

SHANGHAI MING YUAN HOLDINGS LIMITED

上海銘源控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 00233)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

The Board of Directors (the “Directors”) of Shanghai Ming Yuan Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2004, together with the comparative figures for the corresponding period of 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Six months ended 30th June,	
		2004	2003
	Notes	HK\$'000	HK\$'000
Turnover	2	250,862	2,797
Cost of sales		(198,815)	(1,287)
Gross Profit		52,047	1,510
Other operating income	3	1,323	2,092
Selling and distribution expenses		(3,396)	–
Administrative expenses		(16,602)	(3,606)
Profit (loss) from operations	4	33,372	(4)
Finance costs	5	(2,147)	(111)
Profit (loss) before taxation		31,225	(115)
Taxation	6	(900)	(163)
Profit (loss) after taxation		30,325	(278)
Minority interests		(105)	–
Net profit (loss) for the period		30,220	(278)
Dividend		–	–
Earning (loss) per share (cents)	7		
Basic		1.14	(0.01)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June, 2004	31st December, 2003
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Non-current assets			
Investment properties		114,700	114,700
Property, plant and equipment		36,491	41,425
Goodwill		49,860	52,605
Negative goodwill		(2,072)	(1,964)
		198,979	206,766
Current assets			
Property held for resale		2,440	6,955
Inventories		14,653	14,139
Trade debtors and other receivables	8	138,757	90,787
Loan and interest receivables		15,801	63,928
Amount due from a minority shareholder		–	982
Investments in securities		8,580	7,920
Bank balances and cash		73,494	28,027
		253,725	212,738
Current liabilities			
Trade and other payables	9	30,217	50,127
Amount due to related companies		–	470
Amount due to ultimate holding company		–	52
Bank borrowings – due within one year		30,483	61,943
Taxation payable		2,843	3,450
		63,543	116,042
Net current assets		190,182	96,696
		389,161	303,462
Capital and reserves			
Share capital		134,405	129,405
Reserves		242,866	162,143
		377,271	291,548
Minority Interests		8,859	9,481
Non-current liability			
Bank borrowings – due after one year		3,031	2,433
		389,161	303,462

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice No. 25 “Interim Financial Reporting” and Appendix 16 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies adopted for the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the Group’s annual audited financial statements for the year ended 31st December, 2003.

2. SEGMENTAL INFORMATION

Business segment

For management purposes, the Group is organized into three major operating divisions – IT products and services, protein chips operation and property investment. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group’s turnover and contribution to operating results is as follows:

	IT products and services		Protein Chips operation		Property investment		Corporate and others		Consolidation	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003	30th June, 2004	30th June, 2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE										
External sales	194,142	–	47,288	–	9,432	2,797	–	–	250,862	2,797
RESULTS										
Segment results	4,203	–	29,614	–	2,912	248	(3,939)	(2,333)	32,790	(2,085)
Interest income									582	2,081
Profit (loss) from operations									33,372	(4)
Finance costs									(2,147)	(111)
Profit (loss) before taxation									31,225	(115)
Taxation									(900)	(163)
Profit (loss) before minority interests									30,325	278
Minority interests									(105)	–
Net profit (loss) for the period									<u>30,220</u>	<u>(278)</u>

Geographical segment

The following table presents turnover for the Group's geographical segment:

	Unaudited	
	Six months ended 30th June,	2003
	2004	2003
	HK\$'000	HK\$'000
Revenue		
Hong Kong	128,641	153
The People's Republic of China	117,384	1,960
North America	4,837	684
	<u>250,862</u>	<u>2,797</u>

3. OTHER OPERATING INCOME

	Unaudited	
	Six months ended 30th June,	2003
	2004	2003
	HK\$'000	HK\$'000
Interest income	582	2,081
Realized gain on investment in securities	–	11
Unrealised holding gain on investment in securities	660	–
Government grant	15	–
Others	66	–
	<u>1,323</u>	<u>2,092</u>

