



China Bio-medical Group Limited

Interim Report 2001



The Board of Directors (the "Board") of China Bio-medical Group Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months period ended 30 June 2001.

CONDENSED CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2001 \$'000 (Unaudited)	2000 \$'000 (Unaudited)
Turnover	3	15,990	13,481
Transportation service costs		(5,176)	(5,506)
Cost of merchandise sold		(4,607)	(2,716)
Depreciation and amortisation		(2,492)	(1,444)
Staff costs		(6,025)	(13,286)
Other operating expenses		(17,163)	(21,816)
Operating loss before provisions and other losses and gains		(19,473)	(31,287)
Other revenue	3	8	133
Income from loans undertaking by SHKP	18.a	65,211	-
Loss on claim arising from breach of an agreement		(10,114)	-
Net gain (loss) on disposal of properties, machinery and equipment		125	(76)
Net gain (loss) on disposal of subsidiaries	18.b	4,369	(64,872)
Net gain (loss) on disposal of investment in securities		627	(205)
Net deficit on revaluation of investment properties		(27,706)	-
Holding loss on investment in securities		-	(17,447)
Profit (loss) from operations	4	13,047	(113,754)
Interest expense	5	(15,858)	(34,013)
Loss before taxation		(2,811)	(147,767)
Taxation	6	(45)	-
Loss after taxation but before minority interests		(2,856)	(147,767)
Minority interests		1,449	474
Net loss		(1,407)	(147,293)
Accumulated deficit, beginning of period		(1,687,114)	(1,239,727)
Accumulated deficit, end of period		(1,688,521)	(1,387,020)
Loss per share – Basic	7	(0.02) cents	(3.06) cents

A separate consolidated statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the net loss.

**CONDENSED CONSOLIDATED BALANCE SHEET***(Expressed in Hong Kong dollars)*

	Note	As at	
		30 June 2001 \$'000 <i>(Unaudited)</i>	31 December 2000 \$'000 <i>(Audited)</i>
Non-current assets			
Properties, machinery and equipment	8	58,908	61,779
Investment properties	9	266,786	301,762
Long-term investment		1	1
Deposit paid for acquisition of an associate and a subsidiary		–	29,500
Investment in an associate	10	24,500	–
Goodwill	11	6,048	11,200
Total non-current assets		<u>356,243</u>	<u>404,242</u>
Current assets			
Intangible asset		28,000	28,000
Investment in securities		6,413	11,920
Trade receivables	12	7,126	7,999
Loans receivable		105	22,478
Profit guarantee receivable from the minority shareholder of a subsidiary		9,652	–
Prepayments, deposits and other assets		6,221	8,486
Amount due from a former director	18.c	6,954	6,966
Amounts due from related companies	18.c	1,041	–
Amount due from SHKP	18.c	65,131	–
Pledged bank deposits		760	760
Cash and bank deposits		835	1,733
Total current assets		<u>132,238</u>	<u>88,342</u>


CONDENSED CONSOLIDATED BALANCE SHEET (cont'd)

(Expressed in Hong Kong dollars)

	Note	As at	
		30 June 2001 \$'000 <i>(Unaudited)</i>	31 December 2000 \$'000 <i>(Audited)</i>
Current liabilities			
Short-term borrowings	13	(214,650)	(215,760)
Trade payables	14	(13,486)	(14,282)
Accrued liabilities and other payables		(31,597)	(17,216)
Accrued interest expense		(25,064)	(17,876)
Amounts due to SHKP	18.c	(22,480)	(22,445)
Amount due to a related company		–	(1,546)
Amount due to a director	18.c	(695)	–
Taxation payable		(536)	(491)
Total current liabilities		<u>(308,508)</u>	<u>(289,616)</u>
Net current liabilities		<u>(176,270)</u>	<u>(201,274)</u>
Total assets less current liabilities		<u>179,973</u>	<u>202,968</u>
Non-current liabilities			
Long-term bank loans		(140,701)	(160,987)
Deferred taxation		(1,334)	(1,334)
Total non-current liabilities		<u>(142,035)</u>	<u>(162,321)</u>
Minority interests		<u>(6,895)</u>	<u>(8,197)</u>
Net assets		<u><u>31,043</u></u>	<u><u>32,450</u></u>
Capital and reserves			
Share capital		1,240,285	1,240,285
Reserves	15	479,279	479,279
Accumulated deficit		<u>(1,688,521)</u>	<u>(1,687,114)</u>
Shareholders' equity		<u><u>31,043</u></u>	<u><u>32,450</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***(Expressed in Hong Kong dollars)*

