



INNOMAXX

INNOMAXX BIOTECHNOLOGY GROUP LIMITED

創富生物科技集團有限公司*

(Incorporated in Bermuda with limited liability)



** For identification purpose only*

Interim Report

2004

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Zhou Yucheng (*Chairman*)

Fu Weimin

Qi Xianchao (*Chief Executive Officer*)

Independent Non-Executive Directors

Wang Yiming

Tang Tin Sek

COMPANY SECRETARY

Pang Kwei Ping

REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3206-3211, 32nd Floor

One International Finance Centre

1 Harbour View Street

Central

Hong Kong

AUDITORS

PricewaterhouseCoopers

22nd Floor, Prince's Building

Central

Hong Kong

PRINCIPAL SHARE REGISTRARS

Butterfield Fund Services (Bermuda)
Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

HONG KONG BRANCH SHARE REGISTRARS

Computershare Hong Kong Investor
Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

CITIC Ka Wah Bank Limited

Industrial and Commercial Bank of China
(Asia) Limited

The Hongkong and Shanghai Banking
Corporation Limited

STOCK CODE

00340

INTERIM RESULTS

The Board of Directors (the "Board") of INNOMAXX Biotechnology Group Limited (the "Company") submits the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Six months ended 30 June	
		2004	2003
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	41,682	8,627
Cost of sales		(33,282)	(822)
Gross profit		8,400	7,805
Other revenues		95	1,122
Administrative expenses		(19,291)	(18,947)
Operating loss	3	(10,796)	(10,020)
Finance expenses	4	(1,328)	(2,504)
Share of results of associated companies		(382)	(273)
Loss before taxation		(12,506)	(12,797)
Taxation	5	(234)	(185)
Loss attributable to shareholders		(12,740)	(12,982)
		HK cents	<i>HK cents</i>
Loss per share	6	(0.61)	(0.93)

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		30 June	31 December
		2004	2003
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Non-current assets			
Fixed assets	7	167,769	167,930
Goodwill		19,183	20,640
Associated companies		36,038	36,420
Long-term investment		20,000	20,000
		242,990	244,990
Current assets			
Inventories		329	314
Debtors and prepayments	8	46,175	78,362
Investments in securities		15,219	184
Cash and bank balances		113,037	104,010
		174,760	182,870
Current liabilities			
Creditors and accruals	9	16,268	11,521
Current portion of long-term liabilities	10	4,326	4,321
Taxation		34	35
		20,628	15,877
Net current assets		154,132	166,993
Employment of funds		397,122	411,983
Financed by:			
Share capital	11	210,481	210,451
Reserves		107,248	119,974
Shareholders' funds		317,729	330,425
Long-term liabilities	10	71,111	73,276
Deferred tax liabilities		8,282	8,282
Funds employed		397,122	411,983

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Total shareholders' fund as at 1 January	330,425	273,648
Loss for the period	(12,740)	(12,982)
Issue of new shares	30	23,920
Share premium on issue of new shares	14	–
	<hr/>	<hr/>
Total shareholders' funds as at 30 June	317,729	284,586
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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Net cash inflow from operating activities	11,846	32,581
Net cash outflow from investing activities	(704)	(30,847)
Net cash (outflow)/inflow from financing activities	(2,115)	46,677
Increase in cash and cash equivalents	9,027	48,411
Cash and cash equivalents at 1 January	104,010	3,816
Cash and cash equivalents at 30 June	113,037	52,227

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim financial statements should be read in conjunction with the 2003 financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2003.

