undertaken by the Group and by the strategic alliance formed with other research institutions are progressing as scheduled. Included in the projects are the ones that are in the stage of clinical trials, such as **Secmidazole Tablets and Capsules** (塞克硝唑片及膠囊) for curing gynecological trichomoniasis and anaerobe and **Etoposide Phosphate** (依托泊苷磷酸酯), a gynecological Oncology medicine.

During the Period, the Group's **Jin Xi Su** (金喜素), an anti-tumour medicine for injection, and **Huangqi Granules** (黃芪顆粒) were included in Medicine Catalogue of National Basic Medical Insurance ("Medicine Catalogue"). To date, a total of 51 products out of the 170 products of the Group were listed in Medicine Catalogue, and 22 of which in the Medicine Catalogue have been launched to the market for sale. The increase in the number of products included in Medicine Catalogue will help to expand our product sales to hospitals and drugstores.

PRODUCTION FACILITIES

To satisfy the mandatory requirements of SFDA that medicine production enterprises must obtain GMP certification, and to allow the Group to be more competitive in the pharmaceutical industry, 貴州漢方製藥有限公司 (Guizhou Hanfang Medicine Manufacture Co., Ltd.), a wholly-owned subsidiary of the Group, established a total of 7 new production lines in the Guizhou production complex for the production of capsules (**Cephalosporins** 頭孢菌素), granules (**Cephalosporins** 頭孢菌素), tablets, powders, suppository, **Hydroxycamptothecin** (癩喜樹碱) (raw medicine) and **Topotecan Hydrochloride** (鹽酸拓扑替康) (raw medicine). As at the date of this report, all of the above 7 production lines have been awarded with GMP certification and commenced commercial production. To date, we have a total of 20 production lines which have been accredited the GMP certification issued by SFDA. Such awards help to improve our standards of technology and management, allowing the Group to become the leading pharmaceuticals manufacturing enterprise (in terms of number of GMP accredited production lines) in the Southwestern region of the PRC.

PROSPECTS

The steady economic growth in the PRC, the gradual increase of the income and standard of living of the population as well as the enhancement of health consciousness are all the long-term underlying factors that contribute to accelerate the momentum of growth in the demand of pharmaceuticals market. The Group, as in the past, will endeavour in the strategic planning of establishing itself as the leading enterprise in the manufacture and sales of gynecological pharmaceutical products and feminine medicinal healthcare products. The Group will put an emphasis on the effective integration of its existing products, brand and sales network resources, optimisation of internal resources allocation and manifestation of synergy of its products, production, sales and distribution management.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PROSPECTS (continued)

To advance and consolidate the Group's leading position in the PRC gynecological prescription medicine market

The Group is well aware of the importance of maintaining and enhancing the steady growth of its products in the prescription medicine market and its implication to the development potential. The Group shall spare no efforts in cultivating a closer relationship with the existing hospital clients and in enlarging its client base by extending its coverage of hospitals. By means of hospital visits, information exchanges, promotion of samples for clinical trials and participation in various activities organised by clinical academic organisations, the Group is determined to raise its sales of gynecological anti-inflammatory products and gynecological anti-tumour medicines in hospitals.

Expansion of business of OTC medicines and medicinal healthcare products for women, and creation and promotion of the brand image

To grasp the opportunity in the rapid development of the OTC medicines market in the PRC, the Group will take an initiative and commit more resource in the development of OTC medicines market in order to increase the Group's turnover and establish a new profit growing point for the Group. The Group will enter into the market of the women healthcare products with “**Magic**”, the Group's “**Magic**” **Series** of medicinal healthcare products for women, with an emphasis on safety, comfort and value for money, as well as the ingredient of Cryptic Foliage Complex (植活素) which is an advance plant extract cosmetic technology commonly used in Europe, the US, Japan and Korea. The products will be positioned as medicinal healthcare products and functional cosmetic products and will penetrate into the OTC drug stores, chain stores, department stores and outlets by making full use of commercial and human resources, and the cross channel sales strategy in order to achieve the goal of establishing an outstanding image in the industry that it sells not only its products, but also the brand name.

The Group will position the classic gynecological pharmaceutical product **Fuke Zhaizaowan** (婦科再造丸) that has been sold for 67 years as a recuperation medicine which is applicable for all female adults and with the function of “immune system recuperation, menstrual period rectification, and combined function of treatment and supplement”, and the major markets of which are Guizhou, Sichuan, Chongqing, Yunnan, Shaanxi and Gansu, with the objective to enlarge its market coverage to the whole nation. By different effective market promotion channels and well-developed sale points management, the Group has effectively enhanced the market share and brand image of **Fuke Zhaizaowan** (婦科再造丸) and has striven to make it the leading brand of the gynecological recuperation products in the PRC in three years time. Meanwhile, it has also extended its efforts in the sales and promotion of **Huangqi granules** (黃芪顆粒) and **Yeosure Series** (日舒安系列).

