



# **MEDICAL CHINA LIMITED**

*(Incorporated in Bermuda with limited liability)*

## **Interim Report 2003**

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of MEDICAL CHINA LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to MEDICAL CHINA LIMITED. The directors of MEDICAL CHINA LIMITED, having made all reasonable enquires, confirm that, to the best of their knowledge and beliefs; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would take any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Turnover for the six months ended 30 June 2003 amounted to approximately HK\$11,961,000, representing a decrease of 47% as compared to that of the corresponding period in 2002.
- For the six months ended 30 June 2003, the Group achieved a net profit of approximately HK\$1,660,000 representing a decrease of approximately 86% as compared to that of the corresponding period in 2002.
- For the six months ended 30 June 2003, earning per share is 0.2 HK cents.
- The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003.

## 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 2003, together with the comparative figures for the corresponding period of 2002 is follows:

### CONDENSED CONSOLIDATED INCOME STATEMENTS

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2003 (Unaudited) \$'000	2002 (Unaudited) \$'000	2003 (Unaudited) \$'000	2002 (Unaudited) \$'000
<b>TURNOVER</b>	2	<b>5,541</b>	11,995	<b>11,961</b>	22,684
Cost of services/sales		<b>(3,005)</b>	(3,089)	<b>(5,807)</b>	(6,014)
<b>Gross Profit</b>		<b>2,536</b>	8,906	<b>6,154</b>	16,670
Other income	3	<b>1,273</b>	1,579	<b>2,482</b>	2,550
Selling and distribution expenses		<b>(344)</b>	(1,873)	<b>(1,533)</b>	(2,331)
Administration expenses		<b>(2,436)</b>	(1,661)	<b>(4,347)</b>	(2,745)
Other operating expenses		<b>(4)</b>	(42)	<b>(48)</b>	(60)
<b>Profit from operations</b>		<b>1,025</b>	6,909	<b>2,708</b>	14,084
Finance cost		–	–	–	(1)
Share of loss of associate		<b>(175)</b>	–	<b>(176)</b>	–
<b>Profit before taxation</b>	4	<b>850</b>	6,909	<b>2,532</b>	14,083
Taxation	5	<b>(375)</b>	(1,176)	<b>(850)</b>	(2,315)
<b>Profit before Minority Interests</b>		<b>475</b>	5,733	<b>1,682</b>	11,768
Minority interests		<b>(22)</b>	–	<b>(22)</b>	–
<b>Profit attributable to shareholders</b>		<b>453</b>	5,733	<b>1,660</b>	11,768
<b>Earnings per share</b>	7				
Basic (in Hong Kong Cents)		<b>0.05</b>	0.72	<b>0.2</b>	1.47
Diluted (in Hong Kong Cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

(Expressed in Hong Kong dollars)

	Notes	At 30 June 2003 (Unaudited)		At 31 December 2002 (Audited)	
		\$'000	\$'000	\$'000	\$'000
<b>Non-current assets</b>					
Fixed Assets	8	21,946		22,608	
Construction in progress		2,722		1,547	
Interest in an associate		271		447	
Negative goodwill	9	(7,383)	17,556	(8,824)	15,778
<b>Current assets</b>					
Inventories	10	3,059		1,648	
Trade receivables	11	1,454		3,398	
Other receivables & prepayments	12	67,440		34,557	
Amount due from a related company		–		408	
Time deposit with banks	13	53,226		93,488	
Cash and cash equivalents	14	37,988		13,730	
		163,167		147,229	
<b>Current liabilities</b>					
Amount due to a related company	15	897		897	
Amount due to director		724		1,560	
Trade and other payables	16	21,880		15,786	
Bank loan		9,421		–	
Taxation		11,045		10,212	
		43,967		28,455	
<b>Net current assets</b>			<b>119,200</b>		<b>118,774</b>
Minority interests			(571)		–
<b>NET ASSETS</b>			<b>136,185</b>		<b>134,552</b>
<b>CAPITAL AND RESERVES</b>					
Share capital	17		8,350		8,350
Reserves			127,835		126,202
			<b>136,185</b>		<b>134,552</b>

## CONDENSED CONSOLIDATED CASH FLOW

(Expressed in Hong Kong dollars)

