



# **MEDICAL CHINA LIMITED**

*(Incorporated in Bermuda with limited liability)*

**Interim Report 2002**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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## HIGHLIGHTS

- Turnover for the six months ended 30 June 2002 amounted to approximately HK\$22,684,000, representing an increase of 37% as compared to that of the corresponding period in 2001.
- For the six months ended 30 June 2002, the Company achieved a net profit of approximately HK\$11,768,000 representing an increase of approximately 35% as compared to that of the corresponding period in 2001.
- For the six months ended 30 June 2002, earnings per share is 1.47 HKcents.
- The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002.

## INTERIM RESULTS (UNAUDITED)

(expressed in Hong Kong dollars)

The board of directors (“the Board”) of Medical China Limited (“the Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for each of the three months and six months ended 30 June 2002, together with the comparative figures for the corresponding period of 2001 is follows:

### CONDENSED CONSOLIDATED INCOME STATEMENTS

		For the three months ended 30 June		For the six months ended 30 June	
		2002 (Unaudited) \$'000	2001 (Unaudited) \$'000	2002 (Unaudited) \$'000	2001 (Audited) \$'000
	<i>Note</i>				
<b>Turnover</b>	2	<b>11,995</b>	8,192	<b>22,684</b>	16,557
Cost of services/sales		<b>(3,089)</b>	(2,722)	<b>(6,014)</b>	(5,209)
<b>Gross Profit</b>		<b>8,906</b>	5,470	<b>16,670</b>	11,348
Other income	3	<b>1,579</b>	724	<b>2,550</b>	1,446
Selling and distribution expenses		<b>(1,873)</b>	(563)	<b>(2,331)</b>	(905)
Administrative expenses		<b>(1,661)</b>	(598)	<b>(2,745)</b>	(1,118)
Other operating expenses		<b>(42)</b>	(120)	<b>(60)</b>	(192)
<b>Profit from operations</b>		<b>6,909</b>	4,913	<b>14,084</b>	10,579
Finance cost		<b>-</b>	(108)	<b>(1)</b>	(216)
<b>Profit before taxation</b>	4	<b>6,909</b>	4,805	<b>14,083</b>	10,363
Taxation	5	<b>(1,176)</b>	(762)	<b>(2,315)</b>	(1,636)
<b>Profit attributable to shareholders</b>		<b>5,733</b>	4,043	<b>11,768</b>	8,727
<b>Earnings per share</b>	7				
Basic (in Hong Kong cents)		<b>0.72</b>	0.88	<b>1.47</b>	1.90
Diluted (in Hong Kong cents)		<b>N/A</b>	0.82	<b>N/A</b>	1.61

## CONDENSED CONSOLIDATED BALANCE SHEET

(expressed in Hong Kong dollars)

	Note	At 30 June 2002 (Unaudited)		At 31 December 2001 (Audited)	
		\$'000	\$'000	\$'000	\$'000
<b>Non-current assets</b>					
Fixed assets	8	24,556		22,420	
Negative goodwill	9	(10,265)		(11,706)	
			14,291		10,714
<b>Current assets</b>					
Inventories		1,555		868	
Trade receivables	10	1,571		2,105	
Other receivables	11	1,521		51,250	
Cash and cash equivalents	12	105,825		44,165	
		110,472		98,388	
<b>Current liabilities</b>					
Amount due to a related company	13	897		897	
Amount due to a director		–		672	
Trade and other payables	14	12,231		9,994	
Taxation		7,520		5,196	
		20,648		16,759	
<b>Net current assets</b>			89,824		81,629
<b>NET ASSETS</b>			104,115		92,343
<b>CAPITAL AND RESERVES</b>					
Share capital	15		8,000		8,000
Reserves			96,115		84,343
			104,115		92,343

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(expressed in Hong Kong dollars)