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

PROSPECTS *(continued)*

Consolidate the sales and distribution network and strengthen the high-value-added agency services

The Group shall strengthen and integrate its sales and distribution channels and, by making use of its edges in sales and distribution, enlarge the share of the Group's product sales in the total turnover of the Group's distributing platform. During the Period, the sales of the **Yeosure Series** (日舒安系列), a gynecological anti-inflammatory product, and the **"Magic" Series**, a medicinal healthcare product for women, have extended to Sichuan by capitalising on the sales and distribution networks of Chengdu Hechuang Pharmacy Company Limited (成都禾創藥業有限公司). In addition, the Group is also committed to developing the high-value-added agency service by acquiring the national or regional dealership of high profit margin pharmaceutical products, in order to raise the profit contribution of the Group's business segment of pharmaceuticals distribution. The project between Rockeby biomed Limited, an Australian listed company, and the Group is progressing on schedule. The Group intends to act as the distributor of Rockeby biomed Limited in the PRC for its leading gynecological diagnosis product, "CanDia5®" which is the world's first instant diagnostic test for vaginal thrush.

The management believes that, under the thorough implementation of such operating strategies, the Group will achieve the target of creating long-term maximum value for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 31 December 2004, the Group had cash and bank balances of approximately HK\$337.3 million (30 June 2004: approximately HK\$271.4 million). Its gearing ratio calculated as a ratio of total debt to equity was approximately 42.2% (30 June 2004: approximately 34.3%). Net current asset value was approximately HK\$431.3 million (30 June 2004: approximately HK\$402.4 million) and the current ratio calculated as a ratio of current assets to current liabilities was maintained at the healthy level of approximately 3.2 (30 June 2004: approximately 3.1).

COMMITMENTS

As at 31 December 2004, the Group had contracted commitments of HK\$3,049,000 (30 June 2004: HK\$3,049,000) in respect of purchases of technical knowhow.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any material contingent liabilities (30 June 2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

BANK BORROWINGS

As at 31 December 2004, the Group had outstanding bank loans of approximately HK\$197.4 million from banks in the PRC and Hong Kong (30 June 2004: approximately HK\$143.0 million), approximately 45.4% (30 June 2004: approximately 59.5%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi and Hong Kong Dollar.

As at 31 December 2004, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain buildings of the Group; (iii) corporate guarantees from the Company and (iv) charges over the equity of a subsidiary.

ACQUISITION OF PHARMACEUTICAL ENTERPRISES

On 4 October 2004, the Group acquired 80.44% equity interest in DCX, as to 58.44% from 深圳市東斯隆企業管理顧問有限責任公司 (Shenzhen Shi Dong Si Long Enterprise Management Consultancy Limited Liability Company) for RMB50 million (approximately HK\$46.7 million) and as to 22% from 貴陽德昌祥藥業有限公司工會 (Guiyang De Chang Xiang Pharmaceutical Company Limited Labour Union) for RMB18,822,724 (approximately HK\$17.6 million). DCX possessed over 120 approved pharmaceutical numbers (藥品批准文號), 21 of which were gynecological and obstetrical medicines and approximately 40 of which were proprietary protected medicines. DCX had an aggregate of approximately 230 employees as at 31 December 2004 and DCX, as a continued entity of its predecessors, has a history of over 100 years.

DISPOSAL OF INTEREST IN A PRC COMPANY

On 20 October 2004, the Group sold 10% equity interest in 湖北康萊醫藥有限公司 (Hubei Kanglai Medicine Company Limited (“**Kanglai Medicine**”)) (“**Disposal**”) to 武漢三田商貿有限公司 (Wuhan San Tian Trading Company Limited (“**San Tian**”)). The Group has an unconditional right to require San Tian to acquire from it any of its remaining 41.72% equity interest in Kanglai Medicine within two years from the date of the equity transfer agreement relating to the Disposal.

Since the Disposal, Kanglai Medicine has been owned as to approximately 41.72% by a subsidiary of the Company, 深圳市新創生物醫藥創業投資有限公司 (Shenzhen Xinchuang Bio-Pharmaceutical Pioneering Investment Company Limited), as to 10% by San Tian and as to approximately by 48.28% by certain independent third parties, and Kanglai Medicine has ceased to be a subsidiary of the Company.