2. Turnover and segment information

An analysis of the Group's turnover and operating results by business and geographical segments is as follows:

	2004		2003	
	Turnover HK\$'000	Operating results HK\$'000	Turnover HK\$'000	Operating results HK\$'000
Business segments				
Property investment	4,476	2,649	4,398	411
Biotechnology (cord blood)	5,132	(1,164)	4,228	(1,148)
Investment	31,416	(192)	1	(2)
Trade	658	65	-	-
Corporate	-	(12,154)	-	(9,281)
	<u>41,682</u>	<u>(10,796)</u>	<u>8,627</u>	<u>(10,020)</u>
Geographical segments				
Hong Kong	36,548	(13,509)	4,229	(10,431)
Mainland China	5,134	2,713	4,398	411
	<u>41,682</u>	<u>(10,796)</u>	<u>8,627</u>	<u>(10,020)</u>

3. Operating loss

The operating loss is stated after crediting:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Gross rental income	4,476	4,398
Less: related outgoings	(1,575)	(1,576)
Bad debts recovered	-	1,079
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and after charging:

Staff cost (including Directors' emoluments)	7,590	4,927
Depreciation	808	1,370
Amortisation of goodwill	1,457	1,457
Operating lease rental expenses for land and buildings	1,326	1,216
Loss on disposal of fixed assets	97	-
Realised loss on sale of investment in securities	192	-
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4. Finance expenses

	2004	2003
	HK\$'000	HK\$'000
Interest on convertible bond	720	-
Interest on short-term loan	-	2,173
Interest on bank loan	588	300
Interest on finance lease obligations	20	31
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	1,328	2,504
	<hr/>	<hr/>

5. Taxation

	2004	2003
	HK\$'000	HK\$'000
Overseas taxation	234	185
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No provision for Hong Kong profits tax has been made as the Group does not have any assessable profit for the period (2003: nil). Overseas taxation and provision have been calculated at the rates of taxation prevailing in Mainland China on the estimated assessable profit for the period.

6. Loss per share

The calculation of loss per share is based on the loss attributable to shareholders for the period of HK\$12,740,000 (2003: HK\$12,982,000) and on the weighted average of 2,104,781,534 shares (2003: 1,388,974,709 shares) in issue during the period.

Diluted loss per share is not presented as there are no dilutive potential shares for the options granted under the share option schemes of the Company.

7. Capital expenditures

	Fixed assets <i>HK\$'000</i>	Goodwill <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book amount			
At 1 January 2004	167,930	20,640	188,570
Additions	931	–	931
Disposals	(284)	–	(284)
Depreciation and amortisation	(808)	(1,457)	(2,265)
	<u>167,769</u>	<u>19,183</u>	<u>186,952</u>
At 30 June 2004	167,769	19,183	186,952
Net book amount			
At 1 January 2003	152,828	23,554	176,382
Additions	848	–	848
Depreciation and amortisation	(1,370)	(1,457)	(2,827)
	<u>152,306</u>	<u>22,097</u>	<u>174,403</u>
At 30 June 2003	152,306	22,097	174,403

8. Debtors and prepayments

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Trade debtors	34,603	34,898
Other debtors	6,783	40,527
Deposits and prepayments	4,789	2,937
	46,175	78,362

Trade debtors include an amount receivable from Guangdong International Building Enterprises Company Limited ("GIBE"), a former fellow subsidiary company, amounting to HK\$32,541,000 (2003: HK\$32,996,000). This receivable represents rental income from the investment properties of the Group at GITIC Plaza, Guangzhou collected by GIBE on behalf of the Group after netting off the property management fees payable. Since Guangdong International Trust & Investment Corporation ("GITIC"), the former ultimate holding company, commenced liquidation in October 1998, GIBE faced cash flows and other financial constraints and therefore withheld all payments to the Group. The liquidators of GITIC proposed to dispose of its interest in GIBE and agreed to apply part of such proceeds to repay the amount due to the Group. In October 2002, the interest in GIBE was sold under an auction at the consideration of RMB1,130 million. However, the sale has not yet been completed due to certain legal matters with the potential purchaser. In view of the circumstances explained above, the Directors are confident that the amount receivable will be fully recoverable and it is not meaningful to present an ageing analysis of the receivable from GIBE.