	<b>Six months ended 30 June 2002 \$'000 (unaudited)</b>	Six months ended 30 June 2001 \$'000 (audited)
Net cash inflow from operating activities	<b>31,449</b>	16,331
Net cash inflow/(outflow) from investing activities	<b>30,211</b>	(9,437)
Increase in cash and cash equivalents	<b>61,660</b>	6,894
Cash and cash equivalents at the beginning of the period	<b>44,165</b>	334
Cash and cash equivalents at the end of the period	<b>105,825</b>	7,228
Analysis of the balances of cash and cash equivalent		
Cash and cash equivalents	<b>20,187</b>	7,228
Time deposit	<b>85,638</b>	–
	<b>105,825</b>	7,228

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(expressed in Hong Kong dollars)

	Share capital	Share premium	Contributed surplus	Exchange reserve	General reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2001	10	-	-	7	564	4,270	4,851
Net loss not recognised in the consolidated income statement:							
Currency translation differences	-	-	-	(8)	-	-	(8)
Net profit for the period	-	-	-	-	-	8,727	8,727
At 30 June 2001	<u>10</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>564</u>	<u>12,997</u>	<u>13,570</u>
At 1 January 2002	8,000	51,824	5,265	17	2,954	24,283	92,343
Net gain not recognised in the consolidated income statement:							
Currency translation difference	-	-	-	4	-	-	4
Net profit for the period	-	-	-	-	-	11,768	11,768
At 30 June 2002	<u>8,000</u>	<u>51,824</u>	<u>5,265</u>	<u>21</u>	<u>2,954</u>	<u>36,051</u>	<u>104,115</u>

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

*(expressed in Hong Kong)*

### 1. BASIS OF PRESENTATION

#### (a) Group reorganisation

The Company was incorporated in Bermuda on 15 August 2001 as an exempted company with limited liability under the Companies Act of Bermuda. The Company became the holding company of the Group on 10 December 2001 through a reorganisation (the “Reorganisation”).

#### (b) Basis of preparation

The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly the unaudited consolidated results have been prepared on the basis of merger accounting in accordance with the Statement of Standard Accounting Practice (“SSAP”) 27 “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants (the “HKSA”). On this basis, the Company was the holding company of the Group for all the periods presented, rather than from 10 December 2001. In the circumstances, the results of the Group for the three months ended and six months ended 30 June 2001 and 2002 include the results of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

The unaudited interim financial report has been reviewed by the Company’s audit committee. The interim financial report has been prepared in accordance with the applicable disclosure requirements of the Listing Rules of the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited, including compliance with SSAP 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. The auditors have expressed an unqualified opinion on the statutory accounts for the year ended 31 December 2001 in their report dated 27 March 2002.

The accounting policies and basis of preparation used in the preparation of the interim financial report are the same as those used in the 2001 annual accounts, except for the following new or revised SSAPs issued by the HKSA which have been adopted for the first time in the preparation of the interim financial report and are effective for accounting periods beginning on or after 1 January 2002:

SSAP 11 (revised)	“Foreign currency translation”
SSAP 15 (revised)	“Cash flow statements”
SSAP 25 (revised)	“Interim financial reporting”
SSAP 26 (revised)	“Segment reporting”
SSAP 33	“Discontinuing operations”
SSAP 34	“Employee benefits”

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2001 annual accounts.

**2. TURNOVER**

Turnover represents service fees arising from the provision of medical equipment, net of business tax and the sales value of medical accessories to customers, net of value added tax.

The Group’s turnover and operating profit are almost entirely derived from the provision of medical equipment and related accessories services in the People’s Republic of China (“PRC”). Accordingly, no analysis by geographical and business services segments has been provided.