	Six months ended 30 June 2003 \$'000 (Unaudited)	Six months ended 30 June 2002 \$'000 (Audited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	8,440	31,449
NET CASH INFLOW FROM INVESTING ACTIVITIES	6,397	30,211
NET CASH INFLOW FROM FINANCING ACTIVITIES	9,421	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,258	61,660
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	13,730	44,165
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<b>37,988</b>	<b>105,825</b>
Analysis of cash and cash equivalents		
Cash at bank and in hand	8,784	20,187
Time deposits	29,204	85,638
	<b>37,988</b>	<b>105,825</b>

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

(Expressed in Hong Kong dollars)

	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Exchange reserve \$'000	General reserve \$'000	Retained profit \$'000	Total \$'000
At 1 January 2002	8,000	51,824	5,265	17	2,954	24,283	92,343
Net gains and losses not recognised in the consolidated income statement							
– Currency translation differences				4			4
Net profit for the period						11,768	11,768
<b>At 30 June 2002</b>	<b>8,000</b>	<b>51,824</b>	<b>5,265</b>	<b>21</b>	<b>2,954</b>	<b>36,051</b>	<b>104,115</b>
At 1 January 2003	8,350	70,733	5,265	(12)	5,783	44,433	134,552
Net gains and losses not recognised in the consolidated income statement							
– Currency translation differences				(27)			(27)
Net profit for the period						1,660	1,660
<b>At 30 June 2003</b>	<b>8,350</b>	<b>70,733</b>	<b>5,265</b>	<b>(39)</b>	<b>5,783</b>	<b>46,093</b>	<b>136,185</b>

## NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

### 1. BASIS OF PREPARATION

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 Statement of Standard Accounting Practices ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The financial information relating to the financial year ended 31 December 2002 included the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed on unqualified opinion on the statutory financial statements for the year ended 31 December 2002 in their report dated 26 March 2003.

The accounting policies and basis of preparation used in the preparation of the interim financial report are the same as those used in the 2002 annual financial statements, except for the revised SSAP 12 "Income taxes" issued by the HKSA which has been adopted for the first time in the preparation of the interim financial report and is effective for accounting periods beginning on or after January 2003.

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 2002 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 and equipment to customers, net of value added tax.

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

Turnover recognised during the period may be analysed as follows:

	Three months ended 30 June		Six months ended 30 June	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Medical services fees	2,796	8,803	6,614	16,648
Sales of medical accessories and equipment	2,745	3,192	5,347	6,036
	<b>5,541</b>	11,995	<b>11,961</b>	22,684



## 3. OTHER INCOME

	Three months ended 30 June		Six months ended 30 June	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Interest income	286	716	689	966
Amortisation of negative goodwill	720	720	1,441	1,441
Exchange gain	–	128	–	128
Net gain on sales of fixed assets	251	–	251	–
Miscellaneous	16	15	101	15
	<b>1,273</b>	<b>1,579</b>	<b>2,482</b>	<b>2,550</b>

## 4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cost of inventories	1,868	1,962	3,494	3,856
Depreciation	1,136	1,170	2,497	2,243
Auditors' remuneration	200	200	209	200
Operating lease charges in respect of office premises	228	348	541	483
Research and development costs	33	37	56	96
Staff costs (including directors' remuneration)				
– wages and salaries	983	824	1,991	1,487
– staff retirement benefits	48	15	92	44
Average number of employees during the period	149	60	147	60

## 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 2003 (2002: \$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 ("Tat Lung Shenzhen"), located in the Shenzhen Special Economic Zone in the PRC, is subject to PRC income tax at a reduced rate of 15% (2002: 15%).

No provision for PRC Income Tax has been made for the Company's subsidiaries, China Best Drugs Research (Nanjing) Limited, Sino-Innova Medical Science & Technology Company Limited and Tat Lung Treatment (Shenzhen) Limited as they did not have assessable profits for the period determined in accordance with the relevant income tax rules and regulations in the PRC.

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

## 6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: \$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 2003 is based on the profit attributable to shareholders of HK\$453,000 (2002: HK\$5,733,000) and HK\$1,660,000 (2002: HK\$11,768,000) respectively divided by the weighted average number of 835,000,000 (2002: 800,000,000) ordinary shares in issue during the relevant period.

