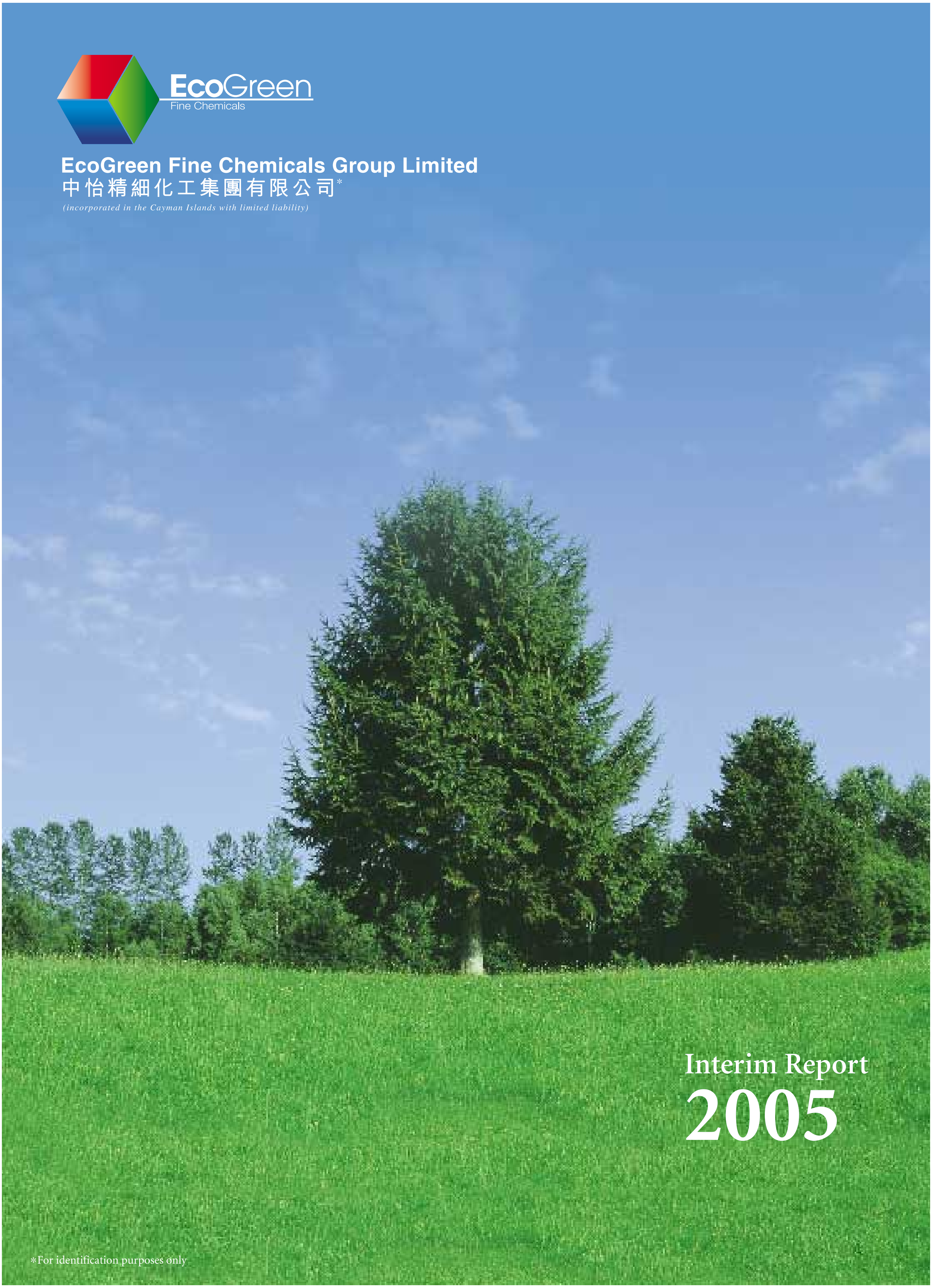

EcoGreen Fine Chemicals Group Limited

中怡精細化工集團有限公司*

(incorporated in the Cayman Islands with limited liability)

Interim Report 2005

*For identification purposes only

Contents

Corporate Information

Executive directors
Mr. Yang Yirong *(Chairman & President)*
Mr. Gong Xionghui
Ms. Lu Jiahua
Mr. Lin Zhigang
Mr. Ho Wan Ming

Non-executive director
Mr. Yang Chiming#

Independent non-executive directors
Mr. Yau Fook Chuen∆ #
Mr. Wong Yik Chung, John∆ #
Dr. Zheng Lansun∆ #

∆ *Audit committee members*
Remuneration committee members

Company secretary
Mr. Lam Kwok Kin *ACCA, CPA*

Authorised representatives
Mr. Yang Yirong
Mr. Lam Kwok Kin

Auditors
PricewaterhouseCoopers

Principal bankers
The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank
China Merchants Bank
Bank of Communications

Registered office
Century Yard
Cricket Square, Hutchins Drive
P.O. Box 2681 GT, George Town
Grand Cayman, Cayman Islands
British West Indies

Head office and principal place of business in hong kong
Unit No. 508
5th Floor, Tower 2
Lippo Centre
89 Queensway
Hong Kong

Principal share registrar and transfer office
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street, George Town
Grand Cayman, Cayman Islands
British West Indies

Hong Kong branch share registrar and transfer office
Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Website
http://www.ecogreen.com

Stock codes

Stock Exchange, Hong Kong:	2341
Access to Reuters:	2341.HK
Access to Bloomberg:	2341 HK Equity

Financial calendar
Book closing dates for the proposed interim dividend:
26 October 2005 to 28 October 2005
(both days inclusive)
Record date for the proposed interim dividend:
28 October 2005
Payment date for the proposed interim dividend:
16 November 2005

Condensed Consolidated Profit and Loss Account

For the six months ended 30 June 2005

The Board of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005, together with the comparative figures for the corresponding period in 2004 as follows:

		Six months ended 30 June	
		2005	2004
		(Unaudited)	(Unaudited and restated)
	Notes	**RMB'000**	RMB'000
Turnover	5	**171,012**	127,759
Cost of sales		**(105,139)**	(73,982)
Gross profit		**65,873**	53,777
Other revenues	5	**838**	321
Selling and distribution expenses		**(8,752)**	(3,516)
General and administrative expenses		**(12,411)**	(11,908)
Operating profit	6	**45,548**	38,674
Finance costs	7	**(3,357)**	(4,122)
Profit before income tax		**42,191**	34,552
Income tax expenses	8	**(3,408)**	(2,515)
Profit for the period		**38,783**	32,037
Attributable to:			
Shareholders of the Company		**38,785**	32,037
Minority interests		**(2)**	–
		38,783	32,037
Dividends	9	**3,453**	–
Earnings per share for profit attributable to the shareholders of the Company during the period – Basic	10	**RMB9.4 cents**	RMB8.6 cents