Turnover recognised during the period may be analysed as follows:

	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>\$’000</b>	\$’000	<b>\$’000</b>	\$’000
Medical services fees	<b>8,803</b>	5,441	<b>16,648</b>	10,997
Sales of Le Veen Electrodes	<b>3,130</b>	2,556	<b>5,919</b>	5,165
Sales of electric plates	<b>62</b>	195	<b>117</b>	395
	<b>11,995</b>	8,192	<b>22,684</b>	16,557

## 3. OTHER INCOME

	Three months ended 30 June		Six months ended 30 June	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Interest income	716	3	966	5
Amortisation of negative goodwill	720	721	1,441	1,441
Exchange gain	128	–	128	–
Miscellaneous	15	–	15	–
	<u>1,579</u>	<u>724</u>	<u>2,550</u>	<u>1,446</u>

## 4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Finance cost:				
Interest expense on convertible loan	–	108	–	216
Other items:				
Cost of inventories	1,962	1,673	3,856	3,345
Depreciation	1,170	941	2,243	1,883
Auditors' remuneration	200	–	200	–
Operating lease charges in respect of office premises	348	100	483	216
Research & development costs	37	47	96	93
Staff costs (including directors' remuneration)				
– wages & salaries	824	356	1,487	748
– staff retirement benefits	15	10	44	19
Average number of employees during the period	<u>60</u>	<u>55</u>	<u>60</u>	<u>55</u>

## 5. TAXATION

Taxation represents the provision for PRC income tax.

No provision for Hong Kong Profits Tax has been made for the three months and six months ended 30 June 2002 (2001: \$Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

The Company's subsidiary, Tat Lung Medical Treatment Technology (Shenzhen) Limited, located in the Shenzhen Special Economic Zone in the PRC, is subject to PRC income tax at a reduced rate of 15% (2001: 15%).

No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

## 6. DIVIDEND

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001 : \$Nil).

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the three months and six months ended 30 June 2002 is based on the profit attributable to shareholders of \$5,733,000 and \$11,768,000 respectively divided by the 800,000,000 ordinary shares in issue during the relevant period.

The calculation of basic earnings per share for the three months and six months ended 30 June 2001 is based on the profit attributable to shareholders of \$4,043,000 and \$8,727,000 respectively divided by 459,200,000 shares, prior to the placing but after adjusting the effect of the capitalisation issue on 20 December 2001.

### (b) Diluted earnings per share

No fully diluted earnings per share is shown as the company has no potential dilutive ordinary shares as at 30 June 2002 and 31 March 2002.

The calculation of diluted earning per share for the three months and six months ended 30 June 2001 is based on adjusted profit attributable to shareholders of \$4,151,000 and \$8,943,000 respectively and the weighted average number of ordinary shares of 508,265,205 and 556,791,233 shares respectively after adjusting

for the effects of the dilutive potential ordinary shares committed under the convertible loan issued on 8 September 2000 which entitled to the noteholders to convert the paid up principal into 30% enlarged issued share capital of the Tat Lung Medical Treatment Technology Limited upon conversion.

(c) **Reconciliations**

	Three months ended 30 June		Six months ended 30 June	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Profit attributable to shareholders	5,733	4,043	11,768	8,727
Interest paid for the convertible loans	—	108	—	216
Adjusted profit attributable to shareholders	<u>5,733</u>	<u>4,151</u>	<u>11,768</u>	<u>8,943</u>

	Three months ended 30 June		Six months ended 30 June	
	2002 <i>Number of Shares</i>	2001 <i>Number of shares</i>	2002 <i>Number of shares</i>	2001 <i>Number of shares</i>
Weighted average number of ordinary shares used in calculating basic earnings per share	800,000,000	459,200,000	800,000,000	459,200,000
Deemed issue of ordinary shares	—	49,065,205	—	97,591,233
Weighted average number of ordinary shares used in calculating diluted average earnings per share	<u>800,000,000</u>	<u>508,265,205</u>	<u>800,000,000</u>	<u>556,791,233</u>