### (b) Diluted earnings per share

No diluted earnings per share for the three months and six months ended 30 June 2003 and 30 June 2002 respectively have been presented because there were no potential dilutive ordinary shares in existence during the relevant periods.

## 8. FIXED ASSETS

	Medical equipment \$'000	Office, computer and other equipment \$'000	Land & building \$'000	Motor vehicle \$'000	Total \$'000
<b>Cost</b>					
At 1 January 2003	30,824	1,105	–	999	32,928
Additions	–	215	1,078	719	2,012
Disposals	(235)	–	–	–	(235)
Exchange adjustments	(5)	–	–	–	(5)
At 30 June 2003	<u>30,584</u>	<u>1,320</u>	<u>1,078</u>	<u>1,718</u>	<u>34,700</u>
<b>Aggregate Depreciation</b>					
At 1 January 2003	(10,058)	(126)	–	(137)	(10,321)
Charge for the period	(2,312)	(81)	–	(104)	(2,497)
Written back on disposals	63	–	–	–	63
Exchange adjustments	1	–	–	–	1
At 30 June 2003	<u>(12,306)</u>	<u>(207)</u>	<u>–</u>	<u>(241)</u>	<u>(12,754)</u>
<b>Net Book Value</b>					
30 June 2003	<u>18,278</u>	<u>1,113</u>	<u>1,078</u>	<u>1,477</u>	<u>21,946</u>
31 December 2002	<u>20,767</u>	<u>979</u>	<u>–</u>	<u>862</u>	<u>22,608</u>

The directors consider that the future economic benefits to be derived from holding these fixed assets will exceed their present carrying values. Therefore, they consider that no impairment on fixed assets exists at 30 June 2003.

## 9. NEGATIVE GOODWILL

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Negative goodwill	(16,029)	(16,029)
Less: Accumulated amortisation	<u>8,646</u>	<u>7,205</u>
	<u>(7,383)</u>	<u>(8,824)</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 ("Wuzhou Tat Lung") since 30 June 2000.

## 10. INVENTORIES

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Finished goods	2,500	1,200
Raw materials	532	–
Spare parts	27	448
	<u>3,059</u>	<u>1,648</u>

All finished goods, raw materials and spare parts are stated at cost.

## 11. 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 debts) is as follows :

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
With 3 months of the date of billing	<u>1,454</u>	<u>3,398</u>

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

## 12. OTHER RECEIVABLES

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Other receivable, deposits and prepayments	5,309	4,339
Acquisition deposit	(i) <u>62,131</u>	<u>30,218</u>
	<u>67,440</u>	<u>34,557</u>

- (i) On December 2002, the Company entered into a research projects acquisition and reorganization agreement (“the Agreement”) with Miss Guo Ping for the acquisition of 16 medicine research projects (“the Medicine Projects”) by the Group for a consideration of US\$8,000,000 and the subsequent reorganization (as detailed below), which in effect the Group would acquire 75% interest in the Medicine Projects while Ms. Guo Ping would retain the remaining 25% interest in the Medicine Projects.

Pursuant to the Agreement, the Company would enter into certain transactions (i.e. the reorganization) which involve the transfer of all the equity interest in the registered capital of China Best Drugs Research (Nanjing) Limited (“China Best”), currently a wholly owned subsidiary which owns the Medicine Projects, to Believe Investments Limited (“Believe Investments”) which is currently wholly owned by Ms. Guo Ping in exchange for Believe Investments issuing certain number of shares, representing 75% of the total issued capital of Believe Investments as enlarged by the issue, to the Company. On completion of the reorganization, China Best will become the wholly-owned subsidiary of Believe Investments and the Company will hold 75% of the total enlarged issued share capital of Believe Investments. As a result, the Company will indirectly have a 75% interest in the Medicine Projects and the remaining 25% interest will be retained indirectly by Ms. Guo Ping through the 25% shareholding in Believe Investments. Details of the Agreement are set out in the circular of “Discloseable Transaction” dated 8 January 2003.

As the reorganization is still in proceeding, the directors consider the advance made upon the transfer of the ownership of the Medicine Projects as acquisition deposit at 30 June 2003 and will transfer the same to investment cost in the shares of Believe Investments on completion of the reorganization.

The directors consider under the existing circumstances, there is no doubt on the recoverability of the acquisition deposit.