Condensed Consolidated Balance Sheet

As at 30 June 2005

	Notes	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited and restated) RMB'000
Non-current assets			
Property, plant and equipment	11	**145,540**	119,411
Prepaid lease payment on land use rights	11	**5,010**	5,065
Goodwill		**755**	755
Product development costs	11	**16,648**	16,925
Technology knowhow	11	**3,550**	–
Investment securities		**–**	400
Available-for-sale financial assets		**400**	–
		171,903	142,556
Current assets			
Inventories		**34,053**	19,494
Trade and bills receivables	12	**77,512**	67,229
Prepayments and other receivables		**17,014**	16,826
Pledged bank deposits and time deposits with original maturity over three months		**34,980**	34,980
Cash and cash equivalents		**191,769**	205,543
		355,328	344,072
Current liabilities			
Bank borrowings	13	**(87,971)**	(77,971)
Other borrowings – due within one year	14	**(29,170)**	(31,170)
Convertible bonds	15	**(14,134)**	(13,286)
Trade and bills payables	16	**(16,990)**	(15,183)
Accruals and other payables		**(19,548)**	(19,013)
Deferred income on government grants – current portion		**(114)**	(114)
Amounts due to Directors		**–**	(1,805)
Taxation payable		**(1,435)**	(1,243)
		(169,362)	(159,785)
Net current assets		**185,966**	184,287
Total assets less current liabilities		**357,869**	326,843
Non-current liabilities			
Other borrowings – due after one year	14	**(5,000)**	(5,000)
Deferred income on government grants – non-current portion		**(76)**	(134)
		(5,076)	(5,134)
Net assets		**352,793**	321,709
Capital and reserves			
Share capital		**43,990**	43,990
Reserves		**308,506**	277,420
Equity attributable to the Company's shareholders		**352,496**	321,410
Minority interests		**297**	299
Total equity		**352,793**	321,709

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash generated from operating activities	**14,323**	26,243
Net cash used in investing activities	**(34,292)**	(22,028)
Net cash from financing activities	**6,195**	123,032
Net (decrease) increase in cash and cash equivalents	**(13,774)**	127,247
Cash and cash equivalents at beginning of the period	**205,543**	65,880
Cash and cash equivalents at end of the period, represented by cash and bank deposits	**191,769**	193,127

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

Six months ended 30 June 2005 (Unaudited)

	Attributable to shareholders of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Capital reserve** RMB'000	**Contributed surplus** RMB'000	**Statutory reserves** RMB'000	**Dividend reserve** RMB'000	**Convertible bonds equity reserve** RMB'000	**Retained earnings** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
Balance at 1 January 2005, as previously reported as equity	43,990	122,306	685	9,500	11,525	–	–	132,028	299	320,333
Effect of initial adoption of FRS 3 (Note 2(a)(ii))	–	–	–	–	–	–	–	783	–	783
Effect of initial adoption of HKAS 39 (Note 2(c)(iii))	–	(2,549)	–	–	–	–	3,446	(305)	–	592
Balance at 1 January 2005, as restated	43,990	119,757	685	9,500	11,525	–	3,446	132,506	299	321,708
Profit attributable to shareholders	–	–	–	–	–	–	–	38,785	(2)	38,783
Transfer	–	–	–	–	1,387	–	–	(1,387)	–	–
2004 final dividend paid	–	–	–	–	–	–	–	(7,698)	–	(7,698)
2005 interim dividend proposed (Note 9)	–	–	–	–	–	3,453	–	(3,453)	–	–
Balance at 30 June 2005	43,990	119,757	685	9,500	12,912	3,453	3,446	158,753	297	352,793

Six months ended 30 June 2004 (Unaudited)

	Attributable to shareholders of the Company									
	Share capital RMB'000	**Share premium** RMB'000	**Capital reserve** RMB'000	**Contributed surplus** RMB'000	**Statutory reserves** RMB'000	**Share issuance costs** RMB'000	**Convertible bonds equity reserve** RMB'000	**Retained earnings** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
Balance at 1 January 2004, as previously reported as equity	101	–	643	9,500	9,750	(3,857)	–	69,751	–	85,888
Effect of initial adoption of HKAS 39 (Note 2(c)(iii))	–	–	–	–	–	–	3,446	(929)	–	2,517
Balance at 1 January 2004, as restated	101	–	643	9,500	9,750	(3,857)	3,446	68,822	–	88,405
Profit attributable to shareholders	–	–	–	–	–	–	–	32,037	–	32,037
Share issuance costs	–	–	–	–	–	(21,225)	–	–	–	(21,225)
Issue of shares	12,190	156,032	–	–	–	–	–	–	–	168,222
Capitalisation of share premium account	31,699	(31,699)	–	–	–	–	–	–	–	–
Share issuance costs charged against share premium	–	(25,082)	–	–	–	25,082	–	–	–	–
Conversion of convertible bonds	–	20,506	–	–	–	–	–	–	–	20,506
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	300	300
Others	–	–	42	–	–	–	–	–	–	42
Balance at 30 June 2004	43,990	119,757	685	9,500	9,750	–	3,446	100,859	300	288,287

Notes to the Condensed Financial Statements

1. Basis of preparation

This unaudited condensed consolidated financial statements of the Company has been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed consolidated financial statements should be read in conjunction with the 2004 annual financial statements.

2. Principal accounting policies

These condensed accounts have been prepared under the historical cost convention and the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the profit and loss account, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting period are prepared and presented:

(a) Business combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

(i) Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses, if any, after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Notes to the Condensed Financial Statements

2. Principal accounting policies *(continued)*

(a) Business combinations *(continued)*

(ii) Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously know as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January 2005, which was previously presented as a deduction from assets, with a corresponding increase to retained earnings. As a result of the adoption of HKFRS 3, the retained profit of the Group at 1 January 2005 was increased by RMB783,000. Negative goodwill of the Group at 1 January 2005 was reduced by RMB783,000.

(b) Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based payments" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). After adoption of the HKFRS 2, the Group expenses the fair value of share options of the Company ("share options") determined at the date of grant of the share options over the vesting period unless the fair value of the share options at the date of grant cannot be estimated reliably, in which case, the Group measures the share options at their intrinsic value, initially at the date the Group obtains the counterparty renders service and subsequently at each reporting date and at the date of final settlement, with any change in intrinsic value recognised in profit or loss. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions.

The Company granted share options to the eligible participants on 8 June 2004. In view of the grant date fair value of those share options granted on 8 June 2004 cannot be estimated reliably, the Directors of the Company (the "Directors") consider to measures those share options at their intrinsic value. The calculation of the fair value of share options determined at the grant date require the Company having sufficient historical share price information upon which to base an estimate of expected volatility. As a general practice, the expected volatility should be based on statistical analysis of daily share prices of the Company over the one year immediately preceding the grant date. Given that the Company, being newly listed on 9 March 2004, only has statistical analysis of daily share prices over the 3 months immediately preceding the grant date and there are no similar Hong Kong listed entities in the same industry the Company can reference to, the Directors consider to measure the share options granted on 8 June 2004 at their intrinsic value.

Despite of the change in accounting policy for employee share options, the adoption of HKFRS 2 has no financial impacts to the Group's assets, liabilities or equity as at 30 June 2005 nor the results for the period ended 30 June 2005. Comparative figures for 2004 have not been restated.