	Six months ended 30 June	
Note	2001	2000
	\$'000	\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES	(9,525)	(122,620)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	635	947
Interest paid	(8,670)	(44,999)
	(8,035)	(44,052)
INVESTING ACTIVITIES		
Net cash inflow from disposal of subsidiaries	10	227,602
Net cash outflow from acquisition of a subsidiary	–	(53,674)
Proceeds from disposal of investment in securities	6,134	198
Payment for acquisition of investment in securities	–	(199)
Payment for acquisition of investment properties	–	(329)
Proceeds from disposal of investment properties	7,270	905
Payment for acquisition of properties, machinery and equipment	(253)	(992)
Proceeds from disposal of properties, machinery and equipment	1,075	–
Decrease in pledged bank deposits	–	3
Repayment of loans receivable	23,672	–
	37,908	173,514


CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2001	2000
<i>Note</i>	\$'000	\$'000
	(Unaudited)	(Unaudited)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	20,348	6,842
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(20,185)	(101,307)
Issuance of shares	–	200,000
Share issuance expenses	–	(5,000)
Increase in loan from a minority shareholder	150	–
Net cash (outflow) inflow from financing	(20,035)	93,693
INCREASE IN CASH AND CASH EQUIVALENTS	313	100,535
CASH AND CASH EQUIVALENTS, beginning of period	(100,209)	(230,074)
CASH AND CASH EQUIVALENTS, end of period	16 (99,896)	(129,539)



NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

For the six months ended 30 June 2001, the Group reported a net loss of approximately \$1,407,000. In addition, as at 30 June 2001, the Group had a net working capital deficiency of approximately \$176,270,000, in part because a substantial portion of the Group's non-current assets were financed by short-term bank borrowings which were overdue or repayable within twelve months. Up to and until 30 June 2001, the Group was unable to repay principal and interest of certain bank borrowings amounting to approximately \$48,929,000 when they fell due. As a consequence, the banks are entitled to demand immediate repayment of the related borrowings and interest, which have been classified as current liabilities in the financial statements as at 30 June 2001.

The Group is negotiating with the relevant banks to reschedule the repayment terms of existing loans and to request that they continue providing credit facilities to the Group. In addition, on 18 September 2001, the Company entered into a supplemental convertible notes agreements with an independent third party, under which the Company has agreed to issue up to \$100,000,000 convertible notes in three tranches upon satisfaction of certain conditions. The Group believes the proceeds from the issuance of the convertible notes can provide it with additional working capital after discharging certain of its financial obligations. Also, the Directors believe that the future operations of the Group will be successful. Accordingly the financial statements have been prepared on the going concern basis which assumes that the rescheduling of the repayment terms of the bank borrowings will be agreed by the relevant banks, the issuance of the convertible notes will be successfully completed and the proceeds received, and the Group's future operations will be successful.

2. PRINCIPAL ACCOUNTING POLICIES

The interim report has been prepared on a basis consistent with the principal accounting policies adopted in the 2000 annual report. This interim report has also been prepared in accordance with SSAP 2.125 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited.



3. TURNOVER AND REVENUE

Analysis of turnover and revenue by major category is as follows:

	Six months ended 30 June	
	2001 \$'000	2000 \$'000
Transportation service income	2,469	4,687
Rental income	6,352	4,512
Net sales of merchandise	6,542	3,468
Interest income from loans receivable	627	814
	<u>15,990</u>	<u>13,481</u>
Total turnover	15,990	13,481
Interest income from bank deposit	8	133
	<u>8</u>	<u>133</u>
Total revenue	<u>15,998</u>	<u>13,614</u>

Analysis of turnover by major product category together with their respective contributions to profit (loss) before taxation, is follows:

	Turnover Six months ended 30 June		Contribution to profit (loss) before taxation Six months ended 30 June	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Transportation service income	2,469	4,687	(6,603)	(1,607)
Rental income	6,352	4,512	21,176	(125,330)
Net sales of merchandise	6,542	3,468	(18,853)	(17,806)
Interest income from loans receivable	627	814	1,469	(3,024)
	<u>627</u>	<u>814</u>	<u>1,469</u>	<u>(3,024)</u>
	<u>15,990</u>	<u>13,481</u>	<u>(2,811)</u>	<u>(147,767)</u>

All turnover and revenue are generated from activities conducted in Hong Kong.

