銘源醫療 Interim Report 2005

Mingyuan Medicare Development Company Limited

(Incorporated in Bermuda with limited liability)

The Board of Directors (the "Directors") of Mingyuan Medicare Development Company 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, 2005, together with the comparative figures for the corresponding period of 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June, 2005

		Unaudited Six months ended 30th June	
	Notes	**2005** **HK$'000**	2004 HK$'000
Turnover	*4*	**149,521**	250,862
Cost of sales		**(70,754)**	(198,815)
Gross profit		**78,767**	52,047
Other operating (loss) income	*5*	**(4,518)**	1,323
Selling and distribution expenses		**(4,879)**	(3,396)
Administrative expenses		**(16,183)**	(16,602)
Profit from operations	*6*	**53,187**	33,372
Finance costs	*7*	**(1,298)**	(2,147)
Profit before taxation		**51,889**	31,225
Taxation	*8*	**(18)**	(900)
Profit for the period		**51,871**	30,325
Attributable to:			
Equity holders of the parent		**51,716**	30,220
Minority interest		**155**	105
		51,871	30,325
Dividend		**–**	–
Earning per share (cents)	*9*		
Basic		**1.92**	1.14
Diluted		**1.91**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2005

	Notes	30 June 2005 HK$'000 (Unaudited)	31 December 2004 HK$'000 (Audited) (Restated)
Non-current assets			
Investment properties		**2,850**	2,850
Property, plant and equipment		**35,959**	27,740
Deposit paid for acquisition of land use right		**22,991**	22,991
Goodwill		**47,115**	47,115
		108,915	100,696
Current assets			
Property held for resale		**–**	10,790
Inventories		**17,898**	12,525
Trade debtors and other receivables	*10*	**224,643**	192,499
Loan and interest receivables		**16,241**	18,829
Investments in securities		**–**	14,630
Bank balances and cash		**362,879**	123,491
		621,661	372,764
Current liabilities			
Trade and other payables	*11*	**18,804**	21,093
Bills payable		**–**	18,164
Amount due to a minority shareholder		**–**	399
Amount due to related companies		**–**	4,509
Amount due to ultimate holding company		**–**	261
Bank borrowing – due within one year		**39,252**	31,102
Taxation payable		**3,563**	2,386
		61,619	77,914
Net current assets		**560,042**	294,850
Non-current liabilities			
Bank borrowings – due after one year		**40,000**	2,035
Convertible bonds	*12*	**149,177**	–
		189,177	2,035
Net assets		**479,780**	393,511
Capital and reserves			
Share capital		**134,405**	134,405
Reserves		**336,235**	250,124
Equity attributable to equity holders of the parent		**470,640**	384,529
Minority Interests		**9,140**	8,982
Total equity		**479,780**	393,511

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005

	Unaudited	
	Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Total equity at beginning of period		
As previously reported as equity	**383,868**	291,548
As previously reported separately as minority interests	**8,982**	9,481
	392,850	301,029
Prior year adjustments for adoption of HKAS 40	**–**	(52)
As restated, before opening adjustments	**392,850**	300,977
Opening adjustments for adoption of HKFRS 3	**661**	–
As restated	**393,511**	300,977
Changes in equity during the period		
Profit for the period	**51,871**	30,325
Issue of shares	**–**	55,000
Exchange differences on translating foreign operations	**57**	(172)
Convertible bonds – equity portion	**34,341**	–
Total equity at end of period	**478,780**	386,130

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2005

	Unaudited	
	Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Net cash generated from operating activities	**32,273**	15,803
Net cash generated from investing activities	**35,156**	7,848
Net cash generated from financing activities	**171,959**	21,816
Net increase in cash and cash equivalent	**239,388**	45,467
Cash and cash equivalents at beginning of period	**123,491**	28,027
Cash and cash equivalents at end of period	**362,879**	73,494

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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, 2004 except that the Group has changed certain of its accounting policies following the adoption of new and/or revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (collectively referred to as "new HKFRSs") which are relevant to its operation and effective for accounting periods commencing on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, 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 and the effect of adopting these new HKFRSs are set out in Note 2 below.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

In 2005, the Group adopted the new HKFRSs, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

Changes in Accounting Policies

(i) Investment properties

Following the adoption of HKAS 40 "investment property", changes in the fair values of investment properties are included in the profit and loss account. Previously the Group had recorded such fair value changes in the investment property revaluation reserve. In addition, Hong Kong Accounting Standard Interpretation ("HKAS-Int") 21 now requires deferred taxation to be calculated, using profits tax rates, as opposed to using capital gain tax rates, on these surpluses and deficits.