4. PROFIT (LOSS) FROM OPERATIONS

	Unaudited	
	Six months ended 30th June,	2003
	2004	2003
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Depreciation	959	413
Staff costs		
– directors' remuneration	120	–
– other staff costs	3,936	981
– retirement benefits scheme contributions, excluding directors	30	30
Total staff costs	<u>4,086</u>	<u>1,011</u>
Auditors' remuneration	300	200
Amortisation of goodwill	<u>2,631</u>	<u>–</u>

5. FINANCE COSTS

	Unaudited	
	Six months ended 30th June, 2004	2003
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable in five years	2,147	109
Interest on margin loan payable	–	2
	<u>2,147</u>	<u>111</u>

6. TAXATION

Hong Kong profits tax is calculated at 17.5% (2003: 16%) of the estimated assessable profits for the period. Hong Kong Profits Tax rate was increased to 17.5% with effect from the year of assessment 2003/04.

Taxation arising in other jurisdiction is calculated at the rates of tax prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

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

	Unaudited	
	Six months ended 30th June, 2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax	(584)	(29)
Taxation charge in other jurisdictions	(316)	(134)
	<u>(900)</u>	<u>(163)</u>

7. EARNINGS (LOSS) PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit for the period of HK\$30,220,000 (2003: loss of HK\$278,000) and the weighted average number of 2,659,524,801 (2003: 2,185,333,799) ordinary shares in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share are not presented as there is no dilutive ordinary shares in issue during both periods.

8. TRADE AND OTHER RECEIVABLES

Include in trade and other receivables are trade receivables of HK\$80,838,000 (31st December, 2003: HK\$22,522,000). The Group normally allows a credit period of 60 days to its trade customers. An aging analysis of the trade receivables is as follows:

	30th June, 2004 <i>HK\$'000</i> (Unaudited)	31st December, 2003 <i>HK\$'000</i> (Audited)
0–60 days	64,047	20,198
61–90 days	12,395	300
Over 90 days	6,606	3,984
	<hr/>	<hr/>
	83,048	24,482
<i>Less: Allowances for bad and doubtful debts</i>	(2,210)	(1,960)
	<hr/>	<hr/>
	80,838	22,522
	<hr/> <hr/>	<hr/> <hr/>

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$15,070,000 (31st December, 2003: HK\$29,352,000). The aging analysis of trade payable is as follows:

	30th June, 2004 <i>HK\$'000</i> (Unaudited)	31st December, 2003 <i>HK\$'000</i> (Audited)
0–60 days	9,168	11,288
61–90 days	3,617	4,074
Over 90 days	2,285	13,990
	<hr/>	<hr/>
	15,070	29,352
	<hr/> <hr/>	<hr/> <hr/>

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Market Review

With the Group's principal business activities currently based in China, our business performance is closely linked with the robust economy of the nation as well as the policy changes at the macro and micro levels. Following the implementation of targeted macro-economic control measures, the first half of 2004 marked the Chinese Government's effort to curb the overheated economy in specific industry sectors with a clear objective in mind to achieve a more balanced and steady growth for the economy.

While targeted industry sectors are affected by the measures with an evident slowdown in rate of growth, the national economy maintained an upward momentum of steady growth and GDP rose by 9.7 percent in the first half of 2004. In line with our overall business strategies of developing and focusing on cash flow oriented operational activities, our business performance is increasingly characterized by opportunistic and sustainable growth in sales and profitability that will largely be constrained only by production capacity and financial capability.

Business Review

The Group's business model is based on sustainable cash flows, profitability and high growth rate, and will continue to engage in three business units, namely, IT products and services, protein chips and property investment.

The consolidated turnover of the Group for the period was HK\$250,862,000, representing an increase of 88.7 times of that of last corresponding period. The significant increase in turnover is attributable to a successful penetration of new market segment and an evident improvement of sales under existing distribution channels for both the IT products and services, and protein chips.