**4. PROFIT (LOSS) FROM OPERATIONS**

Profit (loss) from operations in the condensed consolidated income statement was determined after charging and crediting the following items:

	Six months ended 30 June	
	2001 \$'000	2000 \$'000
After charging–		
Loss on disposal of properties, machinery and equipment	–	76
Amortisation of goodwill	500	808
Depreciation of properties, machinery and equipment	1,992	636
Operating lease rentals in respect of		
– rented premises	1,914	690
– machinery and equipment	387	52
Staff costs (including directors' emoluments)	<u>6,025</u>	<u>13,286</u>
After crediting–		
Interest income	635	947
Rental income less outgoings	6,352	4,512
Gain on disposal of properties, machinery and equipment	125	–
Write-back of provision for doubtful loans receivable	<u>1,299</u>	<u>–</u>

5. INTEREST EXPENSE

	Six months ended 30 June	
	2001 \$'000	2000 \$'000
Interest on		
– short-term bank borrowings	479	4,786
– other short-term borrowings	3,020	8,471
– long-term bank loans		
– wholly repayable within five years	5,001	10,616
– not wholly repayable within five years	<u>7,358</u>	<u>10,140</u>
	<u>15,858</u>	<u>34,013</u>



6. TAXATION

Taxation consisted of:

	Six months ended 30 June	
	2001	2000
	\$'000	\$'000
Current taxation		
– Provision for Hong Kong profits tax in prior period	<u>45</u>	<u>–</u>

No Hong Kong profits tax has been provided as there was no assessable profit arising in or derived from Hong Kong.

7. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2001 is based on the net loss of approximately \$1,407,000 (For the six months ended 30 June 2000 - loss of approximately \$147,293,000) and weighted average of 6,201,427,000 ordinary shares (For the six months ended 30 June 2000 - weighted average of 4,806,717,000 shares).

No diluted loss per share is presented as the outstanding employee share options are anti-dilutive.

**8. PROPERTIES, MACHINERY AND EQUIPMENT**

- a. Movements of properties, machinery and equipment were:

For the six months ended 30 June 2001

	Land and buildings	Machinery and equipment	Motor vehicles and vessels	Leasehold improvements, furniture and fixtures	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation					
As at 1 January 2001	48,000	10,227	4,067	1,552	63,846
Additions	–	–	–	253	253
Disposals	–	(1,009)	(421)	–	(1,430)
Attributable to disposal of subsidiaries	–	–	–	(196)	(196)
	<u>48,000</u>	<u>9,218</u>	<u>3,646</u>	<u>1,609</u>	<u>62,473</u>
As at 30 June 2001	<u>48,000</u>	<u>9,218</u>	<u>3,646</u>	<u>1,609</u>	<u>62,473</u>
Representing:					
At cost	–	9,218	3,646	1,609	14,473
Valuation	48,000	–	–	–	48,000
	<u>48,000</u>	<u>9,218</u>	<u>3,646</u>	<u>1,609</u>	<u>62,473</u>
Accumulated depreciation					
As at 1 January 2001	–	(1,259)	(585)	(223)	(2,067)
Charge for the period	(480)	(876)	(309)	(327)	(1,992)
Disposals	–	328	152	–	480
Attributable to disposal of subsidiaries	–	–	–	14	14
	<u>(480)</u>	<u>(1,807)</u>	<u>(742)</u>	<u>(536)</u>	<u>(3,565)</u>
As at 30 June 2001	<u>(480)</u>	<u>(1,807)</u>	<u>(742)</u>	<u>(536)</u>	<u>(3,565)</u>
Net book value					
As at 30 June 2001	<u>47,520</u>	<u>7,411</u>	<u>2,904</u>	<u>1,073</u>	<u>58,908</u>
As at 31 December 2000	<u>48,000</u>	<u>8,968</u>	<u>3,482</u>	<u>1,329</u>	<u>61,779</u>

- b. Land and buildings are stated at open market value as at 30 June 2001 as determined by RHL Appraisal Limited, independent qualified valuers. All the Group's land and buildings are located in Hong Kong, held under long-term leases and mortgaged as collateral for the Group's banking facilities.



9. INVESTMENT PROPERTIES

Movements of investment properties were:

	As at	
	30 June 2001 \$'000	31 December 2000 \$'000
Beginning of period/year	301,762	662,645
Additions	–	329
Disposals	(7,270)	(905)
Attributable to disposal of subsidiaries	–	(239,250)
Deficit on revaluation	(27,706)	(121,057)
End of period/year	<u>266,786</u>	<u>301,762</u>

Investment properties are stated at open market value as at 30 June 2001 as determined by RHL Appraisal Limited, independent qualified valuers. All the Group's investment properties are mortgaged as collateral for the Group's banking facilities.