2. Principal accounting policies *(continued)*

(c) Financial instruments

In the current period, the Group has applied HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: recognition and measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

(i) Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses, if any, while "other investments" are measured at fair value, with unrealised gain or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment loss, if any. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "Held-to-maturity financial assets" are measured at amortised cost using the effect interest method.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the requirement of HKAS 39. Investment securities classified under non-current assets with carrying amount of RMB400,000 were reclassified to available-for-sale financial assets on 1 January 2005.

(ii) Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

2. Principal accounting policies *(continued)*

(c) Financial instruments *(continued)*

(iii) Convertible bonds

Convertible bonds that can be converted to share capital at the option of the holder, when the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market value of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in profit or loss is calculated using the effective interest method.

Adjustments to the Group's previous carrying amounts of assets, liabilities and retained profits were made on 1 January 2004 (see Note 3 for the financial impact).

(d) Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments on land use rights under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

3. Summary of the effects of the changes in accounting policies

(a) The effects of the changes in the accounting policies described above on the condensed balance sheet are as follows:

	Effect of Adopting				
	HKAS 1 RMB'000	HKAS 17 RMB'000	HKFRS 3, HKAS 36 & HKAS 38 RMB'000	HKAS 32 & HKAS 39 RMB'000	Total effect on adoption of HKFRSs RMB'000
AT 1 JANUARY 2004 (EQUITY ONLY)					
Increase (decrease) in equity					
Convertible bonds equity reserve	–	–	–	3,446	3,446
Retained earnings	–	–	–	(929)	(929)
AT 31 DECEMBER 2004					
Increase (decrease) in assets					
Property, plant and equipment	–	5,065	–	–	5,065
Prepaid lease payment on land use rights	–	(5,065)	–	–	(5,065)
Goodwill/(Negative) goodwill	–	–	783	–	783
Investment securities	–	–	–	(400)	(400)
Available-for-sale financial assets	–	–	–	400	400
Prepayments and other receivables	–	–	–	(389)	(389)
Pledged bank deposits and time deposits with original maturity over three months	3,180	–	–	–	3,180
Cash and cash equivalents	(3,180)	–	–	–	(3,180)
Increase (decrease) in liabilities/equity					
Accruals and other payables	–	–	–	(212)	(212)
Convertible bonds	–	–	–	(768)	(768)
Share premium	–	–	–	(2,549)	(2,549)
Convertible bonds equity reserve	–	–	–	3,446	3,446
Retained earnings	–	–	783	(306)	477
AT 30 JUNE 2005					
Increase (decrease) in assets					
Property, plant and equipment	–	5,010	–	–	5,010
Prepaid lease payment on land use rights	–	(5,010)	–	–	(5,010)
Goodwill/ (Negative) goodwill	–	–	783	–	783
Investment securities	–	–	–	(400)	(400)
Available-for-sale financial assets	–	–	–	400	400
Prepayments and other receivables	–	–	–	(114)	(114)
Pledged bank deposits and time deposits with original maturity over three months	3,180	–	–	–	3,180
Cash and cash equivalents	(3,180)	–	–	–	(3,180)
Increase (decrease) in liabilities/equity					
Accruals and other payables	–	–	–	(423)	(423)
Convertible bonds	–	–	–	80	80
Share premium	–	–	–	(2,549)	(2,549)
Convertible bonds equity reserve	–	–	–	3,446	3,446
Retained earnings	–	–	783	(668)	115

Notes to the Condensed Financial Statements

3. Summary of the effects of the changes in accounting policies *(continued)*

(b) The effects of the changes in the accounting policies described above on the condensed profit and loss account are as follows:

	Effect of Adopting			
	HKAS 17	HKFRS 3, HKAS 36 & HKAS 38	HKAS 32 & HKAS 39	Total effect on adoption of HKFRSs
	RMB'000	RMB'000	RMB'000	RMB'000
FOR THE SIX MONTHS ENDED 30 JUNE 2005				
Increase (decrease) in profit				
Decrease in amortisation of land use rights	55	–	–	55
Increase in amortisation of prepaid lease payment on land use rights	(55)	–	–	(55)
Decrease in amortisation of goodwill	–	163	–	163
Decrease in amortisation of negative goodwill	–	(20)	–	(20)
Decrease in amortisation of convertible bonds issuance costs	–	–	275	275
Increase in interest expense on convertible bonds	–	–	(637)	(637)
	–	143	(362)	(219)
FOR THE SIX MONTHS ENDED 30 JUNE 2004				
Increase (decrease) in profit				
Decrease in amortisation of land use rights	30	–	–	30
Increase in amortisation of prepaid lease payment on land use rights	(30)	–	–	(30)
Decrease in amortisation of convertible bonds issuance costs	–	–	1,818	1,818
Increase in interest expense on convertible bonds	–	–	(1,259)	(1,259)
	–	–	559	559

Notes to the Condensed Financial Statements

4. Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of these new HKFRSs will have no material impact on the financial impact on the financial statements of the Group.

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from decommissioning, Restoration and Environmental Rehabilitation Funds

5. Turnover, revenues and segment information

(a) Turnover and revenues

The Group is principally engaged in the production of fine chemicals from natural resources for use in aroma chemicals and pharmaceutical products. The Group's turnover and revenues were as follows:

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Turnover		
Sale of merchandise (net of value-added tax)	**171,012**	127,759
Other revenues		
Interest income from bank deposits	**781**	264
Amortisation of deferred income on government grants	**57**	57
	838	321
Total revenues	**171,850**	128,080

5. Turnover, revenues and segment information *(continued)*

(b) Segment information

(i) No segment information by business segment is presented as the Group operates in one business segment – manufacturing and selling of fine chemicals.

(ii) An analysis of the Group's turnover and segment results by geographical location, which is determined based on the destination of shipment/delivery of goods, is as follows:

	Turnover		**Segment results**	
	Six months ended 30 June		**Six months ended 30 June**	
	2005	2004	**2005**	2004
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China	**117,062**	110,238	**32,101**	38,247
Hong Kong	**8,512**	3,136	**2,329**	560
Other territories	**45,438**	14,385	**12,433**	4,008
	171,012	127,759	**46,863**	42,815
Interest income			**838**	264
Unallocated corporate expenses			**(2,153)**	(4,405)
Operating profit			**45,548**	38,674

(iii) An analysis of the Group's assets and liabilities by geographical location is as follows:

	Assets		**Liabilities**	
	30 June	31 December	**30 June**	31 December
	2005	2004	**2005**	2004
	(Unaudited)	(Audited and restated)	**(Unaudited)**	(Audited and restated)
	RMB'000	RMB'000	**RMB'000**	RMB'000
Mainland China	**483,646**	421,570	**157,358**	147,819
Hong Kong	**43,585**	65,058	**17,080**	17,100
	527,231	486,628	**174,438**	164,919

No geographical analysis of capital expenditures, depreciation and amortisation is presented as substantially all of the Group's capital expenditures, depreciation and amortisation are included in respect of assets located in Mainland China.