**8. FIXED ASSETS**

	<b>Medical equipment</b>	<b>Computer and office equipment</b>	<b>Motor vehicle</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>				
At 1 January 2002	27,814	251	–	28,065
Additions	<u>3,488</u>	<u>88</u>	<u>803</u>	<u>4,379</u>
At 30 June 2002	<u>31,302</u>	<u>339</u>	<u>803</u>	<u>32,444</u>
<b>Aggregate Depreciation</b>				
At 1 January 2002	(5,594)	(51)	–	(5,645)
Charge for the period	<u>(2,158)</u>	<u>(31)</u>	<u>(54)</u>	<u>(2,243)</u>
At 30 June 2002	<u>(7,752)</u>	<u>(82)</u>	<u>(54)</u>	<u>(7,888)</u>
<b>Net Book Value</b>				
At 30 June 2002	<u>23,550</u>	<u>257</u>	<u>749</u>	<u>24,556</u>
At 31 December 2001	<u>22,220</u>	<u>200</u>	<u>–</u>	<u>22,420</u>

**9. NEGATIVE GOODWILL**

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Negative goodwill	<b>(16,029)</b>	(16,029)
Less: Accumulated amortisation	<u>5,764</u>	<u>4,323</u>
	<u><b>(10,265)</b></u>	<u>(11,706)</u>

The balance of negative goodwill is arrived from the Group's acquisition of the medical equipment business together with the relevant assets from Guangxi Wuzhou Tat Lung Medical Equipment Company Limited on 30 June 2000.

**10. TRADE RECEIVABLES**

All of the trade receivables are expected to be recovered within one year.

An ageing analysis of trade receivables (net of provision for bad and doubtful debts) is as follows :

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Within 3 months of the date of billing	<u>1,571</u>	<u>2,105</u>

Debts are normally due within 60 days from the date of billing.

**11. OTHER RECEIVABLES**

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Proceeds receivable from issuance of Placing Shares	-	13,202
Advances to third party	-	34,462
Other receivable, deposits and prepayments	<u>1,521</u>	<u>3,586</u>
	<u>1,521</u>	<u>51,250</u>

**12. CASH AND CASH EQUIVALENTS**

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Deposits with banks	85,638	28,286
Cash in hand and cash at bank	<u>20,187</u>	<u>15,879</u>
	<u>105,825</u>	<u>44,165</u>

**13. AMOUNT DUE TO A RELATED COMPANY**

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Everblooming Enterprises Company	<u>897</u>	<u>897</u>

Amount due to related company is unsecured, interest-free, and has no fixed terms of repayment.

**14. TRADE AND OTHER PAYABLES**

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Trade payable	2,348	1,279
Other payable and accrued liabilities	<u>9,883</u>	<u>8,715</u>
	<u><b>12,231</b></u>	<u><b>9,994</b></u>

All of trade and other payables are expected to be settled within one year.

**15. SHARE CAPITAL**

	<b>At 30 June 2002 and 31 December 2001 No. of shares '000</b>	<b>At 30 June 2002 and 31 December 2001 '000</b>
Authorised:		
Ordinary shares of \$0.01 each	<u>2,000,000</u>	<u>20,000</u>
Issued and fully paid:		
At 1 January and 30 June 2002	<u>800,000</u>	<u>8,000</u>

## 16. COMMITMENTS

### Capital Commitments

Capital commitments in respect of plant and machinery and other fixed assets outstanding not provided for in the accounts were as follows :

	<b>At 30 June 2002 \$'000</b>	At 31 December 2001 \$'000
Contracted for	—	—
Authorised but not contracted for	<u>1,600</u>	<u>4,800</u>
	<b><u>1,600</u></b>	<b><u>4,800</u></b>

### Other Commitments

As at 30 June 2002, the Group had entered into an agreement with one of the co-operative hospitals to provide funds of \$567,000 for the purpose of research and development.

## 17. POST BALANCE SHEET EVENT

On 7 August 2002, 35,000,000 ordinary shares of \$0.01 each were issued at a price of \$0.57 per Share (the "Share Issue"). As a result of the Share Issue, the Group received approximately \$19,295,000 net of related expenses from the issue.