The adoption of the new HKAS 40 and HKAS-Int 21 has been applied retrospectively and comparatives presented have been restated to conform to the changed policy. This change has had no material effect on the Group's retained profits at 1st January, 2005.

(ii) 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 1st January, 2005, The principal effects of the application of HKFRS 3 to the Group is summarized below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalized and amortised over its estimated useful life. Following the adoption of HKFRS 3 "Business Combinations", goodwill arising on acquisitions is no longer amortised but tested for impairment annually. Any impairment loss recognized during the period is charged to the profit and loss account. This change in accounting policy had been applied prospectively from 1st January, 2005 and amortization of goodwill ceased on 31st December, 2004. Comparative figures for 2004 have not been restated..

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

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition ("discount on acquisition") is recognized immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill 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 derecognized all negative goodwill as at 1st January, 2005, with a corresponding increase to retained profits (see Note 3 for the financial impact).

New Accounting Policies

(i) Convertible bonds

On adoption of HKASs 32 and 39, the component of the convertible bonds that exhibits characteristics of a liability is recognized as a liability in the balance sheet, net of transaction costs. On the issue of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bonds, and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

(ii) *Share option scheme*

On adoption of HKFRS 2 "Share-based Payment", the Group recognized the fair value of such share options as an expense in the profit and loss account. A corresponding increase is recognized in a capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting period. If the share options granted vested immediately, the Group recognizes the fair value of the options in the period in which the options are granted.

If an employee chooses to exercise his options, the related capital reserve is transferred to share capital and share premium together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in accounting policies described in Note 2 on the results for the current and prior period are as follows:

	Unaudited	
	Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Decrease in amortization of goodwill	**2,745**	–
Decrease in amortization of negative goodwill	**(37)**	–
Increase in profit for the period	**2,708**	–

4. 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 2005	30th June 2004	**30th June 2005**	30th June 2004	**30th June 2005**	30th June 2004	**30th June 2005**	30th June 2004	**30th June 2005**	30th June 2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
REVENUE										
External sales	**50,523**	194,142	**88,109**	47,288	**10,888**	9,432	**–**	–	**149,521**	250,862
RESULTS										
Segment results	**78**	4,203	**65,892**	29,614	**(250)**	2,912	**(12,729)**	(3,939)	**52,991**	32,790
Interest income									**196**	582
Profit from operations									**53,187**	33,372
Finance costs									**(1,298)**	(2,147)
Profit before taxation									**51,889**	31,225
Taxation									**(18)**	(900)
Net profit for the period									**51,871**	30,325

Geographical segments

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

	Unaudited Six months ended 30th June	
	2005	2004
Revenue	***HK$'000***	*HK$'000*
Hong Kong	**15,872**	128,641
The People's Republic of China	**133,327**	117,384
North America	**322**	4,837
	149,521	250,862

5. OTHER OPERATING (LOSS) INCOME

	Unaudited Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Interest income	**196**	582
Realized (loss) on investment in securities	**(4,895)**	–
Unrealised holding gain on investment in securities	**–**	660
Government grant	**–**	15
Others	**181**	66
	(4,518)	1,323

6. PROFIT FROM OPERATION

	Unaudited Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Depreciation	**876**	959
Staff costs, including directors' remuneration	**4,538**	4,086
Auditor's remuneration	**300**	300
Amortisation of goodwill	**–**	2,631

7. FINANCE COSTS

	Unaudited Six months ended 30th June	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable in five years	**1,298**	2,147

8. TAXATION

Hong Kong Profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year.

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	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong Profits Tax	**–**	(584)
Taxation charge in other jurisdictions	**(18)**	(316)
	(18)	(900)

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the parent for the period of HK$51,716,000 (2004: HK$30,220,000) and the weighted average number of 2,688,096,230 (2004: 2,659,524,801) ordinary shares in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit attributable to equity holders of the parent for the period of HK$51,716,000 and the weighted average number of 2,702,882,788 ordinary shares, which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 14,786,558 ordinary shares deemed to be issued at no consideration if all outstanding share options with dilutive effect were exercised during the period.

Diluted earnings per share for the six months ended 30th June, 2004 is not presented as there is no dilutive ordinary shares in issue during the period.