Rental income from tenants is due and payable in advance. The credit term granted to trade debtors in respect of processing and storage of cord blood is usually 30 days. The ageing analysis of the remaining trade debtors, prepared in accordance with the due dates, is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Below 30 days	1,294	1,086
30 to 60 days	292	388
61 to 90 days	180	185
Over 90 days	296	243
	2,062	1,902

9. Creditors and accruals

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Trade creditors	500	195
Other creditors	8,548	6,290
Accrued expenses	7,220	5,036
	16,268	11,521

The ageing analysis of the Group's trade creditors is as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Below 30 days	399	189
30 to 60 days	101	2
Over 60 days	-	4
	500	195

10. Long-term liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Bank loan, secured	38,910	40,910
Convertible bond	36,000	36,000
Obligations under finance leases wholly payable within five years	527	687
	75,437	77,597
Current portion included under current liabilities	(4,326)	(4,321)
	71,111	73,276

11. Share capital

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Authorised: 4,000,000,000 shares of HK\$0.10 each	400,000	400,000
Issued and fully paid: 2,104,812,853 shares (2003: 2,104,512,853 shares) of HK\$0.10 each	210,481	210,451

12. Commitments

(a) Capital commitments

On 5 March 2004, the Group entered into a conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited, incorporated in Mainland China, from China Worldbest Life Industries Company Limited, a subsidiary company of China Worldbest Group Company Limited, a substantial shareholder of the Company, at a consideration of RMB165 million (approximately HK\$155.7 million). Upon the completion of the acquisition on 30 July 2004, the Group will pay an aggregate sum of RMB165 million (equivalent to approximately HK\$155.7 million) within 3 months by instalments, RMB20 million (equivalent to approximately HK\$18.9 million) of which will be deposited to a stakeholder account and will not be released until the satisfaction of the profit guarantee mentioned in the agreement.

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases is payable in the following years:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
2004	2,126	4,646
2005	2,687	2,687
2006	2,045	2,045
2007	1,108	1,108
	7,966	10,486

(c) *Operating lease rental receivable*

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases is receivable in the following years:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
2004	4,319	8,364
2005	8,257	8,131
2006	6,605	6,594
2007	4,264	4,264
2008	4,063	4,063
2009 and afterwards	50,588	50,588
	78,096	82,004

13. Related party transactions

A summary of the significant related party transactions carried out in the normal course of the Group's business activities is as follows:

	30 June 2004 HK\$'000	30 June 2003 HK\$'000
Rental expenses	-	460
Management fee	-	460

There is no significant related party transactions carried out in the normal course of the Group's business activities during the period.

In 2003, the Group rented the office premises from Universal Cyber Technology Holdings Limited, a wholly owned subsidiary company of U-Cyber Technology Holdings Limited, a substantial shareholder of the Company, at a consideration of HK\$80,298 per month, as revised to HK\$58,000 per month from June 2003 to November 2003. The rental charge was arrived with reference to open market rate of similar commercial properties in the same district.

U-Cyber Technology Holdings Limited also provided administrative services to the Company from January 2003 to August 2003 in return for a management fee of HK\$76,600 per month. The management fee was negotiated on an arm's length basis.

14. Subsequent event

On 30 July 2004, the acquisition of 30% equity interests in Shanghai Worldbest Treeful Pharmaceuticals (Group) Co., Ltd. was completed.

INTERIM DIVIDEND

The Board has decided not to declare any interim dividend for the six months ended 30 June 2004 (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review

For the period under review, the Group reported a consolidated turnover of HK\$41,682,000 (2003: HK\$8,627,000). The substantial increase in turnover as compared with the corresponding period in 2003 was mainly due to the commencement of trading in pharmaceutical ingredients during the period, a hefty increase of about 21% in the income from the umbilical cord blood processing and storage services and the increase in securities investment of the Group. Rental income from the shopping mall in Mainland China has maintained a steady growth during the period.