Further details of the Share Issue were set out in the announcements of "Discloseable Transaction-Placing of existing shares and subscription of new shares" and "Completion of Placing of existing shares and subscription of new shares" dated 24 July 2002 and 1 August 2002 respectively.

## BUSINESS REVIEW

The Group's turnover and operating profit are almost entirely derived from the provision of medical equipment and related accessories services in the People's Republic of China ("PRC").

For the six months ended 30 June 2002, the Group was principally engaged in supplying radio frequency therapeutic equipment ("RFAS") and technology ("RFAS technology") to hospitals in the PRC and reaped its profits by setting up cooperation centers with hospitals in various regions and expanding the application of RFAS technology.

In addition, the Company has put more effort in exploring new products as well as new projects, with an aim to achieve further development.

With the advance of the RFAS technology and an increase in the number of the Group's cooperation centers, the Company's turnover has reached the anticipated target. For the six months ended 30 June 2002, the Group's turnover and profit attributable to shareholders amounted to approximately HK\$22,684,000 and HK\$11,768,000 respectively, representing increases of 37% and 35% respectively over the corresponding period in 2001. The growth in turnover mainly attributes to the Group's ambitious promotion of the RFAS technology, which results in such technology being used as an indispensable means in tumor treatment technology (腫瘤微創治療技術) in the PRC.

## BUSINESS OUTLOOK

China's rapid economic growth and the expected further deregulation in its medical market will justify the Group's existing operation pattern. The Group will keep expanding the application of the radio frequency therapeutic technology in hospitals in China to further increase its market share, and meanwhile utilize its current business network to develop more medical service projects, which are summarized as follows:

1. The Group will jointly establish radio frequency therapeutic centers with large sized hospitals in the PRC and in the meantime sell equipment to medium and small sized hospitals and to hospitals in remote areas.

2. The Group will keep promoting RFAS technology and, through participation in all kinds of international medical devices exhibitions and the organization of radio frequency therapeutic training courses in different places to enhance the Company's reputation. It will also improve the effectiveness of the radio frequency therapeutic treatment and the applicable range of diseases, so as to increase the number of patients under treatment and enable a steady growth in the Group's income.
3. The Group will put more effort into the R & D of new radio frequency therapeutic equipment and accessories. To achieve this goal, it will utilize the research center established in Chengdu Military Area General Hospital (成都軍區總醫院) to strengthen the R & D of radio frequency therapeutic auxiliary equipment and technology for the treatment of pancreas cancers, and to prepare for the development of a new generation of software and subsequent products for the Group, so as to maintain its competition edge.
4. The Group will carry out the two envisaged projects, namely, the project of setting up an R & D base for the production of high-tech biochemical test equipment and the project of setting up an R & D base for both Chinese and western anti-cancer drugs. The implementation of these projects can create a profit engine for the Group, as the products from these bases can enjoy marvelous sales through the Group's existing sales network.
5. The Group has existing negotiate its cooperation with overseas biotechnology research institutes, in a bid to commercialize the well-matured products in the PRC market.
6. The Group will materialize the establishment of a cancer treatment center, and will embark on practical matters as soon as possible.

## BUSINESS PROGRESS IN COMPARISON WITH OBJECTIVES

The table below sets out the comparisons between the actual business progress for the six months ended 30 June 2002 (“Review Period”) and the business objectives set out in the prospectus of the Company dated 19 December 2001. The Group will continue to review its business objectives and strategy, and will do necessary adjustments if the market so requires.

Implementation Plans	Business objectives for the Review Period as disclosed in the Prospectus	Actual business progress for the Review Period
Continuous development of the hospital network in the PRC for RFAS	Enter new cooperation contracts with 15 hospitals in Shanghai and Guangdong	The number of RFAS radio-frequency treatment centre established by the Group through its subsidiary 達隆醫療科技(深圳)有限公司 (Tat Lung Medical Treatment Technology (Shenzhen) Limited) (“Tat Lung Shenzhen”) with the hospitals in the PRC since 31 December 2001 increased from 49 to 65 which is behind the schedule stated in the prospectus of the Company. The Group entered new cooperation contracts with 16 hospitals. The Group has installed equipment and has arranged training for the doctors and started to treat the patients for the new established centres.