Notes to the Condensed Financial Statements

6. Operating profit

Operating profit is stated after charging and crediting the following:

	Six months ended 30 June 2005 (Unaudited) RMB'000	2004 (Unaudited and restated) RMB'000
Charging		
Staff costs (including Directors' emoluments)	**6,604**	5,060
Less: Amount included in product development cost	**(424)**	(360)
	6,180	4,700
Depreciation of property, plant and equipment	**2,926**	2,243
Less: Amount included in product development cost	**(130)**	(96)
	2,796	2,147
Amortisation of:		
– goodwill (included in general and administrative expenses)	**–**	163
– product development cost (included in general and administrative expenses)	**1,015**	1,133
– prepaid lease payments on land use rights (included in general and administrative expenses)	**55**	30
Operating leases rental in respect of rented premises	**792**	606
Crediting		
Amortisation of:		
– negative goodwill (included in general and administrative expenses)	**–**	20
– deferred income on government grants (included in other revenues)	**57**	57

Notes to the Condensed Financial Statements

7. Finance costs

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Interest expense on:		
– bank borrowings wholly repayable within five years	**2,445**	2,594
– government loans wholly repayable within five years	**64**	64
– convertible bonds	**848**	1,464
	3,357	4,122

8. Income tax expenses

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax		
– Mainland China enterprise income tax	**3,408**	2,515

Notes:

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong.

The subsidiaries established in Xiamen, Fujian Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 15% (2004: 15%), except:

(i) Xiamen Sinotek Enterprise Development Co., Ltd., one of the principal subsidiaries of the Group, was subject to Mainland China enterprise income tax at a concessive tax rate of 7.5% (2004: 7.5%) for the period ended 30 June 2005; and

(ii) Xiamen Doingcom Chemical Co., Ltd. was accredited as a New High Technology Enterprise in August 2003, and accordingly is exempted from payment of enterprise income tax for two years starting from the first year of profitable operations, followed by a 50% reduction in enterprise income tax for the next three years.

Notes to the Condensed Financial Statements

9. Dividends

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interim dividend proposed of HK0.8 cents (2004: nil) per ordinary share	**3,453**	–

At a meeting held on 13 September 2005, the Directors declared an interim dividend of HK0.8 cents (2004: nil) per share, shown as RMB0.83 cents (2004: nil) per share, for the period ended 30 June 2005. 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 2005.

10. Earnings per share

The calculations of basic earnings per share are based on the Group's profit attributable to shareholders of approximately RMB38,785,000 (six months ended 30 June 2004: RMB32,037,000) and weighted average number of 415,000,000 (2004: 372,033,000) shares in issue during the period.

No diluted earnings per share has been presented because the exercise price of the Company's share options was higher than the average market price for the Company's shares during the period.

11. Capital expenditure

	Property, plant and equipment (Unaudited) RMB'000	**Prepaid lease payment on land use right** (Unaudited) RMB'000	**Product development costs** (Unaudited) RMB'000	**Technology Knowhow** (Unaudited) RMB'000
Opening net book amount as at 1 January 2005	119,411	5,065	16,925	–
Additions	27,966	–	738	–
Acquisition of a subsidiary	1,089	–	–	3,550
Depreciation/amortisation charge	(2,926)	(55)	(1,015)	–
Closing net book amount as at 30 June 2005	**145,540**	**5,010**	**16,648**	**3,550**

Notes to the Condensed Financial Statements

12. Trade and bills receivables

The credit period granted by the Group to its customers is generally around 60 to 90 days. The aging analysis of trade and bills receivables is as follows:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
0 to 30 days	**31,093**	34,724
31 to 60 days	**29,225**	23,948
61 to 90 days	**17,695**	10,728
91 to 180 days	**1,463**	132
181 to 365 days	**1,611**	205
Over 365 days	**31**	–
	81,118	69,737
Less: Provision for bad and doubtful debts	**(3,606)**	(2,508)
	77,512	67,229

13. Bank borrowings

As at 30 June 2005, bank borrowings bore interest at rates ranging from 1.4% to 6.1% per annum (2004: 1.4% to 6.1% per annum) and were secured by the following:

(i) Pledge of certain land and buildings with a net book value of approximately RMB59.1 million (31 December 2004: approximately RMB6.0 million);

(ii) Pledge of the Group's bank deposits of RMB31,800,000 (31 December 2004: RMB31,800,000); and

(iii) Corporate guarantee provided by a subsidiary.

Notes to the Condensed Financial Statements

14. Other borrowings

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Government loans	**34,170**	36,170
Analysed as:		
Amounts repayable within a period:		
– not exceeding one year	**29,170**	31,170
– more than five years	**5,000**	5,000
	34,170	36,170
Less: Amounts repayable within one year included under current liabilities	**(29,170)**	(31,170)
Amounts repayable after one year included under non-current liabilities	**5,000**	5,000

15. Convertible bonds

The fair values of the liability component and the equity conversion component were determined at issuance of the bonds.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves.

15. Convertible bonds *(continued)*

The convertible bonds recognized in the balance sheet is calculated as follows:

	2005	2004
	(Unaudited)	(Audited and restated)
	RMB'000	RMB'000
Liability component at 1 January	**13,286**	33,703
Less: Conversion of the convertible bonds	**–**	(20,548)
	13,286	13,155
Interest expense for 1 January to 30 June of the period (Note 7)	**848**	1,464
Liability component at 30 June	**14,134**	14,619

The fair value of the liability component of the convertible bonds at 30 June 2005 amounted to RMB14,301,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.5%.

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 11.7% to the liability component before the conversion of the convertible bonds and 13.2% to the liability component after the conversion of the convertible bonds.

16. Trade and bills payable

The aging analysis of trade and bills payable is as follows:

	30 June 2005	31 December 2004
	(Unaudited)	(Audited)
	RMB'000	RMB'000
0 to 30 days	**7,348**	8,434
31 to 60 days	**2,815**	2,668
61 to 90 days	**2,550**	1,147
91 to 180 days	**3,198**	2,032
181 to 365 days	**714**	509
Over 365 days	**365**	393
	16,990	15,183

Notes to the Condensed Financial Statements

17. Capital commitments

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Authorised and contracted but not provided for:		
– Construction-in-progress and property, plant and equipment	**71,878**	41,876
– Product development cost	**2,990**	2,990
– Capital injection to Doingcom Pharmaceuticals Limited	**3,000**	3,000
– Acquisition of Shanghai Fine Chemicals Company Limited	**–**	4,800
	77,868	52,666

18. Related party transactions

Details of the amounts due from (to) Directors were:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Mr. Yang Yirong	**–**	(5)
Mr. Gong Xionghui	**–**	(550)
Ms. Lu Jiahua	**–**	(550)
Mr. Ho Wan Ming	**–**	(300)
Mr. Lin Zhigang	**–**	(400)
	–	(1,805)

Balances with Directors were unsecured, non-interest bearing and with no pre-determined repayment terms.

Maximum balance of the amount due from a director outstanding during the period was:

	Six months ended 30 June 2005 (Unaudited) RMB'000	2004 (Audited) RMB'000
Mr. Yang Yirong, an executive director	**1,070**	–

Notes to the Condensed Financial Statements

19. Acquisition of a subsidiary

On 10 June 2005, the Group completed the acquisition 100% of the share capital of Shanghai Fine Chemicals Company Limited ("SFCCL"), a domestic enterprise established in Mainland China, which is principally engaged in the research and development of fine chemicals, at a total consideration of RMB4,910,000.