In the current period, the effect arising from the exercise of the convertible bonds was anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

Include in trade and other receivables are trade receivables of HK$94,683,000 (31st December, 2004: HK$90,257,000). The Group normally allows a credit period of 60 days to its trade customers. An aging analysis of the trade receivables is as follows:

	30 June 2005 ***HK$'000*** **(Unaudited)**	31 December 2004 *HK$'000* (Audited)
0-60 days	**39,235**	56,643
61-90 days	**16,845**	5,098
Over 90 days	**40,563**	30,476
	96,643	92,217
Less: Allowances for bad and doubtful debts	**(1,960)**	(1,960)
	94,683	90,257

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$7,818,000 (31st December, 2004: HK$8,891,000). The aging analysis of trade payable is as follows:

	30 June 2005 ***HK$'000*** **(Unaudited)**	31 December 2004 *HK$'000* (Audited)
0-60 days	**4,502**	21
61-90 days	**1,879**	13
Over 90 days	**1,437**	8,857
	7,818	8,891

12. CONVERTIBLE BONDS

On 6th January, 2005, the Company issued convertible bonds in the aggregate amount of HK$200,000,000, which bear interest at 1% per annum and due for redemption on 6th January, 2010 (the "Convertible Bonds").

Holders of the Convertible Bonds are entitled at any time during the period from the date of issue on 6th January, 2005 to 6th January, 2010 to convert the Convertible Bonds into fully paid ordinary shares with a par value of HK$0.05 each of the Company at an initial conversion price of HK$0.92 per share, subject to adjustment.

The fair value of the liability component of the Convertible Bonds, net of transaction costs, was determined, upon issuance, using the prevailing market interest rate for similar debt without a conversion option of 5% and is carried as a long term liability. The remainder of the proceeds was allocated to the conversion option that is recognized and included in shareholders' equity.

As at 30th June, 2005, none of the Convertible Bonds had been converted into ordinary shares of the Company.

BUSINESS REVIEW, DISCUSSION AND ANALYSIS

Market Review

The timely implementation of macro-economic adjustment and control measures by the Chinese government is contributing to a slower but controlled economic growth and will be beneficial to the healthy development of the economy in the medium to long term. In the first half of 2005, the economy for China continued to experience a respectable GDP growth rate of 9.5 percent and it is expected that the overall GDP growth rate for 2005 will exceed 8.0 percent.

From 2001 to 2005, the per capita income of urban and rural residents in China grew by annual averages of 9.2 percent and 5.2 percent respectively. Currently China's overall GDP ranks sixth in the world after decades of rapid economic development, with the nation's per capita GDP exceeding US$1,200. The improved standard of living and the increase in healthcare consciousness increased spending on healthcare products and services.

Business Review

During 2003, the Group laid down key milestones for its protein chips business division (referred to as "KM2003 Objectives") and the Group has since been implementing business plans and strategies in the direction of KM2003 Objectives with an intention to strengthen its leading position as a protein chip supplier in China, one of the largest, fastest growing and most promising markets in the world for healthcare products and services, including medical diagnosis products and services.

As described in the 2004 Annual Report, the Group successfully conducted a program of Strategic Prioritization of Resources ("SPOR") and it is planned that SPOR will be concluded before the end of 2005 with the complete disposal or downsizing of the remaining IT products and services division. SPOR will result in an overall lower consolidated turnover but much higher net profits for the Group.

The consolidated turnover of the Group amounted to HK$149.5 million (2004: HK$250.9 million) for the period under review, representing a significant decrease of approximately 40.0 percent over that of last corresponding period. The significant decrease in turnover was mainly attributable to a significant reduction in business activities for the IT products and services division.

The net profit attributable to shareholders of the parent amounted to HK$51.7 million (2004: HK$30.2 million), representing a significant increase of 71.5 percent over that of last corresponding period. The increase was due to the significant increase in contribution from the protein chips division. Earnings per share was HK1.92 cents (2004: HK1.14 cents), representing an increase of approximately 68.4 percent.

Protein Chips

Turnover contributed by the sale of C12 products and related equipment amounted to HK$88.1 million (2004: HK$47.3 million), representing a significant increase of approximately 86.3 percent over that of last corresponding period. More importantly, segment profits of the protein chips division amounted to HK$65.9 million (2004: HK$29.6 million), representing a sharp increase of approximately 122.3 percent over that of last corresponding period.

