



China Bio-medical Group Limited

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 ended 30 June 2002.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2002

	Note	Six months ended 30 June 2002 HK\$'000 (Unaudited)	Six months ended 30 June 2001 HK\$'000 (Unaudited)
Turnover	3	4,611	15,990
Other revenue	3	6	8
Transportation service costs		(836)	(5,176)
Cost of merchandise sold		-	(4,607)
Material cost for service income		(268)	-
Depreciation and amortisation		(1,245)	(2,492)
Staff costs		(4,018)	(6,025)
Other operating expenses		(5,213)	(16,401)
Operating loss before provisions and other losses and gains		(6,963)	(18,703)
Profit on disposal of discontinuing operations		-	4,369
Holding losses on other investments		(1,953)	-
(Loss) Profit on disposal of other investments		(566)	627
Recovery of loss on disposal of subsidiaries		-	65,211
Pre-operating expenses incurred by an associate		(3,476)	-
Gain on disposal of property, plant and equipment		496	125
Net deficit on revaluation of investment properties	7	(1,400)	(27,706)
Deficit on revaluation of land and buildings	8	(7,715)	-
Provision for doubtful trade and other receivables		(3,791)	(762)
Impairment in value of property, plant and equipment		(1,591)	-
Profit on disposal of investment properties		146	-
Provision under corporate guarantees provided to banks	15	(70,420)	-
Other provisions		-	(10,114)
(Loss) Profit from operations		(97,233)	13,047
Finance costs	4	(13,655)	(15,858)
Loss before taxation	4	(110,888)	(2,811)
Taxation	5	-	(45)
Loss after taxation		(110,888)	(2,856)
Minority interests		769	1,449
Loss from ordinary activities for the period		(110,119)	(1,407)
Loss per share	6	HK(1.78) cents	HK(0.02) cent

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2002

	Note	At 30 June 2002 HK\$'000 (Unaudited)	At 31 December 2001 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	7	57,810	94,550
Property, plant and equipment	8	29,650	41,041
Goodwill	9	1,548	1,548
Investment securities		1	1
Interest in an associate	10	19,598	23,074
		108,607	160,214
Current assets			
Other investments	11	1,510	4,460
Trade and other receivables	12	11,260	30,136
Prepaid profits tax refundable		1,626	1,626
Pledged bank deposits		1,740	2,038
Bank balances and cash		2,099	7,509
		18,235	45,769
Current liabilities			
Bank overdrafts and short-term borrowings	13	270,601	322,864
Trade and other payables	14	107,550	93,960
Provisions	15	124,353	53,933
		502,504	470,757
Net current liabilities		(484,269)	(424,988)
Total assets less current liabilities		(375,662)	(264,774)
Non-current liabilities			
Deferred taxation		806	806
Minority interests		(588)	181
NET LIABILITIES		(375,880)	(265,761)
CAPITAL AND RESERVES			
Issued capital		1,240,285	1,240,285
Reserves	16	(1,616,165)	(1,506,046)
		(375,880)	(265,761)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For six months ended 30 June 2002*

	Six months ended 30 June 2002 HK\$'000 (Unaudited)	Six months ended 30 June 2001 HK\$'000 (Unaudited)
Net cash from /(used in) operating activities	9,296	(18,195)
Net cash from investing activities	37,259	38,543
Net cash used in financing activities	(37,247)	(19,925)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	9,308	423
Cash and cash equivalents at 1 January	(92,708)	(100,511)
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	(83,400)	(100,088)
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	2,099	643
Bank overdrafts	(85,499)	(100,731)
	<hr/>	<hr/>
	(83,400)	(100,088)
	<hr/> <hr/>	<hr/> <hr/>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For six months ended 30 June 2002*

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	1,240,285	475,508	3,571	200	(1,687,114)	32,450
Loss for the period	—	—	—	—	(1,407)	(1,407)
At 30 June 2001	<u>1,240,285</u>	<u>475,508</u>	<u>3,571</u>	<u>200</u>	<u>(1,688,521)</u>	<u>31,043</u>
At 1 January 2002	1,240,285	475,508	3,571	200	(1,985,325)	(265,761)
Loss for the period	—	—	—	—	(110,119)	(110,119)
At 30 June 2002	<u>1,240,285</u>	<u>475,508</u>	<u>3,571</u>	<u>200</u>	<u>(2,095,444)</u>	<u>(375,880)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2002

1. BASIS OF PRESENTATION

For the period ended 30 June 2002, the Group reported a net loss of approximately HK\$110,119,000. In addition, as at 30 June 2002, the Group had a net capital deficiency of approximately HK\$375,880,000 which was mainly due to the losses suffered by the Group for last year and this period. Up to and until 30 June 2002, the Group was unable to repay principal and interest of certain bank borrowings amounting to approximately HK\$319,748,000 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 2002.