### 13. TIME DEPOSIT WITH BANKS

	<b>At 30 June 2003 \$'000</b>	At 31 December 2002 \$'000
Deposits with banks	<b>82,430</b>	93,488
Less: Deposits with banks with an initial term of less than three months (Note 14)	<b>29,204</b>	–
	<b>53,226</b>	93,488

All deposits with banks are denominated in Renminbi (“RMB”) and kept in the PRC.

The conversion of the RMB balances into foreign currencies and the transfer of these balances out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

#### 14. CASH AND CASH EQUIVALENTS

	<b>At 30 June 2003 \$'000</b>	At 31 December 2002 \$'000
Cash in hand and cash at bank	8,784	13,730
<i>Add:</i> Deposits with banks with an initial term of less than three months ( <i>Note 13</i> )	<u>29,204</u>	<u>—</u>
	<b><u>37,988</u></b>	<b><u>13,730</u></b>

#### 15. AMOUNT DUE TO A RELATED COMPANY

	<b>At 30 June 2003 \$'000</b>	At 31 December 2002 \$'000
Everblooming Enterprises Company (“Everblooming”)	<u>897</u>	<u>897</u>

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

#### 16. TRADE AND OTHER PAYABLES

	<b>At 30 June 2003 \$'000</b>	At 31 December 2002 \$'000
Trade payable	5,657	3,198
Other payable and accrued liabilities	<u>16,223</u>	<u>12,588</u>
	<b><u>21,880</u></b>	<b><u>15,786</u></b>

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

An ageing analysis of trade payable is as follows:

	<b>At 30 June 2003 \$'000</b>	At 31 December 2002 \$'000
Due within 3 months or on demand	<u>5,657</u>	<u>3,198</u>

## 17. SHARE CAPITAL

	<b>At 30 June 2003 and at 31 December 2002</b>	
	<b>No. of shares</b>	
	('000)	\$'000
<i>Authorised:</i>		
Ordinary shares of \$0.01 each	<u>2,000,000</u>	<u>20,000</u>
<i>Issued and fully paid:</i>		
At 1 January and 30 June 2003	<u>835,000</u>	<u>8,350</u>

## 18. COMMITMENTS

### Capital Commitments

Capital commitments in respect of capital contributions for the acquisition of buildings, plant and machineries and other fixed assets outstanding not provided for in the financial statements were as follows:

	<b>At 30 June 2003 \$'000</b>	At 31 December 2002 \$'000
Contracted for acquisition of buildings, plant and machineries	<b>3,073</b>	5,415
Authorised but not contracted for	<u>—</u>	<u>—</u>
	<b><u>3,073</u></b>	<b><u>5,415</u></b>

### Other Commitment

During 2002, the Company entered into cooperation memorandum with Fudan University to donate RMB10,000,000 from 2002 to 2008 for the establishment of the “复旦大学药学院神州佳美新药研究开发基金”. The remaining amount of RMB9,000,000 is payable as follows:

	<i>RMB'000</i>
2003	1,000
2004	1,500
2005	1,500
2006	1,500
2007	1,500
2008	<u>2,000</u>
	<b><u>9,000</u></b>

## 19. ANNOUNCEMENT UPDATE

On 3 April 2003 the Group received a letter dated 19 March 2003 from Boston Scientific Asia Pacific Pte Ltd (“Boston”), which the directors believe is the operating company in Singapore of the holding company of Radio Therapeutics Corporation (“RT Corporation”), in relation to its supply of radio frequency therapeutic equipment (“RFAS”) and LeVein Electrodes. In order to be in consistent with its decision in relation to supply of its products in the PRC directly by its local trading company, Boston would be no longer in a position to supply the Group with the RFAS and LeVein Electrodes, but the hospitals which have entered into cooperation contracts with the Group in relation to the operation of the RFAS treatment centers may contact Boston directly to acquire the RFAS and LeVein Electrodes. The Group is still to discuss with Boston/RT Corporation with regard to Boston’s future supply of the RT Corporation’s products, and as at the date of this interim report, no conclude agreement or arrangement has been reached between the Group and Boston/RT Corporation. Details of the issue have been disclosed in the Company’s circular dated 7 July 2003. Further announcement will be made by the Company when appropriate.