The Group's loss attributable to shareholders was HK\$12,740,000 (2003: HK\$12,982,000) for the period. The Group is restructuring its business strategies during 2004 and is focusing on the development of biotechnology and transfusion agent industries. We expect that after completion of the business restructuring, the performance of the Group will be improved tremendously.

Umbilical Cord Blood Storage

For the first half of 2004, the number of umbilical cord blood storage enrollment and the income from the business increased by about 21% when compared with the same period last year. Currently we have above 3,500 clients and with a turnover of HK\$5,132,000 (2003: HK\$4,228,000) for the six months period under review. The strong performance reflected the result of our enhancement in sales and marketing effort in the past few months.

The technical know-how of our laboratory in recovering and storing stem cells has given our clients with great confidence. We have successfully controlled the contamination rate to a minimal during the whole process and have become one of the best laboratories in umbilical cord blood banking.

International Trade

The Group commenced trading of pharmaceutical ingredients during the period. Turnover for the period was HK\$658,000. We anticipate that the trading volume will increase for the second half of 2004 as we would actively engage in sourcing and distribution of pharmaceutical products and ingredients and establishing our overseas sales network.

Investment

The Group has been holding an investment property, being Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, PRC (the "GITIC Plaza"), since 3 March 1997 under medium term lease in Mainland China. The value of GITIC Plaza was stated as HK\$162,400,000 at a professional valuation made by RHL Appraisal Limited, an independent valuer, on 31 December 2003 on an open market basis.

The rental income generated from GITIC Plaza increased by approximately 1.8% to HK\$4,476,000 (2003: HK\$4,398,000) during the six months ended 30 June 2004 and the occupation rate is similar to last year, which is around 75%. The Board expects that future income from property investment would be stable.

In addition, the Group has invested some of its surplus funds in the securities market during the period.

Prospects

The Group is still undergoing its business and operation restructuring in 2004 and will focus its resources on the development of transfusion agent and biotechnology industries. The Group will continue to restructure its assets and strive for improvement in its asset quality, operation efficiency and earning capacity, while at the same time, endeavour to implement and strengthen the corporate development strategies ascertained by the Board: "Technological Innovation", "Product Industrialization" and "Business Globalization".

The acquisition of Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited ("SW Treeful") has secured our leading position in the transfusion agent industry in Mainland China. SW Treeful is currently the third largest transfusion agent manufacturer and distributor in Mainland China. SW Treeful has a net asset value of approximately RMB476.1 million, and recorded a net profit of approximately RMB30.9 million for the financial year ended 31 December 2003. The acquisition was completed on 30 July 2004 and the Group became the single largest shareholder of SW Treeful. Pursuant to the Sale and Purchase Agreement dated 5 March 2004 (the "S&P Agreement"), the Vendor, China Worldbest Life Industries Company Limited, has guaranteed to the Group that the audited after-tax profit of SW Treeful for the year ending 31 December 2004 under the PRC GAAP will be at least RMB50 million (equivalent to approximately HK\$47.2 million).

With the strong economic growth and increasing demand for pharmaceutical products and traditional Chinese medicines in recent years, the production capacity of transfusion agent industry in Mainland China is increasing rapidly at a rate of over 20% per annum. SW Treeful will restructure its sales and marketing strategy and focus its development on new products and packaging materials to increase its earnings. The acquisition of SW Treeful is in line with the business strategies of the Group and the Board believes that the operation of SW Treeful will enhance the earnings and future development of the Group.

The Group is also actively establishing its overseas sales network and participating in trading of pharmaceutical products and ingredients. Our trading team, managed by the wholly-owned subsidiary of the Group, CWGC Pharmaceutical (Hong Kong) Limited, has shown an outstanding performance during recent months. The Board believes that the pharmaceutical trading business would generate a steady income stream for the Group while at the same time providing an opportunity for the Group to develop its international connection.