The Group continued to experience significant growth in the first half of this year and the Group sold a total of 612,548 protein chips (2004: 390,154), representing a sharp increase of 57.0 percent over that of last corresponding period. During the period under review, the Group continued to enlarge its sales network to life insurance companies particularly with Ping An Life and China Life group of companies and branches in China. While it is taking more time to establish the operational arrangements including training and maintainance, the Group expects that the sales to life insurance companies to grow significantly and steadily in the foreseeable future.

As described in the 2004 Annual Report, the Group continued its commitment to implement its sales plan that includes the expansion of sales network, optimization of chipreader utilization rate and diversification of chipset packaging.

IT Products and Services

IT products and services – Turnover contributed by this division amounted to HK$50.5 million (2004: HK$194.1 million), representing a significant drop of 74.0 percent over that of last corresponding period. Due to SPOR, the Group reduced resources allocated to this division and the segment profits amounted to HK$78,000 (2004: HK$4.2 million), representing a sharp decline of approximately 98.1 percent.

Corporate Review

New Shanghai GMP Standard Compliant Factory

As described in the 2004 Annual Report, the Group was planning to construct a new factory at the Songjiang Industrial Zone in the outskirt of the City of Shanghai to expand its production capacity for the protein chips. During the period, the Group also considered various proposals made by other districts and made adjustments to its original plan accordingly. The Group decided to move the planned new factory to Fengxian MA District in Shanghai in May 2005. The new factory would be built on a site area with approximately 87,233 sq.m. at an estimated total cost of HK$200 million.

As described in the 2004 Annual Report, the new plant will have a total production capacity of 8 million chips and will be a production base for a range of protein chips used for screening and diagnosis of different diseases. Relevant applications will be made to the China State Food and Drug Administration for a Good Manufacturing Practice Certificate (commonly known as "GMP") for the new plant. It is expected that Phase I of the new plant will be operational before the end of 2006.

Change of Corporate Name

Following the execution of SPOR, the Group's principal business will be focused in the provision of healthcare products and services particularly in the area of early detection of diseases. On 23rd May, 2005, a special resolution was approved by the shareholders of the Company at the Annual General Meeting to change the name of the Company from "Shanghai Ming Yuan Holdings Limited" to "Mingyuan Medicare Development Company Limited". The new Chinese name "銘源醫療發展有限公司" was adopted for identification purpose for the Company.

The change in corporate name marks a successful operational shift from investment holding of several businesses to a more focused and dedicated approach towards the provision of healthcare products and services. The Board has adopted the full meaning of the word "Development" to indicate the corporate partnership approach towards our customers, suppliers and business associates evolving in the different phases in the development of the Group's corporate roadmap.

Appointment of Independent Non-Executive Director

On 1st June, 2005, the Company appointed Mr. Hu Jin Hua as an Independent Non-Executive Director of the Company. Mr. Hu is currently the Counselor of Shanghai Municipal People's Government and the Director of World Health Organization (WHO) Shanghai Health Education Centre. Mr. Hu has devoted his career to health education and public health development in China. He holds various positions related to public health education including the Vice Chairman of China Association of Health Education, the Vice Chairman of Chinese Smoking and Health Association and the Chief Editor of Shanghai Popular Health Press.

The Company believes that the appointment of Mr. Hu will further strengthen the Company's commitment in corporate governance practices and enhances the Company's knowledge in national healthcare policies.

Expansion of Shareholder Base

The shareholder base for the Company was further broadened following the investment of two established companies, namely CITIC Capital Holdings Limited and China Life Trustees Limited, into the Company.

CITIC Capital Markets Holdings Limited is an international investment banking arm established by CITIC Group to provide a full and diversified range of financial services. China Life Trustees Limited was set up by China Life Insurance (Overseas) Company Limited – Hong Kong Branch for the provision of pension scheme and mandatory provident fund scheme. Both China Life Trustees Limited and China Life Insurance (Overseas) Company Limited belong to the China Life Insurance (Group) Company Limited group, the leading insurance group in China.

The Company believes that investment by these two leading Chinese companies into the Company is a demonstration of market confidence in the corporate direction of the Company business strategy in the provision of healthcare products and services, and further reaffirms the Company's market position as the leading supplier of protein chips for early detection of diseases.

PROSPECTS

The outlook for the Group is extremely promising and business plans are being implemented with impressive results and the Group is on schedule to build a new GMP standard compliant production facility in Shanghai to meet future 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.