The Group is discussing with the relevant banks to restructure the repayment terms of existing loans and to request that they continue providing credit facilities to the Group. In addition, discussions with a potential investor continue as to whether further investment will be made in the Company. 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 restructuring of the repayment terms of the bank borrowings will be agreed by the relevant banks, and that the discussions with potential investors will result in additional funding.

2. PRINCIPAL ACCOUNTING POLICIES

The interim financial report has been prepared on a basis consistent with the principal accounting policies adopted in the 2001 annual report. This interim financial 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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**3. TURNOVER AND REVENUE**

Turnover and revenue recognised by category are analysed as follows:

	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Transportation service income	665	2,469
Rental income	3,609	6,352
Net sales of merchandise	–	6,542
Interest income from loans receivable	–	627
Laboratory testing service income	337	–
	<hr/>	<hr/>
Turnover	4,611	15,990
	<hr/>	<hr/>
Interest income from bank deposits	6	8
	<hr/>	<hr/>
Other revenue	6	8
	<hr/>	<hr/>
Total revenue	4,617	15,998
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4. LOSS BEFORE TAXATION

This is stated after charging:

Finance costs

	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Interest on bank overdrafts and borrowings wholly repayable within five years	13,569	5,480
Interest on bank borrowings wholly repayable after five years	–	7,358
Interest on other borrowings	86	3,020
	<hr/>	<hr/>
	13,655	15,858
	<hr/> <hr/>	<hr/> <hr/>

5. TAXATION

	Six months ended 30 June 2002 HK\$'000	Six months ended 30 June 2001 HK\$'000
Hong Kong Profits Tax:		
Underprovision in prior years	—	45

Hong Kong Profits Tax has not been provided as the Group incurred losses for taxation purposes for the period.

6. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2002 was based on the consolidated loss of approximately HK\$110,119,000 (Six months ended 30 June 2001: approximately HK\$1,407,000) and the approximately 6,201,427,000 shares (Six months ended 30 June 2001: approximately 6,201,427,000 shares) in issue during the six months ended 30 June 2002.

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

7. INVESTMENT PROPERTIES

	HK\$'000
Carrying value at 1 January 2002	94,550
Disposals	(35,340)
Revaluation deficit	(1,400)
	—
Carrying value at 30 June 2002	57,810

**8. PROPERTY, PLANT AND EQUIPMENT**

	HK\$'000
Net book value as at 1 January 2002	41,041
Additions	114
Disposals	(954)
Revaluation deficit	(7,715)
Depreciation charge for the period	(1,245)
Impairment losses	(1,591)
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Net book value as at 30 June 2002	29,650
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9. GOODWILL

	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
At 1 January and 30 June 2002			
Cost	36,875	(71)	36,804
Accumulated amortisation and impairment losses	<hr/> (35,327)	<hr/> 71	<hr/> (35,256)
Carrying amount	<hr/> <hr/> 1,548	<hr/> <hr/> –	<hr/> <hr/> 1,548

10. INTEREST IN AN ASSOCIATE

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Unlisted investment, at cost	24,500	24,500
Less: Pre-operating expenses written off	(4,902)	(1,426)
	<u>19,598</u>	<u>23,074</u>

This amount represents the Group's contribution as 49% registered capital of a wholly foreign-owned enterprise, Beijing Radiant Bio-Tech Limited (北京科瑞源病毒生物技术有限公司), which is to be engaged in pharmaceutical/bio-pharmaceutical business and is incorporated in the PRC.

Beijing Radiant Bio-Tech Limited was previously a Sino-foreign equity joint venture owned as to 49% and 51% by the Group and a PRC party respectively. On 19 October 2001, application was made to the PRC governmental bodies to change the legal status of the Sino-foreign equity joint venture to a wholly foreign-owned enterprise as the PRC partner proposed to dispose of its equity holdings to another foreign investor before it injected any capital into the enterprise. On 5 April 2002, such legal status and the business license were successfully obtained.