<b>Implementation Plans</b>	<b>Business objectives for the Review Period as disclosed in the Prospectus</b>	<b>Actual business progress for the Review Period</b>
Promotion of application of RFAS and establishment of RFAS training centres	Set up 4 training centres in Guangzhou, Shanghai, Henan and Sichuan	The Group entered into a contract with Chengdu Military Area General Hospital of the People's Liberation Army to establish Chengdu Military Area General Hospital and a RFAS research and training centre. The Group also co-operated with 上海東方肝膽醫院 to establish a training centre.
	Provide training of lung cancer-treatment for the doctors of 3 contracted hospitals	The group has provided training of lung cancer therapy to doctors of three contracted hospitals in Xu Zhou, Kun Ming and Fu Zhou.
	Host 3 conferences to demonstrate and promote the application of RFAS in curing lung, liver and bone cancers	The Group hosted six conferences to discuss the RFAS radio-frequency tumor treatment technology and organized a number of exhibitions in Beijing, Xiamen, Guangzhou, Xuzhou, Fuzhou, and Changsha to promote the application of RFAS.

<b>Implementation Plans</b>	<b>Business objectives for the Review Period as disclosed in the Prospectus</b>	<b>Actual business progress for the Review Period</b>
<p>Development of the market for or assisting the sales of anti-cancer drugs and 3-dimensional laparoscope</p>	<p>Continue to provide assistance in relation to the sale of inositol hexaphosphate (“IP6”) and Neustim to the contracted hospitals in the PRC</p>	<p>The next generation software developed by Tat Lung Shenzhen was approved by the relevant authorities of the municipal government of Shenzhen for being permitted to be used in the radio frequency treatment equipment and marketed as a single product.</p> <p>The Group’s IP6 is under the process for approval. Neustion is in trial usage in hospitals.</p>
	<p>Commence production of Prototype of the 3-dimensional laparoscope by contractors.</p>	<p>Final assessment has been conducted upon potential customers’ request for 3-dimensional laparoscope.</p>
	<p>Introduce the application of 3-dimensional laparoscope to the contracted hospitals in the PRC</p>	<p>Introduce the application of 3-dimensional laparoscope to the contracted hospitals in the PRC is no progress.</p>

Implementation Plans	Business objectives for the Review Period as disclosed in the Prospectus	Actual business progress for the Review Period
Establishment of cancer treatment centres	Order medical devices and employ 30 staff in the first cancer treatment centre	The Group is still negotiating with two hospitals in Shanghai and Tianjin on various conditions and procedures of the joint establishment of two tumor treatment centres with the status of a legal person.

## FINANCIAL REVIEW

The Group's turnover for the six months ended 30 June 2002 was approximately HK\$22,684,000, representing an increase of 37% as compared with the corresponding period in 2001. The Group's net profits attributable to shareholders amounting to HK\$11,768,000 approximately representing an increase of 35% as compared with the corresponding period in 2001.

During the period under review, the basic earnings per share has decreased by 23% to 1.47 HK cents as compared to the corresponding period in 2001 as a result of GEM listing. The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2002.

The Group had no bank loans and other borrowings as at 30 June 2002.

## USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The shares of the Company commence listing on GEM on 31 December 2001. During the period under review, of the net proceeds of approximately HK\$59,624,000 raised, approximately HK\$4,300,000 was utilized by the Group for a number of projects in line with the placing prospectus.