Through the Disposal, the Group aims to take advantage of such expertise of the owners of San Tian to expand the Group's sales and distribution network of its pharmaceutical products in the Hubei Province.

SEASONAL OR CYCLICAL FACTORS

During the Period, the Group's business operations were not significantly affected by any seasonal and cyclical factors.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FOREIGN EXCHANGE EXPOSURE

During the Period, the Group mainly earned revenue and incurred costs in Renminbi. Renminbi was relatively stable during the Period. The Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

TREASURY POLICIES

During the Period, the Group generally financed its operations with internally generated resources and credit facilities provided by banks in the PRC and Hong Kong. Interest rates of most of these facilities were calculated by reference to the PRC and Hong Kong bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi and Hong Kong Dollar.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2004, the Group had a total of 1,315 employees (2003: 1,061), of whom 1,308 were based in the PRC, with the rest working in Hong Kong. The substantial growth in the number of employees was mainly contributed from the newly acquired subsidiaries. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Period, staff costs (including Directors' remunerations) amounted to approximately HK\$11,238,000 (2003: approximately HK\$6,665,000). The Group participated in retirement benefit schemes for its staff both in Hong Kong and the PRC.

The Group has developed its training programmes in a structured and systematic manner for its management and employees. The Group provided regular management and technical related courses to its employees during the Period.

SHARE OPTION SCHEME

The Company operates a share option scheme ("**Scheme**") for the purpose of providing incentives and/or rewards to eligible participants who contribute to the success of the Group's operations. The Scheme was adopted on 25 November 2002, and unless otherwise cancelled or amended, will remain in force for a period of 10 years from that day.

During the Period, options carrying the rights to subscribe for a total of 65,600,000 Shares were granted under the Scheme, which are exercisable at the exercise price of HK\$0.64 per Share during the period from 1 September 2004 to 31 August 2006. An aggregate of 500,000 Shares were allotted and issued during the Period upon exercise of options. No option lapsed or was cancelled during the Period. As at 31 December 2004 options carrying the rights to subscribe for 119,950,000 Shares were outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

SHARE OPTION SCHEME (continued)

Details of the movement during the Period of options granted under the Scheme are as follows:

Number of underlying Shares (continued)

Class of grantee	Date of grant	Outstanding as at 1 July 2004	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding as at 31 December 2004	Exercise price per share (HK\$)	Exercise period
Directors (Note 1)	16/05/2003	16,250,000	-	-	-	16,250,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004 (Note 3)	-	20,200,000	(500,000) (Note 4)	-	19,700,000	0.64	1/09/2004 to 31/08/2006
Other employees (Note 2)	16/05/2003	25,100,000	-	-	-	25,100,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004 (Note 3)	-	30,900,000	-	-	30,900,000	0.64	1/09/2004 to 31/08/2006
Others	16/05/2003	13,500,000	-	-	-	13,500,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004 (Note 3)	-	14,500,000	-	-	14,500,000	0.64	1/09/2004 to 31/08/2006
		<u>54,850,000</u>	<u>65,600,000</u>	<u>(500,000)</u>	<u>-</u>	<u>119,950,000</u>		

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

SHARE OPTION SCHEME *(continued)*

Number of underlying Shares (continued)

Notes:

1. Details of options granted to each of the Directors are set out in the paragraph headed "Directors' rights to acquire shares or debentures" in this report below.
2. Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Cap.57, Laws of Hong Kong).
3. The closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on 31 August 2004, being the trading day immediately preceding the date of grant of the options, was HK\$0.62 per share.
4. The weighted average closing price of the shares of the Company on 13 December 2004, being the trading day immediately preceding the date of exercise of the options, was HK\$0.72 per share.

INTERIM DIVIDEND

The Directors has resolved not to declare any interim dividend for the Period (2003: Nil).

ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, the interests and short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the equity interest, and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SF Ordinance**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	The Company/ name of associated corporation	Capacity	Number and class of Securities/percentage in equity interest (Note 1)	Approximate percentage of interest
Zhang Peter Y.	The Company	Interest of controlled corporation	308,758,783 Shares (L) (Note 2a)	45.62%
	The Company	Beneficial owner	1,100,000 Shares (L) (Notes 2b and 2c)	0.16%
Xu Peng	The Company	Beneficial owner	1,100,000 Shares (L) (Notes 2b and 2c)	0.16%
Deng Jie	The Company	Beneficial owner	11,000,000 Shares (L) (Note 3)	1.63%
	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("GHXM")	Interest of controlled corporation	5% (L) (Note 4)	5%
Long Xian Feng	The Company	Beneficial owner	11,000,000 Shares (L) (Note 3)	1.63%
Wu Xian Peng	The Company	Beneficial owner	11,000,000 Shares (L) (Note 3)	1.63%
Kung Hsiang-Fu	The Company	Beneficial owner	750,000 Shares (L) (Note 5)	0.11%
Tso Wung-Wai	The Company	Beneficial owner	500,000 Shares (L)	0.07%