Turnover contributed by IT products and services, and protein chips for the period amounted to HK\$194,142,000 and HK\$47,288,000 respectively. Net profit for the period amounted to HK\$30,220,000 whereas a net loss of HK\$278,000 was made for the last corresponding period. Basic earnings per share was HK\$1.14 cents for the period as against basic loss of HK\$0.01 cents for the last corresponding period.

IT products and services

The Group continues to strengthen its distribution network for its IT products and services in the OEM and DIY sectors which are one of the fastest growing sectors in the IT industry in China. For reasons of specific applications and costs, it is increasing common for corporate and retail users in China to source OEM and DIY IT products and services in addition to the standard IT products and services offered by the major IT brands.

OEM sector refers to an increasing number of IT companies that buy computers in bulk and customize the applications accordingly and sell these computers under their own name to optimize profitability and establish IT components loyalty. On the other hand, DIY means do-it-yourself and refers mainly to retail users that assemble IT products based on own requirements and applications. The Group's commitment and vision in strengthening the distribution channel support and the deepening of user service for its OEM and DIY sectors has successfully established recurring customer base and market credibility thus resulting in sustainable and steady sales.

This business unit continued to show promising results in the first half of 2004 and the turnover for the period amounted to HK\$194,142,000 (2003: Nil).

Protein chips

As discussed in the 2003 annual report, the Protein Chip System for Multi-tumor Marker Detection ("C12 products"), the flagship product of the Group, are capable of detecting up to twelve tumor markers at the same time and assists with the medical diagnosis of ten prevalent cancers namely liver cancer, breast cancer, penile cancer, oesophageal cancer, colon anal cancer, lung cancer, ovarian cancer, pancreatic cancer and endometrial tumor at an early stage, increasing the success rate for inspection and recovery to over 80%.

During this period, the Group focused its resources on the following areas:

- strengthening overall production efficiency and stability by systematically reviewing product quality inspection process and production process;
- strengthening distribution channel for hospitals in 19 provinces by working more closely with existing distributors;
- expanding distribution channel by the appointment of new distributors to increase hospital coverage nationwide; and

- working closely with the life insurance companies by servicing their needs on a top priority basis.

The Group is already experiencing a significant improvement in both order and sales of its C12 products and the utilization rate for its chip readers. Because there is no identical substitute available in the market, the Group is in a favorable position to enjoy first mover advantages in the market. Sales of C12 enjoyed breaking rates during the first half of 2004. Total quantity of C12 products sold for the first half of 2004 had already exceeded the total quantity sold for the whole year of 2003. Turnover for the period amounted to HK\$47,288,000 (2003: Nil).

Property investment

Property sector is one of industries targeted by the Chinese Government's macro-economic control measures which aimed at controlling bank loans to property developers and control of land supply in order to cool down the excessive growth in property investment.

During the period, the Shanghai Municipal Government implemented a series of measure targeting at the property market with a view of optimizing the demand supply structure, controlling excessive growth in market price and improving industry operations.

In accordance with economic data compiled by the Shanghai Statistics Bureau for the first half of 2004, the Shanghai economy actually sustained rapid and steady growth with a GDP of RMB341.8 billion and a foreign direct investment of RMB121.5 billion, all of which are higher than those in the corresponding period of last year. This indicates that while a demand from speculative investment has subsided as a result of macro-economic control measures, there is a real demand from both local and foreign businesses to expand their operations in Shanghai.

The Group continues to review and to show interests in potential investment properties in Shanghai with a set of internal investment guidelines that are based on property location, property quality, rental yield, etc. Most of the Group's properties are located at prime commercial locations in Shanghai, PRC. In fact, all these properties were fully let during the first half of 2004. Total income generated from property investment amounted to HK\$9,432,000 (2003: HK\$2,797,000).

LIQUIDITY AND FINANCING

The Group adopts a prudent approach in managing its liquidity and treasury function and sets out guidelines to achieve these objectives. These guidelines cover the Group's debt profile, financing horizon and interest rate risks management.