The acquisition has been accounted for by the purchase method of accounting. The initial accounting for this business combination can only be determined provisionally because the fair values to be assigned to the SFCCL's intangible assets can be determined only provisionally, therefore the Group accounted for the combination using those provisional values.

Details of net assets acquired and goodwill are as follows:

	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Purchase consideration:		
– Cash paid	**4,800**	–
– Direct costs relating to the acquisition	**110**	–
Total purchase consideration	**4,910**	–
Fair value of net assets acquired – shown as below	**4,910**	–
Goodwill	**–**	–

Notes to the Condensed Financial Statements

19. Acquisition of a subsidiary *(continued)*

Details of the net assets of SFCCL acquired by the Group were as follows:

	SFCCL's carrying amount before combination (Unaudited) RMB'000	Fair value adjustments (Unaudited) RMB'000	Fair value (Unaudited) RMB'000
Property, plant and equipment	1,089	–	1,089
Intangible assets	–	3,550	3,550
Inventories	146	(4)	142
Trade and bills receivable	618	(88)	530
Prepayment and other receivables	90	–	90
Cash and bank deposits	410	–	410
Trade and bills payables	(3)	–	(3)
Accruals and other payables	(898)	–	(898)
Net assets acquired by the Group	1,452	3,458	4,910
Net cash outflow arising on acquisition			
– Cash consideration paid			4,910
– Cash and cash equivalent acquired			(410)
			4,500

Since SFCCL was acquired on 10 June 2005, it has no significant contribution to the Group's turnover, results and cash flows for the period ended 30 June 2005.

If the acquisition had been completed on 1 January 2005, total group turnover would have been approximately RMB172,948,000 and profit for the period would have been approximately RMB38,371,000. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005 nor is it intended to be a projection of future results.

There were no acquisitions in the year ended 31 December 2004.

Management Discussion and Analysis

Interim dividend

The Directors have resolved to pay an interim dividend of HK0.8 cents (equivalent to approximately RMB0.83 cents) per share for the six months ended 30 June 2005 (six months ended 30 June 2004: nil) to the shareholders whose names appear on the register of members of the Company on 28 October 2005.

Closure of register of members

The register of members of the Company will be closed from 26 October 2005 to 28 October 2005, both days inclusive, during which period no transfer of shares shall be effected. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on 25 October 2005.

Business review

Product Diversification

The Group has always adhered to its operating direction of "Industry specialization and product diversification" as its development strategy. During the first six-month period, despite the global unstable and uncertain situations resulted from adverse factors such as the rising oil and raw materials prices and the upward adjustment of interest rates, together with the fluctuation of Renminbi exchange rate, the Group strived to impose corresponding measures in line with its fundamental operating strategies, in order to minimize the impact brought by those volatile, uncertain and adverse factors. The abovementioned measures included the timely expansion of the scale of further processing of natural products, the launch of new diversified products and optimization of the Company's product mix, with the aims to reduce overall operating costs. Meanwhile, due to the multi-species feature of aroma chemicals, the Group also explored the integrated sales operation of aroma chemicals not manufactured by itself. The primary purpose of this product trading was to fulfill the robust demand from the Group's existing clients and to enhance its sale services so as to strengthen client relationships, and also as a direct effective means for undertaking marketing research activities of the Group. Although the gross profit of this trading activity was slightly lower than that generated from the sales of the Group's processed products, it is strategically important for the Group to diversify its products under the same brandname without utilizing the Group's processing capacity.

Manufacturing Facility

The Group's technological advancement of the production facilities at its existing Haicang Plant in October 2004 has enhanced the Group's annual processing capacity of botanic essential oil from 9,500 metric tonnes to 11,000 metric tonnes, this was reflected in the results for the first half-year period.

Management Discussion and Analysis

Business review *(continued)*

Manufacturing Facility *(continued)*

As disclosed in the prospectus of the Group when listing, approximately RMB73,776,000 of the proceeds from initial public offer would be used for the construction of new plant and installation of machinery and equipment, while the remaining construction cost would be financed by internal funds and bank borrowings of the Company. The preliminary construction outline was commenced at the end of 2003 with the draft planning and design duly finalized in early 2005. During that period of time, the commodity market or downstream products market has been changed. After taking due consideration for the estimated gross profit of products and in-depth research on the global demand of the Group's product mix in the future and the needs of international industrial cooperation, the Group revised the original construction plan strategically. The Group decided to advance the significant technical upgrade of its existing production workshop at Xiamen Haicang Plant half year earlier by applying the recent research and development breakthrough in chemical and intensified technology. As a result, the stage one of the phase II expansion will be completed in October 2005 and the annual processing capacity of the botanic essential oil will be greatly enhanced from 11,000 metric tonnes to 16,000 metric tonnes. Moreover, the expansion will provide the room for the production capacity of new products. Meanwhile, the newly established thermal heat generating plant situated at the newly developed area in Haicang, Xiamen had served as a direct stable supply of steam and gas for the plant, hence the Group's Haicang Plant is no longer supplying steam by itself using oil as fuel.

In addition to the consideration of the market demand, production technology and international industrial cooperation factors, the above revision has also taken into account that a reasonable expansion based on its existing advanced production equipment and public utilities would, to a very large extent, save time and investment for the building of a new production capacity, which helped to achieve the greatest economies of scale with minimum level of investment.

Following the completion of stage one of the phase II expansion in October 2005, the second stage of expansion will commence subsequently. According to the new development plan, the second stage of phase II expansion includes the construction of a fine chemicals production workshop, a multi-function chemical engineering workshop, a GMP compliant workshop, storage tanks and warehouses, and a water recycling system. The second stage of phase II expansion is planned to produce several key aroma chemical products, series of Chiral pharmaceutical raw materials and pharmaceutical intermediates (the "Chiral products"), and including natural extracts derived from natural pharmaceutical raw materials. The above expansion will not only enhance the annual processing capacity of the botanic essential oil from 16,000 metric tonnes to 20,000 metric tonnes, but also expand the Group's product range to natural extracts.

Marketing Strategy

Over the years, the Group has already established a solid clientele all over the world. The number of clients reached 150, including the world top ten multinational flavour and fragrance manufacturers, major household and personal care products manufacturers and leading pharmaceutical producers and intermediate traders. During the period, the Group aimed to broaden its client base. Apart from recruiting more sales and marketing professionals specialized in fine chemicals market, the Group also strengthened the promotion of its own brand "DOINGCOM" in selected overseas markets. To make further development of the Group in the future and strengthen the good relationship built up with its existing clients, the Group also actively developed strategic trading partnership with major multinational flavour and fragrance manufacturers.

Taking into account the Group's major clientele comprised industrial corporations with considerable market share, rapid growth in number of clients may not be seen in the future. Therefore, the Group put great emphases on the consolidation of client relationship through the provision of better services, larger quantities and wider product ranges to its existing clients. Encouraging results have been seen from the implementation of the above strategic plans.