ADDITIONAL INFORMATION *(continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares or, as the case may be, the equity interest of the Company or its associated corporations.
2.
 - a. These 308,758,783 Shares were held by Bull's-Eye Limited ("BEL"), the issued share capital of which is beneficially owned as to approximately 68.61% (represented by 4,519 shares of US\$1 each) by Zhang Peter Y. and as to approximately 31.39% (represented by 2,067 shares of US\$1 each) by Xu Peng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Zhang Peter Y. is deemed to be interested in all the Shares held by BEL.
 - b. Of these Shares, 500,000 Shares were Shares which would be allotted and issued upon the exercise in full of the options granted to each of Zhang Peter Y. and Xu Peng under the Scheme. These options, all of which remained exercisable as at 31 December 2004, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.
 - c. The remaining 600,000 of these Shares were Shares which would be allotted and issued upon the exercise in full of the options granted to each of Zhang Peter Y. and Xu Peng under the Scheme. These options, all of which remained exercisable as at 31 December 2004, are exercisable at the subscription price of HK\$0.64 per Share at any time during a period of two years commencing from and including 1 September 2004 to 31 August 2006.
3.
 - a. Of these Shares, 5,000,000 Shares were Shares which would be allotted and issued upon the exercise in full of the options granted to each of Deng Jie, Long Xian Feng and Wu Xian Peng under the Scheme. These options, all of which remained exercisable as at 31 December 2004, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.
 - b. The remaining 6,000,000 of these Shares were Shares which would be allotted and issued upon the exercise in full of the options granted to each of Deng Jie, Long Xian Feng and Wu Xian Peng under the Scheme. These options, all of which remained exercisable as at 31 December 2004, are exercisable at the subscription price of HK\$0.64 per Share at any time during a period of two years commencing from and including 1 September 2004 to 31 August 2006.

ADDITIONAL INFORMATION *(continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

4. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited (“GHKA”), which is beneficially owned as to 95% by Deng Jie and as to the remaining 5% by Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Deng Jie is deemed to be interested in the equity interests in GHXM held by GHKA.
5.
 - a. Of these Shares, 250,000 Shares were Shares which would be allotted and issued upon the exercise in full of an option granted to Kung Hsiang-Fu under the Scheme. Such option, which remained exercisable as at 31 December 2004, is exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.
 - b. The remaining 500,000 of these Shares were Shares which would be allotted and issued upon the exercise in full of an option granted to Kung Hsiang-Fu under the Scheme. Such option which remained exercisable as at 31 December 2004, is exercisable at the subscription price of HK\$0.64 per Share at any time during a period of two years commencing from and including 1 September 2004 to 31 August 2006.

Save as disclosed above, as at 31 December 2004, none of the Directors and chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interest, and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

ADDITIONAL INFORMATION *(continued)*

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Particulars of the options granted to the Directors under the Scheme and outstanding as at 31 December 2004 (unless otherwise stated) were as follows:

Name of Directors	Date of grant	Number of underlying shares of the Company	Exercise price per Share (HK\$)	Exercise period
Zhang Peter Y.	16/05/2003	500,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004	600,000	0.64	1/09/2004 to 31/08/2006
Xu Peng	16/05/2003	500,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004	600,000	0.64	1/09/2004 to 31/08/2006
Deng Jie	16/05/2003	5,000,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004	6,000,000	0.64	1/09/2004 to 31/08/2006
Long Xian Feng	16/05/2003	5,000,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004	6,000,000	0.64	1/09/2004 to 31/08/2006
Wu Xian Peng	16/05/2003	5,000,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004	6,000,000	0.64	1/09/2004 to 31/08/2006
Kung Hsiang-Fu	16/05/2003	250,000	1.19	16/05/2003 to 15/05/2005
	1/09/2004	500,000	0.64	1/09/2004 to 31/08/2006
Tso Wung-Wai	1/09/2004	500,000	0.64	1/09/2004 to 31/08/2006

(Note)

Note: The option with right to subscribe for 500,000 Shares granted to Tso Wung-Wai was fully exercised on 14 December 2004.