At the balance sheet date, the wholly foreign-owned enterprise had not commenced business. Some pre-operating expenses were incurred prior to the change of the legal status and, for prudence sake, such amount was written off before the new foreign partner injects capital into the enterprise.

**11. OTHER INVESTMENTS**

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
At fair value:		
Equity securities listed in Hong Kong		
– Singapore Hong Kong Properties Investment Limited	1,448	4,327
– Others	62	133
	<u>1,510</u>	<u>4,460</u>

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Trade receivables	3,058	3,055
Other receivables		
Deposits, prepayment and other debtors	2,032	2,827
Due from a related company	170	254
Due from Singapore Hong Kong Properties Investment Limited	6,000	24,000
	<u>8,202</u>	<u>27,081</u>
	<u>11,260</u>	<u>30,136</u>

12. TRADE AND OTHER RECEIVABLES (Con't)*(a) Trade receivables*

The Group provides term credit to customers in accordance with the Group's established credit policies of 30 days (31 December 2001: ranging from 30 to 180 days). The ageing analysis of trade receivables is as follows:

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Within 1 month	346	646
1 - 2 months	307	279
2 - 3 months	180	383
3 - 6 months	539	2,162
6 - 12 months	3,004	5,435
Over 1 year	7,795	2,686
	<hr/>	<hr/>
	12,171	11,591
Less: Provision for doubtful trade receivables	(9,113)	(8,536)
	<hr/>	<hr/>
	3,058	3,055
	<hr/> <hr/>	<hr/> <hr/>

(b) Due from a related company

It represented amount due from GenePro Laboratory Limited, a company in which Dr. Wan Kwong Kee is a director and shareholder. The amount due is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the six months ended 30 June 2002 is HK\$426,000 (For the year ended 31 December 2001: HK\$1,478,000).

**13. BANK OVERDRAFTS AND SHORT-TERM BORROWINGS**

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Bank overdrafts	85,499	100,217
Trust receipts bank loans	20,485	26,406
Current portion of long-term bank borrowings	158,570	189,849
Other borrowings	6,047	6,392
	<u>270,601</u>	<u>322,864</u>

14. TRADE AND OTHER PAYABLES

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Trade payables	<u>8,676</u>	<u>8,909</u>
Other payables		
Accrued charges and other creditors	13,489	12,790
Accrued bank interest expenses	55,194	42,159
Convertible notes deposit received	7,200	7,200
Due to directors	1,743	1,654
Due to a former related company	1,546	1,546
Due to a subsidiary of Singapore Hong Kong Properties Investment Limited	<u>19,702</u>	<u>19,702</u>
	<u>98,874</u>	<u>85,051</u>
	<u>107,550</u>	<u>93,960</u>



14. TRADE AND OTHER PAYABLES (Con't)

(a) *Trade payables*

The ageing analysis of trade payables is as follows:

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Within 1 month	240	398
1 - 2 months	115	285
2 - 3 months	180	378
3 - 6 months	331	821
6 - 12 months	887	1,141
Over 1 year	6,923	5,886
	<u>8,676</u>	<u>8,909</u>

(b) *Due to directors*

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Dr. Wan Kwong Kee (<i>Note (i)</i>)	1,320	320
Mr. Chan Peng Kuan	423	1,334
	<u>1,743</u>	<u>1,654</u>

Notes:

- (i) During the period ended 30 June 2002, a cash advance of HK\$1,000,000 was received from Dr. Wan Kwong Kee to finance the laboratory testing operation.
- (ii) The amounts due to directors are unsecured, interest-free and have no fixed repayment terms.



15. PROVISIONS

	Provision under corporate guarantees HK\$'000	Other provisions HK\$'000	Total HK\$'000
At 1 January 2002	30,500	23,433	53,933
Additional provisions	70,420	–	70,420
At 30 June 2002	<u>100,920</u>	<u>23,433</u>	<u>124,353</u>

As mentioned in the Company's 2001 Annual Report, the Company had given corporate guarantees to the banks in respect of banking facilities extended to certain subsidiaries of Singapore Hong Kong Properties Investment Limited ("SHKP"). These banking facilities were secured by certain investment properties owned by the subsidiaries of SHKP. The additional provisions represented the increase in the shortfall between the applicable recoverable value of the investment properties estimated by professional valuers and the estimated unsettled banking facilities as at 30 June 2002.