While the Group is enjoying a high growth business operations, the Group constantly reviews and responds accordingly to the challenges and risks associated with the biomedical and diagnostic industry. The Group adopts a methodical and disciplined approach towards the implementation of business plans in the KM2003 Objectives 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, i.e. people over 40 years old and susceptibility to cancer increases dramatically with age, accounts for more than 30% of the total population in China.

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 to provide health checks on new life policy subscribers with relatively high payout policies.

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 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.

In the second half of the year, the Group will continue to expedite its business growth by actively pursuing new investment opportunities through strategic acquisitions or partnerships with good potential or synergies. Finally, the Directors believe that the Group will continue to enjoy respectable growth in sales in C12 products and to benefit from diversification in other protein chips in the foreseeable future.

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, 2005, the Group had cash and bank balances of HK$362.9 million (31st December, 2004: HK$123.5 million). The Group's gearing ratio as at 30th June, 2005 was 47.6% (31st December, 2004 (restated): 8.4%), based on total borrowings of HK$228.4 million (31st December, 2004: HK$33.1 million) and shareholders' fund of HK$479.8 million (31st December, 2004 (restated): HK$393.5 million).

The Group's bank borrowings were denominated in Renminbi and Hong Kong. Bank borrowings totaling HK$79.3 million were outstanding as at 30th June, 2005. Annual interest rate on bank borrowings denominated in Hong Kong Dollars and Renminbi as at 30th June, 2005 were approximately 3.55% and 5.65% respectively.

There is no material foreign exchange fluctuations exposure to the Group. Revenue generated from protein chips operation, computer products trading, rental income from investment properties in China, 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.

INTERIM DIVIDEND

The Directors of the Company proposed that no interim dividend be distributed for the six months from 1st January, 2005 to 30th June, 2005 (2004: Nil).

PLEDGE OF ASSETS

As at 30th June, 2005, the Group did not have any properties (31st December, 2004: HK$5,500,000) pledged in favour of the bank to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

The Company

As at 30th June, 2005, the Company issued a corporate guarantee to a bank in respect of general banking facilities granted to a subsidiary. At 30th June, 2005, the subsidiary had not utilized such facilities (31st December, 2004: HK$21,394,000).

EMPLOYEES

At 30th June, 2005, the Group had a total of 278 employees (31st December, 2004: 265 employees). Employee's remuneration, promotion and salary review are assessed based on job responsibilities, work performance, experience and prevailing industry practice.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30th June, 2005, the interests and short positions of the directors' and chief executives or their associates in the shares of the Company and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

The Company

		Number of ordinary Shares					
Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
Mr. Yao Yuan	Interest of controlled Corporation	–	–	1,394,469,075 *(Note (a))*	–	1,394,469,075	51.88%
Dr. Hu Geng Xi	Interest of controlled Corporation	–	–	90,000,000 *(Note (b))*	–	90,000,000	3.35%

Notes:

(a) As at 30th June, 2005, these shares were beneficially owned by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, of which Mr. Yao Yuan and his brother Mr. Iu Chung, each owns 50% of the entire issued share capital respectively.

(b) As at 30th June, 2005, these shares were held by Regal Legend Group Limited of which 95% is held by Dr. Hu Geng Xi.

Save as disclosed above, none of the directors or chief executives of the Company or their associates had, as at 30th June, 2005, had any interests or short positions in the shares of the Company or any of its associated corporations which were required to be recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES" above and "SHARE OPTION SCHEME" below, at no time during the period was the Company, its subsidiaries or its associated corporations a party to any arrangement to enable the directors and the chief executives of the Company to acquire benefits by means of an acquisition of shares in, or debentures of, the Company or its associated corporations, and neither the directors nor chief executives of the Company or any of their spouses or children under the age of 18 had any interest in, or had been granted, any right to subscribe for the shares in, or debentures of, the Company or its associated corporations, or had exercised any such right during the period.

SHARE OPTION SCHEME

The Company has in force a share option scheme (the "Scheme") for the purposes of providing incentives and rewards to eligible participants who contribute to the Group's operations. Under the Scheme, the Directors may, at its discretion, invite any employees, directors, advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, or service providers of any company in the Group to acquire options. The Scheme became effective on 31st May, 2004 (the "Adoption Date") and, unless otherwise cancelled or amended, will remain in force for 10 years commencing on the Adoption Date.