Other than as disclosed above, at no time during the Period was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

ADDITIONAL INFORMATION *(continued)*

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 31 December 2004, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	Number of Shares <i>(Note 1)</i>	Nature of interest	Approximate percentage of interest
BEL <i>(Note 2)</i>	308,758,783 (L)	Beneficial owner	45.62%
Liu Yu <i>(Note 3)</i>	309,858,783 (L)	Interest of spouse	45.78%
Value Partners Limited	46,100,000 (L)	Investment manager	6.81%
Cheah Cheng Hye <i>(Note 4)</i>	46,100,000 (L)	Interest of a controlled corporation	6.81%

Notes:

1. The letter "L" represents the person's or the entity's interests in Shares.
2. The issued share capital of BEL is beneficially owned as to approximately 68.61% (represented by 4,519 shares of US\$1 each) by Zhang Peter Y. and as to approximately 31.39% (represented by 2,067 shares of US\$1 each) by Xu Peng. By virtue of the provisions of Divisions 2 and 3 of part XV of the SF Ordinance, Zhang Peter Y., an executive Director, is deemed to be interested in all the Shares held by BEL.
3. Liu Yu is the wife of Zhang Peter Y., an executive Director, and is deemed to be interested in the shares and underlying shares in the Company in which Zhang Peter Y. is interested under the provisions of Divisions 2 and 3 of part XV of the SF Ordinance.
4. Cheah Cheng Hye is interested in 31.82% interest in Value Partners Limited.

Save as disclosed above, as at 31 December 2004, no person or entity other than a Director or chief executive of the Company had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance.

ADDITIONAL INFORMATION *(continued)*

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Period.

AUDIT COMMITTEE

The Company established the Audit Committee on 20 September 2002, which was re-constituted on 27 September 2004, and formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The members of the Audit Committee are Professor Kung Hsiang-Fu, Professor Tso Wung-Wai and Mr. Hon Yiu Ming, Matthew, being all the independent non-executive Directors. The primary duties of the Audit Committee are to review the Company's annual and interim results and to review and supervise the Company's financial reporting and internal control procedures.

The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed the auditing, internal controls and financial reporting matters, including the review of the unaudited interim financial statements of the Group for the Period.

COMPLIANCE WITH APPENDIX 14 TO THE LISTING RULES

None of the Directors is aware of any information which would indicate that at any time during the Period the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules in force immediately before its revisions took effect on 1 January 2005, save that the three independent non-executive Directors are not appointed for a fixed term 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 Company's articles of association.

COMPLIANCE WITH APPENDIX 10 TO THE LISTING RULES

On 20 September 2002 the Company adopted its securities dealing code ("**Substituted Code**") regarding the dealings of the Directors and members of the senior management of the Group in securities of the Company on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules then in force.

The Company adopted on 27 September 2004 its new securities dealing code ("**New Code**") on terms no less exacting than the required standard under the Model Code for Securities Transactions by Directors of Listed Issuers set out in the revised Appendix 10 to the Listing Rules which came into effect on 31 March 2004.

The Company, having made specific enquiry on all Directors, is not aware of any non-compliance by any Director during the Period with the New Code or, as the case may be, the Substituted Code and Appendix 10 to the Listing Rules then in force.

ADDITIONAL INFORMATION *(continued)*

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

The Group entered into the loan agreement (“**Loan Agreement**”) dated 16 September 2004 with certain financial institutions (“**Lenders**”) in Hong Kong granting a term loan facility of up to HK\$100,000,000, the final maturity date of which shall be the date falling 36 months from the date of the Loan Agreement. The Loan Agreement provides that so long as there remains any money outstanding under the Loan Agreement, Mr. Zhang Peter Y. (“**Mr. Zhang**”) shall continue to be the chairman of the Group and (save and except BEL) the person with the single largest attributable shareholding in the Group; (2) Mr. Xu Peng (“**Mr. Xu**”) shall continue to be a director of the Company and (save and except BEL) the person with the second single largest attributable shareholding in the Group; and (3) Mr. Zhang and Mr. Xu shall collectively maintain, directly or indirectly, not less than 35% of the issued share capital of the Group, free from any encumbrances and shall collectively deposit not less than 35% of the issued share capital of the Group with a custodian acceptable to the majority of the Lenders. A breach of any of the above specific performance obligations would constitute a default under the Loan Agreement. Such default would permit the Lenders to accelerate the maturity of the indebtedness under the Loan Agreement.

On behalf of the Board
Zhang Peter Y.
Chairman

Hong Kong, 21 March 2005