16. RESERVES

Save as the loss for the period, there was no movement in reserves during the period from 1 January 2002 to 30 June 2002 (Six months ended 30 June 2001: Nil).

17. BANKING FACILITIES

As at the balance sheet date, the Group's banking facilities were secured by:

- (a) The Group's investment properties and land and buildings with carrying value of approximately HK\$82,810,000; and
- (b) Investment properties owned by certain subsidiaries of SHKP.

Due to the liquidity situation as described in note 1, the Group was unable to repay principal and interest of certain bank borrowings totalling approximately HK\$319,748,000 when they fell due. As at the date of approval of these financial statements, the Group is still in discussion with the relevant banks to restructure the repayment terms of the existing borrowings and to request that they continue providing credit facilities to the Group.

18. CONTINGENT LIABILITIES

Except for the corporate guarantees given in respect of the banking facilities extended to certain subsidiaries of Singapore Hong Kong Properties Investment Limited as mentioned in note 15 above and the following contingent liability for minimum use fee of unissued convertible notes, there is no material change for other contingent liabilities since the publication of the Company's 2001 Annual Report.

On 16 March 2001, the Company entered into an agreement (the "Agreement") with an independent third party (the "Purchaser") under which the Purchaser agreed to purchase from the Company up to US\$30,000,000 convertible notes during the period from 27 April 2001 to 26 October 2002. The issue and conversion of such convertible notes are dependent on, among others, the volume weighted average market price of the Company's shares being not less than HK\$0.22 per share. However, no share has been issued from this convertible notes during the period. In accordance with the Agreement, the Company is required to pay a fee not exceeding US\$750,000 for the unissued convertible notes at the Agreement's expiry date. In the opinion of the directors, a sufficiently reliable estimate of the amount of minimum use fee for the unissued convertible notes cannot be made at the balance sheet date. Therefore, no provision has been made in the financial statements as at 30 June 2002.

**19. SEGMENT INFORMATION**

The analyses of the principal activities of the operations of the Group during the period are as follows:

(a) By business segments

The Group comprises the following main business segments:

	Property investment HK\$'000	Trading of sea sand HK\$'000	Trans- portation services HK\$'000	Pharma- ceutical and biophar- maceutical HK\$'000	Others HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2001						
Sales from external customers	<u>5,684</u>	<u>7,210</u>	<u>2,469</u>	<u>-</u>	<u>627</u>	<u>15,990</u>
Segment result	<u>(24,163)</u>	<u>(14,219)</u>	<u>(4,853)</u>	<u>(500)</u>	<u>1,911</u>	<u>(41,824)</u>
Unallocated operating income and expenses						<u>54,871</u>
Profit from operations						13,047
Finance costs						<u>(15,858)</u>
Loss before taxation						(2,811)
Taxation						<u>(45)</u>
Loss after taxation						(2,856)
Minority interests						<u>1,449</u>
Loss from ordinary activities for the period						<u>(1,407)</u>
OTHER INFORMATION						
Capital expenditures	-	224	-	-	29	253
Depreciation and amortisation	-	55	1,283	500	654	2,492
Other non-cash expenses other than depreciation and amortisation	<u>27,706</u>	<u>10,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,820</u>

19. SEGMENT INFORMATION (Con't)(a) *By business segments* (Con't)

	Property investment HK\$'000	Trading of sea sand HK\$'000	Trans- portation services HK\$'000	Pharma- ceutical and biophar- maceutical HK\$'000	Others HK\$'000	Consolidated HK\$'000
Six months ended 30 June 2002						
Sales from external customers	<u>3,609</u>	<u>-</u>	<u>665</u>	<u>337</u>	<u>-</u>	<u>4,611</u>
Segment result	<u>1,310</u>	<u>(6)</u>	<u>(2,563)</u>	<u>(4,739)</u>	<u>(23)</u>	<u>(6,021)</u>
Unallocated operating income and expenses						<u>(91,212)</u>
Loss from operations						<u>(97,233)</u>
Finance costs						<u>(13,655)</u>
Loss before taxation						<u>(110,888)</u>
Taxation						<u>-</u>
Loss after taxation						<u>(110,888)</u>
Minority interests						<u>769</u>
Loss from ordinary activities for the period						<u>(110,119)</u>
OTHER INFORMATION						
Capital expenditure	-	-	-	29	85	114
Depreciation and amortisation	-	-	619	264	362	1,245
Impairment losses	-	-	1,591	3,476	-	5,067
Other non-cash expenses other than depreciation and amortisation	<u>1,400</u>	<u>-</u>	<u>577</u>	<u>-</u>	<u>83,316</u>	<u>85,293</u>