## BUSINESS REVIEW

For the six months ended 30 June 2003, the Group was principally engaged in supplying RFAS and technology to hospitals in the PRC and reaped its profits by setting up cooperation centers with hospitals in various regions and applying the RFAS technology. Despite the new distribution policy of Boston Scientific, the supplier of the RFAS, since 3 April 2003, the Group’s RFAS business has not been directly affected during the six months ended 30 June 2003. Please refer to the circular of the Company dated 7 July 2003 for details of the issue, including the impact of Boston Scientific’s new distribution policy on the Group in future.

In the meantime, the anti-cancer drugs and pharmaceutical and test instruments developed and produced by China Best Drugs Research (Nanjing) Ltd. (“China Best”) and Sino-Innova Medical Science & Technology Co., Ltd.. (“Sino-Innova”), both subsidiaries of the Group, had made further progress.

According to the requirement in business development, as at 7 April 2003, the Company’s interest in Sino-Innova had reduced from the initial 90% to 65%, while Nanjing-Innova Medical Science & Technology Co., Ltd., the PRC joint venture partner, held 35% equity interest in Sino-Innova. In addition, all operational revenue of Nanjing-Innova Medical Science & Technology Co., Ltd. will be vested in Sino-Innova commencing from the second half of the year.

The Group continues to conduct its RFAS business through Tat Lung Medical Treatment Technology (Shenzhen) Limited (“Tat Lung Shenzhen”), a wholly-owned subsidiary of the Company. Meanwhile, China Best and Sino-Innova, both subsidiaries of the Group, carry on the research and development and transformation of Chinese and western drugs and the production and sale of pharmaceutical and test instruments respectively.



For the first six months ended 30 June 2003, the Group's turnover and profit attributable to shareholders amounted to approximately HK\$11,961,000 and HK\$1,660,000 respectively, representing a decrease of 47% and 86% respectively as compared to those of the corresponding period in 2002. The decrease was attributable to the fact that in general, people, including patients who have cancers would like to avoid going to hospitals as far as possible after the outbreak of SARS, thus resulting in a significant decrease in number of treatment carried out at the RFAS centers set up by the Group and its contracted hospitals. The Directors also believe that the new distribution policy of Boston Scientific (as defined in the circular of the Company dated 7 July 2003 (the "circular")) in relation to its supply of RTC product (also defined in the circular) to the Group, details of which were set out in the circular, has had no direct relationship with the said decrease in the turnover and profit of the Group.

## OUTLOOK

With the expected further deregulation in the medical market in China, and on the base of the RFAS business, the Group will further utilize its current business network to develop more medical service projects, which are summarized as follows:

1. The Group will keep promoting RFAS technology and combine it with the intervention therapy technology to enhance curative effects and income.
2. The Group will put more effort into the R&D of new RFAS and accessories for tumor. To achieve this goal, the Group will utilize its existing patents and cooperate with various medical institutes to develop a new generation of software and prepare subsequent products for the Group in the research centre in Chengdu Military Area General Hospital (成都軍區總醫院), so as to maintain its competition edge.
3. The Group will further push the sale of Sino-Innova's products and application for approval of new products. Moreover, the Group will continue to participate in a number of large exhibitions held at home or abroad.
4. The Group will continue its R&D of both Chinese and western drugs. In particular, the R&D of healthcare products for antiphlogosis and better immunity will be additionally enhanced. For the healthcare food products including China Best Ke Ai Dried tangerine Peel Pill (神州佳美克艾陳皮片), Fukang Best Ginger & Date Pill (福康佳美姜棗片) and Anti-Smoking Drug (戒煙寶), the sales activities will be carried out in line with the market demand.
5. The Group will strengthen the development of medical software and complete the experiment of 3-dimensional laparoscope as soon as possible.

## BUSINESS PROGRESS IN COMPARISON WITH BUSINESS OBJECTIVES

The following table sets out the comparison between actual business progress for the six months ended 30 June 2003 (“the period under review”) and the business objectives as stated in the Company’s circular captioned “Change in General Character or Nature of Business” published on 7 July 2003. The Group will continuously review the business objectives and strategies, and make appropriate adjustments according to actual market conditions.