The maximum number of shares which may be issued upon exercise of all outstanding options under the Scheme shall not exceed 10% of the shares in issue at the Adoption Date unless the Company obtains a fresh approval from its shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Directors may at its discretion determines the specific exercise period. The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price; (ii) the average closing price of the Company's shares of the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

As at 30th June, 2005, the number of shares issuable under share options granted under the Scheme was 157,000,000, which represented approximately 5.84% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options may be granted to each eligible participant in the Scheme within any 12-month period up to the date of the latest grant, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limited is subject to shareholders' approval in a general meeting.

The share options granted under the Scheme during the period are set out below:

				Number of share options				
Name or category of participant	**Date of grant**	**Exercise period**	**Exercise price per share** *HK$*	**At beginning of the period**	**Granted during the period**	**Exercise during the period**	**Lapsed during the period**	**At end of the period**
Directors								
Chien Hoe Yong, Henry	08/04/2005	08/04/2005 to 07/04/2010	0.728	–	26,500,000	–	–	26,500,000
Hu Geng Xi	08/04/2005	08/04/2005 to 07/04/2010	0.728	–	20,000,000	–	–	20,000,000
Hu Jun	08/04/2005	08/04/2005 to 07/04/2010	0.728	–	10,000,000	–	–	10,000,000
Yu Ti Jun	08/04/2005	08/04/2005 to 07/04/2010	0.728	–	10,000,000	–	–	10,000,000
Others								
Senior management and other employees	08/04/2005	08/04/2005 to 07/04/2010	0.728	–	90,500,000	–	–	90,500,000
In aggregate				–	157,000,000	–	–	157,000,000

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June, 2005, shareholders who have interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(A) Long positions of substantial shareholders in the shares of the Company

Name of Shareholder	Number of Ordinary Shares	*Note*	Approximate % of Shareholding
Ming Yuan Investments Group Limited	1,394,469,075	1	51.88%
Ming Yuan Holdings Limited	1,394,469,075	1	51.88%
Mr. Yao Yuan	1,394,469,075	1	51.88%
Mr. Iu Chung	1,394,469,075	1	51.88%

(B) Long positions of other persons in the shares of the Company

Name of Shareholder	Number of Ordinary Shares	*Note*	Approximate % of Shareholding
J.P. Morgan Fleming Asset Management Limited ("JPMF Management")	150,240,000	2	5.59%
J.P. Morgan Fleming Asset Management (Asia) Inc. ("JPMF Asia")	150,240,000	2	5.59%
J.P. Morgan Fleming Asset Management Holdings Inc. ("JPMF Holdings")	150,240,000	2	5.59%
J.P. Morgan Chase & Co ("JP Chase")	150,240,000	2	5.59%
China Life Trustees Limited	134,430,000		5.00%
CITIC Capital Markets Holdings Limited ("CITIC Capital")	135,120,000	3	5.03%
Forever Glory Holdings Limited ("Forever Glory")	135,120,000	3	5.03%
Golden Gateway Enterprises Inc. ("Golden Gateway")	135,120,000	3	5.03%
CITIC Pacific Limited ("CITIC Pacific")	135,120,000	3	5.03%

Notes:

(1) The shares were held by Ming Yuan Investments Group Limited, a wholly-owned subsidiary of Ming Yuan Holdings Limited, which in turn is owned as to 50% and 50% by Mr. Yao Yuan and Mr. Iu Chung respectively.

(2) The shares were held by JPMF Management, a 99.99% subsidiary of JPMF Asia. JP Chase owns the entire interest in JPMF Holdings which in turn owns the 99.99% interest in JPMF Asia. Accordingly, JP Chase, JPMF Holdings and JPMF Asia are deemed to be interested in 150,240,000 ordinary shares in the Company which were held by JPMF Management.

(3) The shares were held by CITIC Capital, a 50% subsidiary of Forever Glory. CITIC Pacific owns the entire interest in Golden Gateway which in turn owns the entire interest in Forever Glory. Accordingly, CITIC Pacific, Golden Gateway and Forever Glory are deemed to be interested in 135,120,000 ordinary shares in the Company which were held by CITIC Capital.

Save as disclosed above, as at 30th June, 2005, the Company has not been notified by any persons who had interests or short positions in the shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DEALINGS IN THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the six months period ended 30th June, 2005. 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, 2005 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 year, 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.

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

20th September, 2005