**19. SEGMENT INFORMATION** (Con't)(a) *By business segments* (Con't)

	Property investment HK\$'000	Trading of sea sand HK\$'000	Trans- portation services HK\$'000	Pharma- ceutical and biophar- maceutical HK\$'000	Others HK\$'000	Consolidated HK\$'000
As at 31 December 2001						
Assets						
Segment assets	98,908	1,353	12,447	24,275	8	136,991
Unallocated assets						<u>68,992</u>
Total assets						<u><u>205,983</u></u>
Liabilities						
Segment liabilities	(223,395)	(16,793)	(2,938)	(57)	-	(243,183)
Unallocated liabilities						<u>(228,561)</u>
Total liabilities						<u><u>(471,744)</u></u>
As at 30 June 2002						
Assets						
Segment assets	61,253	1,353	8,401	21,063	19	92,089
Unallocated assets						<u>34,753</u>
Total assets						<u><u>126,842</u></u>
Liabilities						
Segment liabilities	(192,419)	(16,793)	(1,387)	(1,232)	(22)	(211,853)
Unallocated liabilities						<u>(290,869)</u>
Total liabilities						<u><u>(502,722)</u></u>

19. SEGMENT INFORMATION (Con't)

(b) *By geographic segment*

No analysis of the Group's geographical segment information on sales revenue and result is presented as all sales revenue and result generated from the business activities are derived from Hong Kong for the six months ended 30 June 2001. For the six months ended 30 June 2002, other than part of the sales revenue and loss from pharmaceutical and biopharmaceutical segment in the PRC which are below 10% of the total sales revenue and loss from ordinary activities respectively, all the revenue and result generated from the business activities were mainly derived from Hong Kong.

Other than the investment in the associate and the assets for the bio-pharmaceutical co-operation project in Huizhou totalling approximately HK\$19,648,000 are in the PRC, all the segment assets of the Group for both of the year ended 31 December 2001 and the six months ended 30 June 2002 were located in Hong Kong.

20. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2002 and up to the date of approval of these financial statements:

- (a) On 3 July 2002, a subsidiary of the Company entered into a sale and purchase agreement with an independent third party for disposal of a property for total cash consideration of HK\$2,000,000. Such disposal was completed in August 2002.
- (b) On 26 August 2002, the Company passed resolutions at an extraordinary general meeting to approve the following capital reorganization scheme:
 - (i) Reduction of the capital of the Company by adjusting the nominal value of the shares of the Company by way of cancelling paid up capital to the extent of HK\$0.199 on each of the issued shares and by reducing the nominal value of all the issued and unissued shares from HK\$0.20 to HK\$0.001;
 - (ii) Cancellation of all the share premium account of the Company as at the effective date of the reduction of capital;
 - (iii) Restoration of the authorised share capital of the Company after the reduction of capital becomes effective to the original amount of HK\$2,000,000,000 by the creation of an additional 1,990,000,000,000 new shares of HK\$0.001 each; and



20. SUBSEQUENT EVENTS (Con't)

- (iv) Consolidation of every 20 shares of HK\$0.001 each, whether issued or unissued, into 1 share of HK\$0.02 each.

The completion of the reduction of nominal value of the shares and cancellation of share premium account of the Company is subject to the consent of the court.

- (c) On 29 August 2002, a subsidiary of the Company received a notice from a creditor bank for the appointment of receivers over a property owned by the subsidiary.
- (d) In August 2002, the Group disposed of certain plant and equipment for a total consideration of HK\$137,000 to independent third parties.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation as the directors consider that the current period's presentation is more appropriate to reflect the Group's operating results and financial position.

Following the adoption of revised Statement of Standard Accounting Practice 2.115 "Cash Flow Statements" issued by the Hong Kong Society of Accountants, the comparative information regarding the Group's condensed consolidated cash flow statements has been restated to conform to the current period's presentation.