Management Discussion and Analysis

Business review *(continued)*

Marketing Strategy *(continued)*

Client's loyalty towards the brand "DOINGCOM" has been greatly enhanced by its quality products and professional services rendered. The Group maintained close partnership with several multi-national corporations to provide timely reasonable solutions according to client's requirement. Apart from enhancing client's value, the Group also continued to grasp on new business opportunities, results of which will be reflected in the results for the second half of the year. With the implementation of proper marketing strategies, both the Group and its client are able to achieve win-win situations and on-going development.

Research and Development

During the period under review, the Group was committed to the set up and consolidation of research and development institutes. By recruiting professors from the Chinese Academy of Science and doctorate degree holders who has worked in the multinational fine chemicals enterprise in United States, the Group strengthened the research and development capability of further processing of natural products and expanded the scope of research and development of the product range of natural extracts. Also, on the other hand, through the acquisition of Shanghai Fine Chemicals Limited ("SFC"), a pharmaceutical research and development center specializing in Chiral products was established in Shanghai.

The acquisition of SFC was completed in mid June. Therefore, the first half year results of SFC has not been consolidated into the Group's results. In early second half of the year, the Group will speed up the consolidation of SFC's businesses. After such reorganization, SFC will be positioned as the platform of the Group's Chiral products business. Through such acquisition, the Group would be able to integrate the production know-how, research outcomes and reputation of Chiral products and other fine chemical products which are developed and possessed by SFC with the Group's advanced production facilities and technology, serving as a new driver for the rapid development of the Group's Chiral products business. Together with the R&D team of SFC, the total number of the Group's R&D staff was 40.

In short, the Group has already strengthened its research and development capability, recruited scientific research professionals, merged with research and development institutions and acquired new technologies during the first half of the year. On the other hand, the Group has also laid down its future research direction and plan after due verification, with effective approach for implementation.

Product review

Chiral products (as defined above)

Chiral products are principally used as raw material in the production of chiral drugs. During the period ended 30 June 2005, sales of Chiral products experienced remarkable growth. In particular Alpha – Phenylethyl alcohol (α-苯乙醇), 3-Phenylpropanal Aldehyde (3-苯丙醛) and Intermediary polysaccharide (T110), which outperformed within their category with sales up 92% to RMB23.4 million, compared to RMB12.2 million for the same period last year.

Final drugs made from Chiral products were new drugs in the pharmaceutical market. The demand for these final drugs saw a robust increase. Since the Group's Chiral products were already recognised by the pharmaceutical markets, the Group's technology advancement and productivity enhancement of the production facilities at the Haicang Plant in October 2004 facilitated the growing demand for the Group's Chiral products from pharmaceutical traders and manufacturers.

Management Discussion and Analysis

Product review *(continued)*

Natural pharmaceutical raw materials

Natural Cinnamic Addehyde (天然肉桂醛) and Eucalyptol (桉葉素) are two of the Group's most typical natural pharmaceutical raw materials. The sales of these two products accounted for 45% of the sales in this category and the growth trend of these two products has remained steady in recent years. During the period under review, these two products, as a whole, recorded a stable increase of 5% to approximately RMB16.9 million when compared to the same period in last year. The Group's other natural pharmaceutical raw materials, posted progressive growth with turnover increased by 10% to approximately RMB21.1 million.

The general improvement in living standards, awareness of healthcare has led to the continuously steady growing demand for downstream products in the PRC and in the global market.

Aroma chemicals

Dihydromyrcenol (二氫月桂烯醇), Dihydromyrcene (二氫月桂烯) and Natural Citronellol (天然香茅醇) are three of the Group's most typical aroma chemicals. Sales of these three products accounted for 40% of the sales in this category. Similar to previous years, these products continued to strive and achieved swift growth during the period under review. These three products, as a whole, recorded a substantial increase of 23% to approximately RMB43.0 million when compared to the same period in last year. The growth of these three typical products was mainly driven by the Group's expansion of the processing capacity in October 2004 and the continuously growing demand for these downstream products in the international market.

The Group's other aroma chemicals, saw more significant growth than the three products mentioned above. During the period under review, turnover from other aroma chemicals increased by 51% to approximately RMB63.5 million. Amid the increase in turnover from other aroma chemicals, 57% of the increase was attributable to the trading of some new aroma chemicals to fulfil the requirement of existing customers. Profit margin of some new trading aroma chemicals was lower than those of aroma chemicals manufactured by the Group. Despite lower gross profit margin and higher operating costs, the new aroma chemicals facilitated the diversification of the Group's product mix, without utilizing the Group's existing production capacity, and the reinforcement of the Group's leading position in the natural fine chemicals industry in the PRC.

Financial review

Overview

In the six-month period under review, the Group experienced a steady growth in its business. Turnover reached approximately RMB171 million in the six months ended 30 June 2005, representing an increase of 34% when compared to same period in 2004. Gross profit in the first half of 2005 was approximately RMB65.9 million, a surge of 22% when compared to approximately RMB53.8 million for the six months ended 30 June 2004. Profit attributable to shareholders and earnings per share for the period increased 21% and 9%, respectively, to approximately RMB38.8 million and approximately RMB9.4 cents per share.

In the period under review, the growth of the Chiral products and the aroma chemicals remained robust as forecasted. When compared to the same period in 2004, sales of Chiral products increased substantially by 68% to reach approximately RMB26.5 million whereas sales of aroma chemicals increased considerably by 39% to reach approximately RMB106.5 million. The sales of natural pharmaceutical raw materials recorded a moderate growth of 8% to reach approximately RMB38.0 million.

Management Discussion and Analysis

Financial review *(continued)*

Overview *(continued)*

During the period under review, the Group strived to impose measures on its fundamental operating strategies as aforementioned, in order to minimize the impact brought by those adverse factors including rising of commodity prices and the fluctuation of Renminbi exchange rate. As a result of offsetting those unfavourable effects and those effective measures, gross profit margin eroded slightly to 38.5%, compared to 42.1% in the corresponding period last year. Selling expenses as a percent of sales increased from 2.8% to 5.1% mainly due to the increase in transportation costs and related advertising and promotional expenses for increasing the scale of export sales. The reduction in administrative expenses as a percentage of sales from 9.3% to 7.3% resulted from the Group's application of some cost effective measures. As a combination of all the above, profit attributable to shareholders increased by 21.1% to RMB38.8 million, representing net profit margin of 22.7%, compared to 25.1% for the same period last year. Accordingly, earnings per share for the period increased by 9% to RMB9.4 cents per share. The Directors has resolved to declare an interim dividend of HK0.8 cents for the period ended 30 June 2005.

Liquidity and Financial Resources

During the period under review, the Group's primary source of funding included the net proceeds received from the initial public offering of the Company's shares in March 2004 and credit facilities provided by its principal banks in the PRC. The Group's capability in working capital management attributed a net cash inflow from operating activities amounting to approximately RMB14.3 million (six months ended 30 June 2004: approximately RMB26.2 million). The Group's major cash outflows for the period was the capital expenditure incurred for the Group's expansion of its processing capability amounting to approximately RMB28.0 million.