With regard to our umbilical cord blood storage services, the reorganization and enhancement of the sales and marketing team of our wholly-owned subsidiary, Cell Therapy Technologies Centre Limited, provided a strong momentum for the business. We have a very impressive growth in new enrollment in July 2004, which is more than double the number of enrollment compared with the same month last year and more than 50% growth with the average of the previous 6 months. The Group expects that our umbilical cord blood business will attain a very substantial growth for the second half of 2004.

The Group will devote more effort to increase public awareness of the benefits of umbilical cord blood storage which have been proved by many successful cases around the World. We anticipate that we could successfully enrolled 30% of the number of child birth in private hospitals in Hong Kong in around two years time. On the other hand, we would seek for continuous improvement in the quality of our services and technical know-how and prepare our laboratory for the AABB (American Association of Blood Bank) accreditation.

Besides, we are planning to introduce our umbilical cord blood services to the neighboring cities, such as Macau and Mainland China. Negotiations with private hospitals in Macau have been started and we anticipate that our cord blood business can be introduced to Macau in the year 2005. We have also approached several potential partners in Mainland China in this respect and positive feedback has been received. We could have a more detailed plan in pursuing the China business once the Department of Health in Mainland China announces its policy on cord blood storage.

The Group will focus its resources on the development of transfusion agent and biotechnology industries with a mission to create value for its shareholders. With the economic recovery of Hong Kong, our competitive advantages in Mainland China and the dedication of our staff, the Board has confidence that the performance of the Group will be improved during the second half of 2004 which will build a solid ground for the Group's development in 2005.

Liquidity, Financial Resources, Charges on Assets and Capital Structure

As at 30 June 2004, the Group had net current assets of HK\$154,132,000 (31 December 2003: HK\$166,993,000) and a current ratio of 8.5 (31 December 2003: 11.5). The Group's bank balances, cash and other short-term investments as at 30 June 2004 amounted to HK\$128,256,000 (31 December 2003: HK\$104,194,000). As at 30 June 2004, the Group has pledged certain unlisted securities, the investment property (GITIC Plaza) and the receivable from Guangdong International Building Enterprises Company Limited for secured bank loan, which was denominated in HK dollar and carried interest rate at 2.65% above HIBOR, amounted to HK\$38,910,000 (31 December 2003: HK\$40,910,000). The gearing ratio, as a ratio of total borrowings (excluding the convertible bond of HK\$36,000,000) to shareholders' funds, was 12.4% (31 December 2003: 12.6%).

On 9 December 2003, the Group issued a convertible bond of HK\$36,000,000 at par. The bond carries interest at 4% per annum, payable half yearly in arrears, and a right to convert into new shares of HK\$0.10 each in the issued share capital of the Company at a conversion price of HK\$0.10 per share, subject to adjustment, at any time from 9 March 2004 to 8 December 2005. The bond, if not being converted, shall not become due nor repayable until 8 December 2005. No conversion right under the bond has been exercised during the period under review.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Pursuant to the S&P Agreement executed on 5 March 2004, the Group acquired 30% equity interest in SW Treeful from China Worldbest Life Industries Company Limited, a subsidiary company of China Worldbest Group Company Limited, a substantial shareholder of the Company, at a consideration of RMB165 million (approximately HK\$156 million), subject to adjustment. The acquisition was completed on 30 July 2004.

There were no material acquisitions or disposals of subsidiaries during the period.

Exposure of Fluctuations in Exchange Rates and Related Hedges

As most of the cash reserves were placed in HK dollars short-term deposits with major banks in Hong Kong, exposure to exchange fluctuation is minimal.

Human Resources

As at 30 June 2004, the Group had 36 and 4 employees in Hong Kong and Mainland China respectively. The Group's human resources policies are based on performance and merit. Employees are remunerated at a competitive level and are rewarded according to their performance and business results of the Group. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share option scheme adopted by the Company on 26 June 2002, share options may be granted to Directors and employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the six months ended 30 June 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the period.