BUSINESS REVIEW

Overview

The Group has made certain progress in its business restructuring during the first half of 2002. The continued disposal of the investment properties has generated cash to reduce debt level and interest expenses and the scaling down of the non-core operations has helped to constrain operating expenses of the Group. Cost cutting measures were also undertaken by the Group to reduce its administrative expenses. With regard to the debt restructuring plan as previously mentioned, discussions with the Group's creditor banks continued. In order to be able to raise equity capital in the market to finance existing and future business projects, the Company proposed in June 2002 a capital reorganisation scheme which was duly approved by the shareholders in August 2002. The proposed capital reorganisation scheme includes the reduction of capital, cancellation of share premium, increase of the authorised share capital and consolidation of shares, further details of which are set out in note 20(b) in the section headed "Notes to the Financial Statements." The Group is currently in discussions with certain potential investors for making investments in the Group. However, no agreement has yet been reached.

Financial results

The Group recorded a consolidated turnover of HK\$4,611,000 for the six months ended 30 June 2002, which represents a decrease of approximately 71.2% as compared with the corresponding period of last year. The decline was mainly caused by the drop of rental income as the Group continued to dispose of its investment properties and the reduction of income as a result of the termination of the sand trading business in the second half of 2001 and the scaling down of the transportation business. The operating loss dropped from HK\$18,703,000 in the first half of 2001 to HK\$6,963,000 in the first half of 2002, representing a significant decrease of approximately 62.8%. This was mainly caused by the termination of the sand trading business and the continued effort in reducing non-core operations such as the transportation business as well as the adoption of effective cost cutting measures. However, the net loss of the Group for the period amounted to HK\$110,119,000, representing an increase of approximately 7,727% from the corresponding period of last year. This substantial increase was mainly due to the additional provision made in respect of corporate guarantees provided to creditor banks for certain subsidiaries of Singapore Hong Kong Properties Investment Limited ("SHKP") as a result of the revaluation deficit from the pledged properties owned by SHKP and the revaluation deficit from properties owned by the Group.

As a result of continued reduction of bank borrowings during the period under review, interest expense was reduced to HK\$13,655,000 by approximately 13.9% as compared to HK\$15,858,000 in the corresponding period of last year.

Loss per share was 1.78 cents as compared to 0.02 cent for the six months ended 30 June 2001, representing an increase of approximately 8,800%.



Review of operations

The rental income for the first half of 2002 amounted to HK\$3,609,000, representing a decrease of approximately 43.2% as compared with that of the corresponding period of last year. Such decrease was mainly attributable to the disposal of certain properties in last year and this period, the net proceeds of which were substantially used to repay bank borrowings. In August 2002, the properties of the Group located at Convention Plaza were taken possession by the receivers appointed by its mortgagee bank. As there will be no additional liabilities arising from such proceedings and any shortfall in disposing of the properties shall be dealt with in the debt restructuring plan, no material adverse impact on the Group is expected. As the secondary market conditions in Hong Kong continued to remain sluggish, the Group has written down the value of its property assets for a total of HK\$9,115,000, representing a decrease of approximately 67.1% as compared with that in the first half of 2001, and will continue to dispose of its remaining property portfolio.

As a result of the scaling down of the transportation business, income generated therefrom reduced significantly from HK\$2,469,000 in the first half of 2001 to HK\$665,000 in the first half of 2002, representing a decrease of approximately 73.1%. Nevertheless, the transportation service costs dropped a larger extent from HK\$5,176,000 in the first half of 2001 to HK\$836,000 in the first half of 2002 by approximately 83.8%, thus giving a positive effect on the operating loss of the Group. As the Group expects that the general trading and economic conditions of Hong Kong would not turnaround in the near future, it is considering a disposal of this transportation business to generate additional working capital.

Following the acquisition of GenePro Medical Biotechnology Limited (“GenePro”) in the end of 2001, the Group recorded a turnover of HK\$337,000 from providing DNA related testing services for the six months ended 30 June 2002. GenePro has been engaged in research and development of genetically engineered products and provision of DNA testing services in the molecular diagnosis of diseases and personal identity. The main laboratory and research and development center of GenePro are located in Hong Kong. During the period under review, an additional testing center was established in Huizhou to start tapping into the PRC market.