Business plan	Business objectives for the period ended 30 June 2003 as stated in the circular captioned “Change in General Character or Nature of Business”	Actual business progress made in the period ended 30 June 2003
Continual development of the market and application of RFAS in the PRC	Entering into new cooperation contracts with two hospitals  Establishing 1 RFAS training center	Business plan postponed as a result of the effect of SARS  Business plan postponed as a result of the effect of SARS
	Hosting two conferences to demonstrate and promote the application of RFAS and providing training to doctors from three contracted hospitals	The Group hosted two conferences and provided training to doctors from three contracted hospitals
	Continuing the research and development of electrodes and electric plates	Continuing to make progress in the research and development of electrodes and electric plates
Research, development and sales of drugs	Continuing the research and development of 16 medical research projects in relation to 16 different drugs after completion of acquisition of those projects	The Group continued the research and development of 16 medical research projects.

<b>Business plan</b>	<b>Business objectives for the period ended 30 June 2003 as stated in the circular captioned “Change in General Character or Nature of Business”</b>	<b>Actual business progress made in the period ended 30 June 2003</b>
	Continuing cooperation with the Medical School of Fudan University and identifying research and development topics	Progressing according to schedule
	Developing sales network of ancillary anti-cancer drugs	Progressing according to schedule
	Negotiating with relevant parties in relation to establishment of factory for production of drugs	The Group is negotiating with relevant local authority in relation to establishment of the factory
Research and development of 3-dimensional laparoscope and software for medical devices	Completing prototype of 3-dimensional laparoscope	Having completed sample of 3-dimensional laparoscope, and its experiment is in progress
	Developing software for medical devices	Developing a series of software including RFAS Software, Biochemistry Analyzer Controlling Software and Medical Image Analysis Software, etc., some of them have been approved by the relevant authorities of Shenzhen as software products

<b>Business plan</b>	<b>Business objectives for the period ended 30 June 2003 as stated in the circular captioned “Change in General Character or Nature of Business”</b>	<b>Actual business progress made in the period ended 30 June 2003</b>
Research, development and production of medical testing instruments	Producing Biochemistry Analyzer	The series of Automatic Biochemistry Analyzer have been approved by the State Medical Administration for production and sales have commenced, and several products have passed technical appraisal while the application for production permit is in progress
	Continuing to establish a new factory for manufacturing medical testing instruments	The construction of new factory is continue in progress and a production workshop of the factory has been put into operation.

## USE OF PROCEEDS FROM THE PUBLIC OFFERING ("IPO") AND THE TOP-UP PLACING

The unutilized net proceeds from the IPO and the Top-up placing of the Group amount to approximately HK\$ 68,670,000. Approximately HK\$4,210,000 have been utilized by the Group in relation to the following business plans as stated in the circular captioned "Change in General Character or Nature of Business" dated 7 July 2003.

<b>Business plans</b>	<b>Extracted from the circular captioned "Change in General Character or Nature of Business" dated 7 July 2003 (For the period ended 30 June 2003) <i>HK\$'000</i></b>	<b>Actual amount utilized in the period ended 30 June 2003 <i>HK\$'000</i></b>
Continual development of the market and application of RFAS in the PRC	4,000	300
Research, development and sales of drugs	4,500	1,000
Research and development of 3-dimensional laparoscope and software for medical devices	2,500	300
Research, development and production of medical testing instruments	4,000	2,610
General working capital	101,700	–

The unused proceeds from the placing of shares of approximately HK\$64,460,000 have been deposited with licenced Bank.

## FINANCIAL REVIEW

The Group's turnover for the six months ended 30 June 2003 was approximately HK\$11,961,000, representing a decrease of 47% as compared with the corresponding period in 2002. The Group's net profits attributable to shareholders amounting to HK\$1,660,000 approximately representing a decrease of 86% as compared with the corresponding period in 2002.

During the period under review, the basic earnings per share has decreased by 86% to 0.2 HK cents as compared to the corresponding period in 2002. The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2003.

As at 30 June 2003, shareholders' funds of the Group amounted to approximately HK\$136,185,000. Current assets amounted to approximately HK\$163,167,000 of which approximately HK\$91,214,000 were cash and bank deposits. The Group's current liabilities amounted to approximately HK\$43,967,000, of which trade and other payable and bank loan represented approximately HK\$21,880,000 and HK\$9,421,000 respectively. The Group obtained the said bank loan from a PRC bank without pledge and security on 30 June 2003. The gearing ratio of the Group calculated on the basis of bank loan over total assets. As at 30 June 2003, the Group had a gearing ratio of 6.9%.