The Group's financial position continued to be healthy. As at 30th June, 2004, the Group had cash and bank balances of HK\$73.5 million (31st December, 2003: HK\$28.0 million). The Group's gearing ratio as at 30th June, 2004 was 0.089 (31st December, 2003: 0.221), based on bank borrowings of HK\$33.5 million (31st December, 2003: HK\$64.4 million) and shareholders' fund of HK\$377.0 million (31st December, 2003: HK\$291.6 million)

The Group's bank borrowings were denominated in Renminbi and Hong Kong Dollars. Bank borrowings totaling HK\$33.5 million were outstanding as at 30th June, 2004. Annual interest rate on bank borrowings denominated in Hong Kong Dollars and Renminbi as at 30th June, 2004 were approximately 2.25% and 5.65% respectively.

There is no material foreign exchange fluctuations exposure to the Group. Revenue generated from IT products and services, protein chips operation, rental income from investment properties in the PRC, and the payment for purchases of materials, components, equipment and salaries are made in Renminbi. Use of financial instruments for hedging purposes is considered unnecessary.

PROSPECTS

IT products and services

With the prospect of a sustainable and steady GDP growth trend for the Chinese economy, the internal demand for IT products in China will remain strong and steady for 2004. This growth trend will be further fueled by the expanding applications and usage of broadband network in both consumer and corporate sectors. With the macro-economic control measures of the Chinese government, the economy is expected to enter into a new phase of robust growth. It is widely expected that privately-run and foreign-run enterprises are emerging as new drivers for economic growth in the country.

The Group plans to strengthen its distribution network for its customers who are mostly OEM and DIY oriented by establishing more direct points of sales and forming distribution partnerships in strategic locations nationwide in order to capture the considerable development potential in the IT industry in the future.

Protein chips

As described in the 2003 annual report, the Group is committed to achieve the following key milestones resulting in sustainable and steady growth for its protein chips business unit:

1. Expand production capacity for the protein chips in China;
2. Engage in mass production of a diversified range of protein chip products;
3. Build and strengthen the distribution channels and after-sale support services;
4. Commit more resources in marketing campaigns and other marketing activities to promote the products and services;
5. Continue with new research, discovery and product innovations; and
6. Enter the international marketplace through applying international patent rights for the technology, building an international distribution network or through cooperation with potential overseas partners for joint venture activities.

The outlook for the Group is extremely promising and business plans are being implemented with impressive results and the Group is looking at feasibility of building a new GMP standard compliant production facilities in Shanghai to meet forecast demand for the protein chips. There is no doubt that China represents one of the largest and rapidly growing markets for healthcare products and services.

The Group adopts a methodical approach towards the implementation of business plans for the strengthening of distribution network and process, continuous improvement of production process and efficiency, and the on time delivery of a diversified new and upgraded range of protein products for the detection of diseases. The Group believes that early diagnosis of potentially fatal diseases significantly improves the chances of successful treatment and raises the survival rate of the patients.

The Group is optimistic that by continually implementing business plans and strategies adopted in the year, the Group will be able to capitalize on its competitive edge and establish the Group as one of the leading biotechnology and healthcare service providers globally, particularly in China.

In China, cancer is the largest cause of death and it is estimated that more than 1.5 million people are afflicted with cancer each year. The number of patients is likely to increase significantly in the next decade since the high-risk group are people over 40 years old and susceptibility to cancer increases dramatically with age represent at least 30% of the Chinese population.

There are currently over 20 million of new policy subscribers each year in China and the Group has been successful in establishing a new sales channel with the insurance companies that perform health checks on new life policy subscribers with relatively high payout policies.

The Group expects the sales for the second half of 2004 to be significantly improved due to the beginning of volume delivery of C12 products to insurance companies in the likes of Pingan Life Insurance and China Life Insurance. The Group's cancer tests are attractive to the life insurance companies for two reasons:

- as part of the routine screening for new clients, helping the companies to reduce their risk exposure to customers that may be exposed to serious, maybe even fatal, illness; and
- as part of an annual check-up service to premium clients.