10. INVESTMENT IN AN ASSOCIATE

a. Investment in an associate consisted of:

	As at	
	30 June 2001 \$'000	31 December 2000 \$'000
Registered capital, at cost	<u>24,500</u>	<u>–</u>

The underlying value of the investment is, in the opinion of the Company's directors, not materially less than the carrying value as at 30 June 2001.

**10. INVESTMENT IN AN ASSOCIATE** (cont'd)

- b. Details of the associate, held indirectly by the Company, as at 30 June 2001, are:

Name of company	Place of incorporation and operation	Percentage of equity interest held	Principal activity
北京科瑞源病毒 生物技術有限公司	Mainland China	49%	Developing bio-medical products

This associate is an equity joint venture established in Mainland China with registered capital of \$50,000,000 for a period of 30 years expiring on 14 December 2030.

As at 30 June 2001, not all the registered capital of this associate has yet been paid up.

11. GOODWILL

	As at	
	30 June 2001 \$'000	31 December 2000 \$'000
Goodwill on acquisition of:		
a. Global Link Shipping Limited ("GLSL")	41,527	41,527
<i>Less:</i> Accumulated amortisation	(4,894)	(4,894)
Provision for impairment in value	(25,433)	(25,433)
Profit guarantee from the minority shareholder of GLSL	(9,652)	–
	1,548	11,200
b. China Bio-medical Company Limited	5,000	–
<i>Less:</i> Accumulated amortisation	(500)	–
	4,500	–
	6,048	11,200



12. TRADE RECEIVABLES

The Group provides credit to customers in accordance with its established credit policies ranging from 30 to 180 days. The aging analysis of trade receivables is as follows:

	As at	
	30 June 2001 \$'000	31 December 2000 \$'000
0-1 month	2,007	6,985
1-2 months	639	3,408
2-3 months	536	787
3-6 months	1,553	622
6-12 months	5,819	583
Over 1 year	2,564	1,834
	<u>13,118</u>	<u>14,219</u>
Less: Provision for doubtful trade receivables	<u>(5,992)</u>	<u>(6,220)</u>
	<u>7,126</u>	<u>7,999</u>

13. SHORT-TERM BORROWINGS

Short-term borrowings comprised:

	As at	
	30 June 2001 \$'000	31 December 2000 \$'000
Bank overdrafts	100,731	101,942
Trust receipts bank loans	26,638	27,041
Current portion of long-term bank loans	85,985	79,825
Advances from securities brokers	1,296	6,952
	<u>214,650</u>	<u>215,760</u>

Advances from securities brokers, bore interest at rates ranging from 21% to 24% per annum (For the year ended 31 December 2000 - 21% to 24% per annum) and were secured by the Group's investment in securities with a net book value of \$6,271,000 as at 30 June 2001 (As at 31 December 2000 - \$11,672,000).

Other short-term bank borrowings bore interest at rates ranging from the Hong Kong prime lending rate plus 0.25% to 3.5% per annum (For the year ended 31 December 2000 - Hong Kong prime lending rate plus 0.25% to 3.5% per annum).

**14. TRADE PAYABLES**

The aging analysis of trade payables is as follows:

	As at	
	30 June 2001 \$'000	31 December 2000 \$'000
0-1 month	1,065	2,312
1-2 months	179	740
2-3 months	333	440
3-6 months	905	3,868
6-12 months	5,771	3,584
Over 1 year	5,233	3,338
	<u>13,486</u>	<u>14,282</u>

15. RESERVES

There has been no movement in reserves during the period from 1 January 2001 to 30 June 2001.

16. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of cash and cash equivalents:

	As at	
	30 June 2001 \$'000	30 June 2000 \$'000
Cash and bank deposits	835	4,008
Bank overdrafts	(100,731)	(133,547)
	<u>(99,896)</u>	<u>(129,539)</u>



17. CONTINGENT LIABILITIES

As at 30 June 2001, the Group had the following contingent liabilities:

- a. Guarantees given to banks by the Company in respect of banking facilities extended to certain subsidiaries of SHKP amounting to \$155,432,000 (As at 31 December 2000 - \$155,432,000). These banking facilities were secured by certain investment properties owned by the subsidiaries of SHKP (see Note 18.e). As at 30 June 2001, the open market value of these investment properties were approximately \$220,430,000 as determined by RHL Appraisal Limited, independent qualified valuers.

In August 2001, one of the banks filed a writ against SHKP and the Group demanding repayment of the bank loans of approximately \$45,000,000 from SHKP. The Directors of the Group are of the opinion that the values of the underlying investment properties pledged for the bank loans are in excess of the carrying amount of the bank loans and accordingly the Group would not be suffered material negative financial effect from the related guarantee.