The Group's financial position was solid throughout the period. As at 30 June 2005, the net current assets and the current ratio of the Group were approximately RMB186.0 million (31 December 2004: approximately RMB184.3 million) and 2.10 (31 December 2004: 2.15), respectively. As at 30 June 2005, the Group had cash and bank of approximately RMB226.7 million (31 December 2004: approximately RMB240.5 million), including pledged bank deposits and time deposits with original maturity over three months amounting of approximately RMB35.0 million (31 December 2004: approximately RMB35.0 million).

The Group will continue to maintain a sound finance position and with the positive cash inflow from operations and its available banking facilities, the Group has sufficient financial resources to meet its commitments, working capital requirements and future investments for expansion.

Capital Structure and Gearing Ratio

As at 30 June 2005, the equity attributable to the Company's shareholders' amounted to RMB352.5 million, representing RMB0.85 per share (as at 31 December 2004: RMB321.4 million, representing RMB0.77 per share). Increase in shareholders' funds was mainly attributable to the profit generated in the period less payment of dividend during the period.

The Group's gearing ratio as at 30 June 2005, which is represented by the ratio of total debts to total assets, was decreased from 26.2% at 31 December 2004 to 25.9%. The net gearing ratio, being the ratio of net borrowings (total borrowings less cash and cash equivalents) to shareholders' funds, maintained a negative figure, as the Group's borrowings amounting to RMB136.3 million were lower than the Group's cash and cash equivalents amounting to RMB191.8 million at the balance sheet date.

Management Discussion and Analysis

Financial review *(continued)*

Treasury Policies and Exposure to Fluctuations in Exchange Rates

The Group's transactions and the cash and bank deposits are mainly denominated in Renminbi, United States dollars and Hong Kong dollars with its operation mainly in the PRC. Bank borrowings were denominated in Renminbi and Hong Kong dollars, respectively, bearing interest at rates ranging from 1.4% to 6.1% per annum.

The Group's exposure to the foreign exchange fluctuations was minimal during the period under review and has not experienced any material difficulties or effects on its operation or liquidity as a result of fluctuation in currency exchange rate during the period.

Charge on assets

As at 30 June 2005, the Group's bank borrowings were secured by pledge of certain of the Group's land and buildings and the Group's bank deposits of approximately RMB59.1 million and RMB31.8 million respectively (31 December 2004: approximately RMB6.0 million and RMB31.8 million respectively).

Capital expenditure

During the period under review, the Group invested approximately RMB28.0 million in the additions of property, plant and equipment, compared to approximately RMB21.3 million for the same period last year.

Contingent liabilities

As at 30 June 2005, neither the Group nor the Company had any contingent liabilities.

Employees and remuneration policy

As at 30 June 2005, the Group has 241 full-time employees of which 236 are based in the PRC and 5 in the Hong Kong office.

Remuneration packages offered to the staff are in line with the prevailing market terms and reviewed on a regular basis. Discretionary bonuses may be rewarded to employees after assessment of the Group's and the individual's performance. Besides salaries and bonus, staff are also entitled to other benefits, including participation in retirement benefits schemes and the share option schemes adopted by the Company pursuant to resolutions in writing of all the shareholders of the Company passed on 16 February 2004. 38,375,000 share options remained outstanding at the period end.

Management Discussion and Analysis

Prospect

Looking forward the Group's operations in the second half of the year, the Group remains prudent and optimistic due to the following factors:

With the implementation of production diversification and comprehensive marketing strategies, the Group will further increase the turnover of products while maintaining a considerable profit margin level. Moreover, the Group will pursue proactive operating strategies to minimize those adverse impacts brought to the Company's profitability by the surge in oil and raw material prices through the improvement in production technology, achievement of economies of scale, strategic storage of raw materials and timely price adjustment of products.

The strengthening of research and development capability through the acquisition of SFC, together with the strategic guidance of the Global Operations Consultant, Mr. José Antonio Rodriguez Gascón, the Group is actively seeking cooperation opportunities in areas of international industrial technology, with the aim to develop its new flagship products and achieve profit growth as soon as possible.

The Group will continue to attract and recruit high caliber talents. Apart from our Global Operations Consultant, Mr. José Antonio Rodriguez Gascón and a few experienced professionals recruited last year, the Group is planning to strengthen its teams in decision, operational and technical support level in order to ensure sufficient human resources for its future development needs.

Due to the high oil prices, the global robust demand for further processing of natural products market will boost the Group's export market, as well as to accelerate its market penetration. It is expected that stage one of the Group's phase II expansion will be completed in October 2005, which is ten months in advance when comparing with the original plan, this will increase the Group's annual further processing capacity to 16,000 metric tonnes. This expansion project not only continue to expand the scale of further processing of natural products and optimize production techniques, but will also provide sufficient room for the expansion of production capacity of new products, to cater with new orders from clients in the second half of the year.

Disclosure of Interests

Directors' and chief executives' interests and short positions

At 30 June 2005, the interests and short positions of the Directors, chief executives and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, were as follows:

(a) Long positions in ordinary shares of HK$0.10 each of the Company

Name	Nature of interest	Number of shares held	% of the issued share capital
Mr. Yang Yirong	Interest of a controlled corporation (Note a)	193,263,158	46.57%
Mr. Yang Chiming	Interest of a controlled corporation (Note b)	14,210,526	3.42%
Mr. Gong Xionghui	Interest of a controlled corporation (Note c)	11,368,421	2.74%
Ms. Lu Jiahua	Interest of a controlled corporation (Note d)	8,526,316	2.05%
Mr. Ho Wan Ming	Interest of a controlled corporation (Note e)	7,105,263	1.71%
Mr. Lin Zhigang	Interest of a controlled corporation (Note f)	5,684,211	1.37%

Notes:

(a) These shares were beneficially owned by Marietta Limited, a private company beneficially wholly-owned by Mr. Yang Yirong.

(b) These shares were beneficially owned by Rowe Investments Ltd., a private company beneficially wholly-owned by Mr. Yang Chiming.

(c) These shares were beneficially owned by Dragon Kingdom Investment Limited, a private company beneficially wholly-owned by Mr. Gong Xionghui.

(d) These shares were beneficially owned by Sunwill Investments Limited, a private company beneficially wholly-owned by Ms. Lu Jiahua.

(e) These shares were beneficially owned by Veazey Finance Corp., a private company beneficially wholly-owned by Mr. Ho Wan Ming.

(f) These shares were beneficially owned by Active Wealth Limited, a private company beneficially wholly-owned by Mr. Lin Zhigang.

Disclosure of Interests

Directors’ and chief executives’ interests and short positions (continued)

(b) Interest in share options of the Company

Share options, being unlisted physically settled equity derivatives, to subscribe for the Company’s ordinary shares were granted to Directors, chief executives, employees and advisors of the Company pursuant to the approved Company’s share option scheme. Information in relation to these share options during the period ended 30 June 2005 are set out in the following section under the heading “Share options”.

(c) Interest in registered share capital of a Company’s subsidiary

At 30 June 2005, Ms. Lu Jiahua held 5% equity interests in the registered share capital of Xiamen Doingcom Enterprise Limited, the Group’s subsidiary of which 95% of its registered share capital are held by the Company indirectly.