The C12 products will continue to enjoy robust sales and the Group has the research and development capability of bringing upgraded versions of cancer diagnostic chip based on the C12 product platform with increase detection rate and new cancer markers.

Property investment

Under the present macro-economic control measures, it is expected that land supply will be further tightened and bank credit to property developers will be reduced. In addition to a healthy growth rate in GDP and foreign direct investment, other contributing factors such as Beijing's hosting of the 2008 Olympics, Shanghai hosting of the 2010 World Expo and the Formula 1 racing are all part of the reasons of sustaining a strong market demand.

Leveraging on the Group's prudent financial management capabilities and financial resources, the Group will carefully seek appropriate opportunities for acquisition in order to further expand its quality portfolio of investment properties to strengthen its solid base of steady recurrent earnings.

DIVIDEND

The directors do not recommend the payment of an interim dividend (2003: Nil)

PLEDGE OF ASSETS

As at 30th June, 2004, properties with carrying value of HK\$106,800,000 (31st December, 2003: HK\$120,453,000) were pledged in favour of the bank to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

The Group

During the period, investment properties with carrying value of HK\$102,000,000 (31st December, 2003: HK\$102,000,000) were pledged to banks to secure banking facilities granted to a third party. As at 30th June, 2004 the amount of facilities utilized by the third party amounted to approximately HK\$59,000,000 (31st December, 2003: HK\$59,000,000).

The Company

As at 30th June, 2004, the Company issued a corporate guarantee to a bank in respect of general banking facilities granted to a subsidiary. The extent of such facility utilized by the subsidiary at 30th June, 2004 amounted to approximately HK\$3,429,000 (31st December, 2003: HK\$3,629,000).

EMPLOYEES

At 30th June, 2004, the Group had a total of 256 employees (31st December, 2003: 244 employees). Employee's remuneration, promotion and salary review are assessed based on job responsibilities, work performance, experience and prevailing industry practice.

DEALINGS IN THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the six months period ended 30th June, 2004. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares in the Company during the period.

CORPORATE GOVERNANCE

Code of Best practice

The Directors of the Company is not aware of any information that would reasonably indicate that the Company is not or was not for any part of the six months ended 30th June, 2004 in compliance with the Code of Best Practice as set out in the Listing Rules, except that described under the heading "Non-executive Directors" below.

Non-executive Directors

During the period, the non-executive directors have not been appointed for a specific term and they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

Bye-law 109 of the Bye-laws of the Company provides that at each general meeting of the Company, with the exception of the executive chairman, one-third of the directors of the Company (or if their number is not three or a multiple of three, the then number nearest to but not exceeding one-third) who have been longest in office since their last election shall retire from office and the retiring directors shall be eligible for re-election.

Based on the number of directors as at 31st December, 2003, a non-executive director will serve on the board for a term of about two years until he/she becomes due to retire from the board by rotation. In the opinion of the directors, this arrangement meets the same objective as the Code of Best Practice.

AUDIT COMMITTEE

The audit committee has reviewed with management the Group's accounting principles and practices and discussed auditing, internal controls and financial reporting matters, including these unaudited interim results.

PUBLICATION OF RESULT ON THE STOCK EXCHANGE

Information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Chien Hoe Yong, Henry
Executive Director

2nd September, 2004

* *For identification only*

The Directors of the Company as at the date of this announcement are as follows:

Mr. Yao Yuan, *Executive Chairman*
Mr. Chien Hoe Yong, Henry, *Executive Director*
Mr. Hu Jun, *Executive Director*
Dr. Hu Geng Xi, *Executive Director*
Mr. Yu Ti Jun, *Executive Director*
Dr. Lam Lee G., *Independent Non-executive Director*
Mr. Xiao Chun Guo, *Independent Non-executive Director*

“Please also refer to the published version of this announcement in The Standard”