SHARE OPTION SCHEME

The operation of the Company's share option scheme approved by the shareholders of the Company on 11 March 1997 (the "Old Scheme") was terminated on 26 June 2002 such that no further options shall be offered under the Old Scheme but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect. Under a new share option scheme approved by the shareholders of the Company on 26 June 2002 (the "New Scheme"), the Directors of the Company may, at their discretion, invite eligible participants to subscribe for shares in the Company subject to terms and conditions stipulated therein. During the period, no new option has been granted under the New Scheme. Particulars of outstanding options at the beginning and at the end of the financial period are as follows:

Grantee	Date granted	Period during which options are exercisable	Consideration paid for the options granted HK\$	Price per share to be paid on exercise of option HK\$	Number of shares under options			
					Outstanding at 1 January 2004	Granted during the period	Exercised during the period	Outstanding at 30 June 2004
Tong Nai Kan ¹	29 August 2001	1 March 2002 to 28 February 2005	1.00	0.145	17,500,000	-	-	17,500,000
	3 January 2003	3 January 2003 to 2 January 2008	1.00	0.100	9,966,000	-	-	9,966,000

Grantee	Date granted	Period during which options are exercisable	Consideration paid for the options granted HK\$	Price per share to be paid on exercise of option HK\$	Number of shares under options			
					Outstanding at 1 January 2004	Granted during the period	Exercised during the period	Outstanding at 30 June 2004
Other Employees	29 August 2001	1 March 2002 to 28 February 2005	1.00	0.145	300,000	-	300,000 ²	-

Notes:

1. Mr. Tong Nai Kan has resigned as Director of the Company and its subsidiaries on 14 May 2004 and 1 August 2004 respectively.
2. Exercise date was 19 January 2004. At the date before the options were exercised, the market value per share was HK\$0.495.

Apart from the foregoing, at no time during the period was the Company or any of its associated corporations a party to any arrangements to enable the Directors of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 30 June 2004, Mr. Tang Tin Sek, an Independent Non-executive Director of the Company, had personal interest in 300,000 shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), representing approximately 0.01% of the issued share capital of the Company.

Other than the holdings disclosed above and the interest disclosed under the section headed "SHARE OPTION SCHEME", as at 30 June 2004, no other interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or Chief Executive of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2004, the following shareholders and their associates had interests in 5% or more of the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Corporate interest	Number of shares	Percentage of issued share capital
China Worldbest Group (Hong Kong) Company Limited ("China Worldbest (HK)") (<i>Notes 1 & 2</i>)	280,000,000	13.30
China Worldbest Group Company Limited ("China Worldbest") (<i>Notes 1 & 2</i>)	280,000,000	13.30
Sunberry Investments Limited ("Sunberry") (<i>Note 3</i>)	146,146,482	6.94
U-Cyber Technology Holdings Limited ("U-Cyber") (<i>Note 3</i>)	146,146,482	6.94

Note 1: China Worldbest (HK) is a wholly owned subsidiary of China Worldbest. In accordance with the SFO, the interests of China Worldbest (HK) are deemed to be, and have therefore been included in, the interests of China Worldbest.

Note 2: China Worldbest (HK) currently holds a convertible bond issued by the Company on 9 December 2003 in principal amount of HK\$36,000,000. Upon full exercise of the conversion rights, of which China Worldbest (HK) may convert the whole or part of the principal amount of the convertible bond into shares of the Company, China Worldbest (HK) will hold an aggregate of 640,000,000 shares representing approximately 25.97% of the then enlarged issued share capital of the Company.

Note 3: Sunberry is a wholly owned subsidiary of U-Cyber. In accordance with the SFO, the interests of Sunberry are deemed to be, and have therefore been included in, the interests of U-Cyber.

Save as disclosed above, as at 30 June 2004, no other party had an interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for any part of the six months ended 30 June 2004, except that the Independent Non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the Annual General Meeting in accordance with the Bye-laws of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

For the six months period to 30 June 2004, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the six months ended 30 June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2004.

By Order of the Board

Qi Xianchao

Executive Director and Chief Executive Officer

Hong Kong, 23 September 2004