Other than the interest disclosed above, a Director also hold nominee shares in certain subsidiaries held in trust for the Group solely for the purpose of ensuring that the relevant subsidiaries has more than one member.

Other than as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Directors or any chief executives, or any of their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers or which are required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company.

Share options

Pursuant to a written resolution of the shareholders of the Company passed on 16 February 2004, a share option scheme (the “Scheme”) was approved and adopted. The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. All Directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders and advisers or consultants of the Group are eligible to participate in the Scheme.

There are no changes in any terms of the scheme during the six months ended 30 June 2005. The detailed terms of the scheme were disclosed in the 2004 annual accounts.

Disclosure of Interests

Share options (continued)

The following table discloses details of share options outstanding as at 30 June 2005 under the Scheme and the movements during the six months ended 30 June 2005.

	Number of share options		
Grantees	Outstanding as at 1 January 2005	Lapsed during the period	Outstanding as at 30 June 2005 (Note a, b & c)
Category 1 – Director			
Mr. Gong Xionghui	4,000,000	–	4,000,000
Ms. Lu Jiahua	3,500,000	–	3,500,000
Mr. Lin Zhigang	3,000,000	–	3,000,000
Mr. Ho Wan Ming	2,000,000	–	2,000,000
Mr. Yang Chiming	800,000	–	800,000
Mr. Yau Fook Chuen	400,000	–	400,000
Mr. Wong Yik Chung, John	400,000	–	400,000
Dr. Zheng Lansun	400,000	–	400,000
	14,500,000	–	14,500,000
Category 2 – Employees under continuous employment contract	11,000,000	(1,500,000)	9,500,000
Category 3 – Others	14,375,000	–	14,375,000
Total	39,875,000	(1,500,000)	38,375,000

Notes:

(a) The Company granted share options to the eligible participants, as set out above, on 8 June 2004. The closing price of the Company's shares immediately before 8 June 2004 on which the options were granted was HK$1.35. In accordance with the terms of the offer letters given by the Company to the grantees, the share options are exercisable in tranches for the period from 9 June 2004 to 7 June 2014 at a price of HK$1.37 per ordinary share.

(b) The Directors consider that the grant date fair value of share options granted on 8 June 2004 cannot be estimated reliably because the Company do not have sufficient historical share price information upon which to base an estimate of expected volatility. As a general practice, the expected volatility should be based on statistical analysis of daily share prices of the Company over the one year immediately preceding the grant date. Given that the Company, being newly listed on 9 March 2004, only has statistical analysis of daily share prices over the 3 months immediately preceding the grant date and there are no similar listed entities in Hong Kong the Company can reference to, the Directors consider that it is not appropriate to disclose the value of options granted.

(c) Under the specific circumstance mentioned in (b) above, the Group measures the share options at their intrinsic value, initially at the date the Group obtains the counterparty renders service and subsequently at each reporting date and at the date of final settlement, with any change in intrinsic value recognised in profit or loss.

Disclosure of Interests

Interest and short positions of shareholders discloseable under the SFO

As at 30 June 2005, the interests and short positions of the persons, other than the Directors and chief executives of the Company, in the shares and underlying shares of the Company, as notified to the Company pursuant to Division 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Long positions in ordinary shares of HK$0.10 each of the Company

Name	Capacity	Number of shares held	% of the issued share capital
Marietta Limited	Beneficial owner (Note a)	193,263,158	46.57%
UBS AG	Person having a security interest in shares	41,004,000	9.88%
Neon Liberty Capital Management, LLC	Investment manager	37,366,000	9.00%
Neon Liberty Emerging Markets Fund, Ltd.	Beneficial owner	27,510,000	6.63%
New Margin Venture Capital Co. Ltd.	Beneficial owner	21,315,789	5.14%
Sino-Alliance International Limited	Interest of a controlled corporation (Note b)	21,315,789	5.14%
Shanghai Alliance Investment Ltd.	Interest of a controlled corporation (Note b)	21,315,789	5.14%

Notes:

(a) These shares were beneficially owned by Marietta Limited, a private company beneficially wholly-owned by Mr. Yang Yirong.

(b) These shares were registered in the name of and beneficially owned by New Margin Venture Capital Co. Ltd., the entire issued share capital of which was beneficially owned by Sino-Alliance International Limited which was wholly-owned by Shanghai Alliance Investment Ltd., an investment vehicle of Shanghai Municipal Government.

Other than as disclosed above, the Company has not been notified by any persons, other than the Directors and the chief executives of the Company, who had direct or indirect interest or short positions in five per cent or more of the issued share capital of the Company as at 30 June 2005.

Arrangement to purchase shares or debentures

Save as disclosed above under the headings “Directors’ and chief executives’ interests and short positions” and “Share options”, at no time during the period was the Company, or any of its subsidiaries, an party to any arrangements to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of the shares in, or debentures of, the Company or other body corporate and neither the Directors nor any chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Corporate Governance

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, with deviations from code provisions A.2.1 and A.4.2 of the Code in respect of the separate role of chairman and chief executive officer ("CEO"), service term and rotation of directors.

Under the code provisions A.2.1 and A.4.2 of the Code, (a) the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Code provision A.2.1

The Company does not presently have any officer with the title CEO. At present, Mr. Yang Yirong, being the Chairman and the President of the Company, is responsible for the strategic planning, formulation of overall corporate development policy and running the business of the Group as well as the duties of Chairman. The Board considered that, due to the nature and extent of the Group's operations, Mr. Yang is the most appropriate chief executive because he possesses in-depth knowledge and experience in fine chemicals business and is able to ensure the sustainable development of the Group. Besides, he is the founder, the chairman and the controlling shareholder of the Group since its establishment and till now. Notwithstanding the above, the Board will review the current structure from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group, the Company may make the necessary amendments.

Code provision A.4.2

According to Article 108(A) of the Articles of Association of the Company (the "Articles of Association"), one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting provided that the Chairman, the Deputy Chairman, the Managing Director or Joint Managing Director of the Company shall not be subject to retirement by rotation. According to Article 112 of the Articles of Association, all directors appointed to fill a casual vacancy shall office until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. In order to ensure full compliance with the code provision A.4.2 of the Code, special resolutions for approval by the shareholders of the Company will be proposed to amend Articles 108(A) and 112 of the Articles of Association at the forthcoming general meeting.

Other Information

Model codes for securities transactions by directors of listed companies (the "Model code")

The Company has adopted a code of conduct with standards not lower than those prescribed under the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards as set out in the Model Code and the Company's code of conduct regarding securities transactions by Directors throughout the six months ended 30 June 2005.

Purchase, sale or redemption of the company's listed shares

During the six months ended 30 June 2005, the Company had not redeemed, and neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed shares.

Audit committee

The audit committee of the Company has reviewed with the management in relation to the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30 June 2005.

Acknowledgement

On behalf of the board, I would like to express my sincere gratitude to all our staff for their dedication, hard work and contribution during the period. In addition, we would like to thank all our shareholders for their support of the Group and our customers for their business.

By order of the Board
YANG YIRONG
Chairman & President

Hong Kong, 13 September 2005