The Group's transaction are denominated in Renminbi, Hong Kong dollars and US dollars. During the six months ended 30 June 2003, the exchange rates of such currencies have been stable. The Group has not entered into any hedging arrangement.

None of Group's assets are charged to secure the Group's bank loan.

On 17 January 2003, a wholly owned subsidiary named as Tat Lung Medical Technology (Shenzhen) Limited (“達隆醫學技術(深圳)有限公司”) with registered capital of US\$300,000 was incorporated and it was focus on development of various kinds of medical software.

Apart from the aforesaid, the Group held no other significant investment and made no other acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 June 2003.

As at 30 June 2003, the Group had no material contingent liabilities.

## OTHER INFORMATION

### Directors' Interests in Securities

At 30 June 2003, the relevant interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which as recorded in the register required to be kept under section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.40 of the GEM Listing Rules were as follows:

#### Interest in the Company:

Name	Number of Shares held	Nature of interests	Percentage of interest
Dr. Li Nga Kuk, James	32,800,000	Personal	3.93%
Mr. Li Wo Hing	32,800,000 212,320,000	Personal Corporate (Note 1)	3.93% 25.43%
Aggregate:	245,120,000	Aggregate:	29.36%
Mr. Ng Kwai Sang	32,800,000 212,320,000	Personal Corporate (Notes 1 & 2)	3.93% 25.43%
Aggregate:	245,120,000	Aggregate:	29.36%
Mr. Li Tai To, Titus	16,400,000	Personal	1.96%
Mr. Chan Siu Sun	32,800,000	Personal	3.93%

#### 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. Therefore, 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 2003, none of the Directors and chief executive of the Company had any other interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to rule 5.40 of the GEM Listing Rules relating to minimum standards of dealing by Directors to be notified to the Company and the Stock Exchange.

### Substantial Shareholders

At 30 June 2003, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

	<b>Name of shareholder</b>	<b>Number of Shares held</b>	<b>Percentage of interests</b>
1.	PMM ( <i>Note</i> )	212,320,000	25.43%
2.	China Equity Associates L.P.	129,840,000	15.50%

*Note:* As at the Latest Practicable Date, PMM owned 212,320,000 Shares, representing approximately 25.43% of the issued share capital of the Company. The issued share capital of PMM is owned as to 35.71% by Mr. Ng Kwai Sang, as to 28.57% by Mr. Li Wo Hing, as to 17.86% by Dr. Li Nga Kuk, James, as to 8.93% by Mr. Li Tai To, Titus and as to 8.93% by Mr. Li Yue Erh.

Save as disclosed above, as at 30 June 2003, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

### 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.



During the six months ended 30 June 2003, no option was granted by the Company under the Share Option Scheme.

Save as disclosed above, as at 30 June 2003, 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 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's Interest in Contracts**

No director had a significant beneficial interest, either directly or indirectly in any contract of significance to which the Company, its holding companies or any of its subsidiaries was a party during the period under review.

### **Disclosure in Pursuant to Rule 17.22 of the Gem Listing Rules**

As at 30 June 2003, Ms. Guo Ping, who is independent parties not connected to any of the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (within the meaning of the GEM Listing Rules) of the Company and their respective associates (within the meaning of the GEM Listing Rules), had acquisition deposit balance with the Group of approximately HK\$62,131,000 representing approximately 43% of the audited consolidated net tangible assets of the Group of approximately HK\$143,568,000 at 31 December 2002. The said deposit balance is interest free and unsecured.

Ms. Guo Ping, a PRC citizen, to whom the Company signed the Agreement on 6 December 2002 for the acquisition of a 75% interest in 16 medicine research projects. Such acquisition deposit balance was the consideration for the said acquisitions and will be transferred to investment cost in the shares of Believe Investments on completion of the reorganization. The Directors believe the reorganization will be completed within this year. Details of the Agreement are set out in the circular of "Discloseable Transaction" dated 8 January 2003.

### **Interest of Sponsor**

As at 30 June 2003, 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 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 2003, 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 2003.

### **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 period.

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

Hong Kong 14 August 2003