- b. On 5 February 1999, the Company issued a writ against Core Pacific-Yamaichi International (H.K.) Limited ("Core Pacific") for (i) damages for breaches of a loan facility agreement dated 7 August 1998 of approximately \$120,000,000 (the "Facility"); (ii) damages for breaches of fiduciary duties as arranger and joint financial advisor under an agreement dated 6 August 1998; and (iii) an indemnity against all loss in relation to a purported supplemental deed dated 13 November 1998 (the "Supplemental Deed"). On 23 March 1999, Core Pacific issued a writ against the Company for an overdue interest of approximately \$5,000,000 under the Facility and the Supplemental Deed. Of the \$5,000,000 claim, the Directors consider that the \$1,000,000 claim is without merit. The remaining \$4,000,000 is still in dispute and has been provided for in the interim financial statements as at 30 June 2001.
- c. Pursuant to the terms of disposal of a former subsidiary to SHKP in 1998, the Company undertook that all unprovided tax liabilities of the former subsidiary relating to the period prior to the date of disposal would be assumed by the Company. Potential Hong Kong profits tax liabilities of approximately \$3,200,000 relating to certain capital profits claim of the former subsidiary for the years of assessment from 1994/95 to 1996/97 were not provided in the financial statements as at 30 June 2001. The Directors of the Company consider that the former subsidiary has strong argument to support the capital profits claim and accordingly no provision has been made for this potential liability in the interim financial statements as at 30 June 2001.
- d. In May 2001, China Energy Promotion Limited ("China Energy") issued a writ against the Group for breach of its obligation under an agency agreement. The total claim involved is approximately \$8,500,000. The Directors of the Company believe that the claim is without merit and the Company has instructed its legal advisors to defend the action. No provision for the claims has been made in the interim financial statements as at 30 June 2001.



17. CONTINGENT LIABILITIES (cont'd)

- e. In July and September 2001, the Hong Kong Inland Revenue Department issued writs against a 70% owned subsidiary of the Group for settlement of (i) profits tax of approximately \$240,000 in respect of the year of assessment 1999/2000; (ii) provisional tax of approximately \$1,632,000 in respect of the year of assessment 2000/2001; and (iii) a surcharge of approximately \$291,000 on the outstanding tax in default. The Group has recorded a provision of approximately \$531,000 in the interim financial statements as at 30 June 2001 for the profits tax in respect of the year of assessment 1999/2000 and the surcharge on the outstanding tax in default. In view of tax loss incurred in the year of assessment 2000/2001, the Directors of the Group consider the subsidiary would not be liable for the tax liabilities of that year and accordingly no provision has been made for this potential liability in the interim financial statements as at 30 June 2001.
- f. There are two other legal cases of which the Group is being sued for payment of amounts due by the Group of approximately \$12,014,000. The Group has fully provided its financial obligations in the interim financial statements as at 30 June 2001 in respect of these two legal cases. The Directors of the Group do not consider the Group has additional significant liabilities in this respect.

18. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH SINGAPORE HONG KONG PROPERTIES INVESTMENT LIMITED AND SUBSIDIARIES ("SHKP")

- a. During the year ended 31 December 2000, the Group disposed of nine subsidiaries (all being property holding companies) to SHKP ("the Disposal"). Under the sale and purchase agreement, the total consideration amounted to approximately \$92,400,000 and as a result, the Group recognised a loss on disposal of approximately \$65,211,000 therein.

The Group's bank loans amounting to approximately \$62,437,000 as at 31 December 2000 were secured by mortgages over the properties which were held by five out of the nine subsidiaries. Those bank loans had not been transferred to SHKP pursuant to the Disposal. The Group is in the process of negotiating with SHKP and the relevant banks for transfer of those loans to SHKP.

On 15 June 2001, the Group and SHKP signed a deed of confirmation whereby SHKP agreed to assume the aforementioned loans from the Group. On 1 August 2001, approximately \$22,811,000 of the aforementioned loans were formally transferred to SHKP through disposal of Sheen Win Investment Limited ("SWIL"), the subsidiary carrying such loans, to SHKP (see Note 19.b).

In connection therewith, the Group considered they could at least recover approximately \$65,211,000 from SHKP and accordingly, income from loans undertaken by SHKP of the same amount was recorded during the six months ended 30 June 2001.



18. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH SINGAPORE HONG KONG PROPERTIES INVESTMENT LIMITED AND SUBSIDIARIES ("SHKP") (cont'd)

- b. On 18 June 2001, the Group disposed of Digital Future Limited, which holds 60% equity interest in Global Link Digital Electronic Company Limited ("GLDE"), to Ventures Forever Limited ("VFL"). Miss Ng Siu Ying, a director of GLDE and is also a director of VFL. Under the sale and purchase agreement, the total consideration amounted to approximately \$3,413,000 and as a result, the Group recognised a gain on disposal of approximately \$4,369,000.
- c. Particulars of balances and transactions with related parties and SHKP are as follows:

	As at 30 June 2001 \$'000	As at 31 December 2000 \$'000	Maximum balance outstanding during the six months ended 30 June 2001 \$'000
Amounts due from related companies			
GenePro Laboratory Limited (i)	1,025	–	1,025
GenePro Medical Biotechnology Limited (i)	<u>16</u>	<u>–</u>	<u>16</u>
	<u>1,041</u>	<u>–</u>	
Amount due from a former director			
Mr. Wong Wai Chi, David	<u>6,954</u>	<u>6,966</u>	<u>6,966</u>
Amount due from SHKP			
Singapore Hong Kong Properties Investment Limited (ii)	<u>65,131</u>	<u>–</u>	<u>65,131</u>
Amounts due to SHKP			
Wisehall Star Limited (iii)	19,702	19,694	
Day Success Company Limited (iii)	1,419	1,093	
Marson Development Limited (iii)	1,359	1,100	
Singapore Hong Kong Properties Investment Limited (ii)	<u>–</u>	<u>558</u>	
	<u>22,480</u>	<u>22,445</u>	
Amount due to a director			
Mr. Chan Peng Kuan	<u>695</u>	<u>–</u>	

All outstanding balances with related companies, SHKP, a director and a former director are unsecured, non-interest bearing and without pre-determined repayment terms.



18. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH SINGAPORE HONG KONG PROPERTIES INVESTMENT LIMITED AND SUBSIDIARIES (“SHKP”) (cont’d)

- d. As at 30 June 2001, the Group’s banking facilities of approximately \$65,547,000 (As at 31 December 2000 - \$65,752,000) were secured by, among others, mortgages over certain properties owned by Marson Development Limited, Day Success Company Limited, Solar Regent Investments Limited, Fairsheen Limited and Bright Wick Limited (see (iii)).
- e. As at 30 June 2001, the Company has provided guarantees of approximately \$155,432,000 (As at 31 December 2000 - \$155,432,000) to banks in respect of banking facilities extended to Wellstech International Limited, Wholesome Investments Limited, Kong Tai Properties Development Company Limited and Pak Fook Company Limited (see (iii)).

Notes:–

- (i) GenePro Laboratory Limited (“GPL”) and GenePro Medical Biotechnology Limited, a subsidiary of GPL, are companies incorporated in Hong Kong, of which Dr. Wan Kwong Kee, a director of the Company, is also a director of GPL and has 26.8% equity interest in GPL.
- (ii) Singapore Hong Kong Properties Investment Limited (“SHKP”) is a company incorporated in Hong Kong and listed on The Hong Kong Stock Exchange Limited. Mr. Wong Wai Chi, David, a former director of the Company, is a director of SHKP.
- (iii) These companies are subsidiaries of SHKP in which Mr. Wong Wai Chi, David (a former director of the Company) is a director.

19. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 30 June 2001 and up to the date of approval of these financial statements:

- a. On 18 September 2001, the Company entered into a supplemental convertible note agreement with an independent third party (“the Purchaser”), under which the Company will issue three tranches of convertible notes of \$100,000,000 in aggregate to the Purchaser. Such convertible notes are unsecured, bear interest at 2% per annum and convertible into ordinary shares of the Company.
- b. On 1 August 2001, the Group disposed of its 100% equity interest in Sheen Win Investment Limited (“SWIL”) to SHKP at consideration of \$2 (“the disposal”). Prior to the disposal, the liabilities of SWIL comprised a bank loan amounting to approximately \$19,529,000, which was secured by properties currently owned by certain subsidiaries of SHKP (see Note 18.a).
- c. In July and August 2001, the Group disposed of certain investment properties for total consideration of \$24,900,000 to independent third parties.
- d. On 21 September 2001, the Group entered into a sale and purchase agreement with GenePro Laboratory Limited to acquire 100% of the equity interest in GenePro Medical Biotechnology Limited at total consideration of \$1,400,000.



20. COMPARATIVE FIGURES

Certain interest income from loans receivable included in other revenue for the six months ended 30 June 2000 has been reclassified as turnover to conform to the current period's presentation.