- approximately RMB3,700,000 was used for the continual development of the network of hospitals in the PRC for RFAS. The budgeted fund in this area during the period is RMB5,700,000.
- approximately RMB220,000 was used for the promotion of application of RFAS and establishment of RFAS training centres. The budgeted fund in this area during the period is RMB1,200,000.
- approximately RMB630,000 was used for the development of the market for or assisting in the sales of anti-cancer drugs and 3-dimensional laparoscope. The budgeted fund in this area for the period is RMB5,000,000.
- There are no fund use for the Establishment of cancer treatment centers. It is still in progress. The budgeted fund in this area for the period is RMB7,850,000.

## DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2002, referring to the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance), the interests of the Company’s directors and their associates in shares of the Company or any associated corporations (as defined in the SDI Ordinance) were as follows :

Name of Director	Personal interest	Family interests	Corporate interests	Other interests	Total
Li Nga Kuk, James	32,800,000	–	–	–	32,800,000
Li Tai To, Titus	16,400,000	–	–	–	16,400,000
Li Wo Hing	32,800,000	–	212,320,000	–	245,120,000
			(Note 1)		
Ng Kwai Sang	32,800,000	–	212,320,000	–	245,120,000
			(Notes 1 & 2)		
Chan Siu Sun	32,800,000	–	–	–	32,800,000

### Notes:

- By a letter of undertaking dated 14 December 2001, Mr. Ng Kwai Sang undertook to grant a right of first refusal to Mr. Li Wo Hing regarding his 5% shareholding in the share capital of People Market Management Limited (“PMM”), which is in turn owned as to 28.57% by Mr. Li Wo Hing is deemed to be interested in 212,320,000 shares held directly by PMM.
- 212,320,000 shares are owned by PMM, which is in turn owned as to 35.71% by Mr. Ng Kwai Sang.

Save as disclosed above, as at 30 June 2002, none of the directors or chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed above in respect of directors and their associates, as at 30 June 2002, according to the register of interests kept by the Company under section 16 (1) of the SDI Ordinance, the following persons were interested in 10 percentage or more of the issued share capital of the company:

Name	No of issued share	Percentage of Shareholding
PMM ( <i>note</i> )	212,320,000	26.54%
China Equity Associates L.P.	118,720,000	14.84%

*Note:* PMM is beneficially owned as to 35.71% by Mr. Ng Kwai Sang, 28.57% by Mr. Li Wo Hing, 17.86% by Dr. Li Nga Kok, James, 8.93%, by Mr. Li Tai To, Titus and 8.93% by Mr. Li Yue Erth. PMM acquired the Shares through the Reorganisation.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 14 December 2001, the Company had conditional approved and adopted the Share Option Scheme pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for Shares of the Company under the Share Option Scheme.

Save as disclosed above, as at 30 June 2002, none of the directors or chief executive or associates had any interest or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the six months ended 30 June 2002 was the Company or any of its subsidiaries or its holding company a party to any arrangement to enable the Company's directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## **DIRECTORS' INTEREST IN CONTRACTS**

No director had a significant beneficial interest, either directly or indirectly in any contract of significance to which the Company, or any of its subsidiaries was a party during the six months ended 30 June 2002.

## **INTEREST OF SPONSOR**

As at 30 June 2002, the Sponsor of the Company, Celestial Capital Limited, its directors, employees and its associates did not have any interest in the securities of the Company or any of its subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any of member of the Group.

Celestial Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Celestial Capital Limited will act as the Company's continuing sponsor for the period from 31 December 2001 to 31 December 2003.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **COMPETITION AND CONFLICT OF INTERESTS**

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that compete or may compete with the business of the Group or has any other conflict of interests with the Group.

## AUDIT COMMITTEE

As required by the Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee (“Committee”) with written terms of reference which deal with its authority and duties. The Committee’s primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Directors.

The Committee comprises three independent non-executive directors, namely Messrs. Guo Guoqing, Fan Wan Tai and Han K. Huang.

The Audit Committee Members have reviewed the half-yearly report for the six months ended 30 June 2002.

## COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the six months ended 30 June 2002.

By order of the Board  
**Li Nga Kuk, James**  
*Chairman*

Hong Kong 13 August, 2002