BUSINESS REVIEW

Overview

The Group has continued to restructure its business activities in the first half of the year. While striving to explore business opportunities in pharmaceutical / biopharmaceutical in Hong Kong and the PRC, the Group continued to dispose of its property portfolio and other non-core business. As a result of such disposals and the transfer of certain loans to Singapore Hong Kong Properties Investment Limited ("SHKP") relating to the disposal of nine subsidiaries to SHKP last year, financial position and results of the Group have improved as compared to those of the corresponding period in the previous year.

Financial results

For the six months ended 30 June 2001, the Group recorded a turnover of \$15,990,000, an increase of approximately 18.6% compared to the corresponding period in 2000. The increase was due to the rise in sales of river sand and gravels and the rental income coming from the lease of additional floor area of the Group's investment properties. At the same time, the Group's profit from operations amounted to approximately \$13,047,000. Net loss amounted to \$1,407,000 and sharply decreased by 99%, comparing to the corresponding amount for the six months ended 30 June 2000. The rapid drop was mainly attributable to better control of administrative expenses, the transfer of certain loans to SHKP relating to the disposal of nine subsidiaries to SHKP last year and no substantial loss on disposal of subsidiaries in 2001.

Loss per share was \$0.02 cents was compared to \$3.06 cents for the six months ended 30 June 2000, reflecting a dramatic decrease of 99.3%.

Interest expense reduced from \$34,013,000 for the six months ended 30 June 2000 to \$15,858,000 for the first half of 2001, representing a drop of 53.4%. The reduction was the results of the substantial decrease in borrowings and the reductions of interest rates commencing in January 2001.



Review of operations

During the first half of the year, rental income increased from \$4,512,000 in the last corresponding period to \$6,352,000 due to the lease of additional floor area of the Group's investment properties. A total of two properties were disposed of that generated an aggregate net proceeds of \$7,270,000, all of which were used to repay bank borrowings.

Turnover attributable to sand and gravel trading increased by 88.6% to \$6,542,000 which was mainly due to the additional supply to the project at Terminal No.9, Kwai Chung. However, the Group intends to scale down or divest this operation in order to better utilise its resources in its core business.

The Group generated a turnover of \$2,469,000 from its 70%-owned river trade transportation business acquired in May 2000. Performance of this operation was not as good as that of last year since the general trading and economic conditions of Hong Kong deteriorated in the first half of this year.

In line with the strategy to divest its non-core business, the Group had disposed of its entire interest in its 60%-owned joint venture for the sale and manufacture of high-end electronic consumer products. The proceeds generated from such disposal would be used as additional working capital of the Group.

With regard to the other activities of the Group, there were no significant changes as compared to last year.

Liquidity and financial resources

As at 30 June 2001, the Group's bank borrowings amounted to approximately \$354,055,000, representing a decrease of \$15,740,000 or 4.26% as compared to \$369,795,000 as at 31 December 2000. Since a mortgage loan of \$22,811,000 has been transferred to SHKP after 30 June 2001, the bank borrowings further reduce to \$331,244,000. After the overdraft of \$32,500,000 is transferred to SHKP in the second half of 2001, total Group borrowings will be further reduced to \$298,744,000. Among the bank borrowings of \$354,055,000, 60.3% of which is due within one year and the remaining is repayable from two years to twelve years. The gearing ratio (total borrowing as a percentage of total assets) was 72.7% as at 30 June 2001 as compared to 76.5% as at 31 December 2000. Current ratio of the Group was significantly increased from 31% as at 31 December 2000 to 42.9% at end of the period under review.



Liquidity and financial resources (cont'd)

In September, the Company and China Union Pharmaceutical Company Limited ("China Union Pharmaceutical") entered into a supplemental agreement, pursuant to which China Union Pharmaceutical agreed to subscribe for convertibles notes for an aggregate subscription price of \$100 million in three tranches. Together with the convertible secured note purchase agreement which the Company entered with Acqua Wellington Far Eastern Fund I Ltd. in March 2001 for a total principal of US\$30 million, the Company has two convertible note agreements with maximum commitment of approximate \$334,000,000 in place. With the above financial resources and the inflow of its recurrent income, the Group should have adequate financial resources to meet its financial obligations and to support future business development.

The net assets of the Group as at 30 June 2001 is approximately by \$31,043,000, slightly decreased from \$32,450,000 as at 31 December 2000. Under the supplemental agreement entered with China Union Pharmaceutical, the conversion right of the first tranche of convertible notes in the sum of \$30,000,000 is at the option of the Company. As such, net assets/shareholder's fund of the Group will increase to \$61,043,000 upon the conversion of the first tranche of the convertible notes.

The Company is currently in discussion with its lending banks to reschedule the repayment terms of its bank borrowings. Upon finalisation of the rescheduling of repayment terms of its bank borrowings, the financial position and the liquidity of the Group is expected to improve significantly.

The Group was not exposed to any material exchange rate fluctuation during the period under review.

Prospects

In addition to making investment in the PRC, the Group has also been exploring business opportunities in pharmaceutical / biopharmaceutical business elsewhere. On 21 September 2001, the Group entered into a conditional agreement with GenePro Laboratory Limited ("GenePro"), a company in which Dr. K K Wan, the Chairman of the Company, has a beneficial interest of 26.8%, for the acquisition of GenePro's business. GenePro has been engaged in research and development ("R&D") of genetically engineered products and provision of DNA testing services in the molecular diagnosis of diseases and personal identity for over 2 years.

GenePro provides DNA testing services in the detection of diseases such as human papilloma virus (HPV in cervical cancer), hepatitis-B virus and certain sexually transmitted diseases. The other major testing service provided by GenePro is DNA testing for personal identity which can provide extremely accurate results for paternity and other human relationships.



Prospects (cont'd)

The acquisition of GenePro is in line with the Group's strategy in turning itself into a fully integrated bio-medical group in the near future. The R&D capability of GenePro will not only generate patents and products in biotechnology for the Company, but will also provide support to the pharmaceutical / biopharmaceutical endeavour in the PRC. Moreover, the Group expects the demand for DNA testing services and products will experience significant growth in the next few years in the PRC and Hong Kong in parallel with global demand. It is believed that the focus of the healthcare industry has been gradually shifted from medication to early detection and prevention as a means to reduce the healthcare cost and development of more sophisticated and specialized tests for early detection of disease. In comparison with general testing, DNA testing provides relatively more cost-effective, timely, accurate and specific testing solutions that traditional method are unable to do.

Charges on assets

As at 30 June 2001, certain assets of the Group with an aggregate carrying value of \$321,454,000 (31 December 2000: \$359,534,000) were pledged to secure the Group's borrowings.

Employee remuneration policy

The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and reviewed annually by the management.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements. At the request of the Directors, the Group's external auditors have carried out a review of the unaudited interim financial statements in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.

In connection with the review, the auditors have included an explanatory paragraph in relation to the existence of a fundamental uncertainty. In arriving of their review conclusion, the auditors have considered the adequacy of disclosures made in the interim financial statements concerning the possible outcome of (i) the negotiations with the Group's bankers for rescheduling the repayment terms of certain of the Group's bank borrowings, and (ii) the issuance of convertible notes by the Company. The interim financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available and the success of the Group's future operations. The interim financial statements do not include any adjustments that would result from the failure of rescheduling the repayment terms of certain of the Group bank borrowings or the issuance of convertible notes, or should the Group's future operations not be successful. Details of the circumstances relating to this fundamental uncertainty are described in the "Basis of presentation" presented above.

The auditors consider that the fundamental uncertainty has been adequately accounted for and disclosed in the interim financial statements.



INTERIM DIVIDEND

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months period ended 30 June 2001 (2000: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months period ended 30 June 2001.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 30 June 2001, none of the directors of the Company had any beneficial interests in the shares of the Company and its subsidiaries within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance.

At 30 June 2001, the directors and chief executive of the company had the following personal interests in options to subscribe for shares of the Company granted at HK\$1 per grantee under a share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

Directors	No. of options outstanding at the year end	Date granted	Period during which options exercisable	Price per share to be paid on exercise of options HK\$
Wan Kwong Kee	10,000,000	5 October 2000	5 October 2000 - 4 October 2003	0.206
Chan Peng Kuan	10,000,000	5 October 2000	5 October 2000 - 4 October 2003	0.206



DIRECTORS' INTERESTS IN EQUITY SECURITIES (cont'd)

Apart from the foregoing, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive 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.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has not been notified of any interest in the Company's issued shares at 30 June 2001 amounting to 10% or more of the ordinary shares in issue and recorded in the register required to be kept under section 16(1) of the Securities (Disclosure of Interests) Ordinance.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practices ("the Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Articles of Association. The Company has established an audit committee in accordance with paragraph 14 of the Code. In the opinion of the directors, this meets the objective of the Code.

By Order of the Board

Wan Kwong Kee

Chairman

Hong Kong SAR, 24 September 2001