The Group is the 49% equity partner of a wholly foreign-owned enterprise established in Beijing, the PRC (“WFOE”), which is engaged in the pharmaceutical/bio-pharmaceutical business in the PRC. Business license of the WFOE was granted in April 2002. As the Group is currently in discussion with the other 51% equity partner of the WFOE as to which projects should be invested by the WFOE, the WFOE has not commenced operation yet. However, the pre-operating expenses incurred by the WFOE have been provided for by the Group during the period.

There were no significant changes with regard to the other activities of the Group as compared to the first half of last year. Save as mentioned above, there were no material acquisitions and disposals of subsidiaries and associated companies in the period under review.

Liquidity and financial resources

As at 30 June 2002, the Group's total bank borrowings comprising mortgage loans, trust receipt loans and overdraft amounted to HK\$264,554,000, representing a decrease of approximately HK\$51,918,000 or 16.4% as compared to that as at 31 December 2001. This is mainly caused by the repayment of bank borrowings with the funds raised in the disposal of investment properties in last year and during the period under review. Among the total bank borrowings, all of them were immediately due and should have been repaid to the relevant creditors. Total liabilities increased by approximately 6.7% to HK\$503,310,000 mainly due to the further provision made in respect of corporate guarantees provided to creditor banks for certain subsidiaries of SHKP and the net increase in accrued interest expenses amounting to HK\$13,035,000. Current ratio of the Group decreased from approximately 9.7% as at 31 December 2001 to approximately 3.6% as at 30 June 2002 since almost all of the Group's liabilities were of a current nature. The gearing ratio (total liabilities as a percentage of total assets) increased from approximately 229% as of 31 December 2001 to approximately 397% as of 30 June 2002, which was mainly attributable to the increase of total liabilities as referred to above and the decrease of total assets as a result of the net loss of HK\$110,119,000 incurred during the period under review. As at 30 June 2002, the Group had a net deficit of HK\$375,880,000

In order to improve its financial position and liquidity, the Group is currently in discussions with its creditor banks in relation to a debt restructuring plan. The Group is currently undergoing a capital reduction exercise, upon completion of which the Company will have the flexibility of raising equity capital in the market. Also, the Group is in discussions with certain potential investors for making investments in the Group.

However, prior to the finalisation and completion of the debt restructuring plan, should the Group's creditors demand for repayment of the immediately due borrowings, the directors currently estimate that the Company may have difficulty in making full repayment immediately. If such circumstance occurs, the directors currently anticipate that the Group will experience a liquidity problem.

Most of the investments and borrowings of the Group were made in Hong Kong dollars, and the borrowings of the Group were charged at floating interest rates. No financial instrument had been used for hedging purpose. Therefore, the Group was not exposed to any material exchange rate fluctuation during the period under review.

Charges on assets

As at 30 June 2002, certain assets of the Group with an aggregated carrying value of HK\$85,966,000 were pledged to secure the Group's borrowings as compared to HK\$133,841,000 as at 31 December 2001.



Employee remuneration policy and number of employees

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. As at 30 June 2002, the Group had 18 employees and all were based in Hong Kong.

Contingent liabilities

Details of the Group's contingent liabilities as at 30 June 2002 are set out in note 18 to the accompanying financial statements.

Prospects

The Group has been putting much effort in working out a debt restructuring plan with its creditor banks and soliciting investors in making investments in the Group. Upon finalisation of the above, the Group believes that it will have a much improved financial position and resources to support its business endeavors. Meanwhile, the Group will continue to dispose of its remaining property portfolio and non-core assets in order to reduce debt level and to fund its existing core business.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with 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. The interim financial statements have not been audited, at the request of the directors, the Group's external auditors have carried out a review of the unaudited interim financial statements.

In connection with their review and upon considering the review report of the external auditors, the Audit Committee would draw attention to the auditor's review conclusion that they have not been able to reach a review conclusion as to whether material modification should be made to the interim financial report for the six months ended 30 June 2002 because of the possible effect of the fundamental uncertainty, details of which are set out in note 1 'Basis of presentation'. Whilst the directors are confident of a successful outcome of the restructuring of the bank borrowings and the availability of future funding from other sources, significant adjustments would have to be made to the interim financial report should the outcome be otherwise.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2002 (For the six months ended 30 June 2001: 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 period ended 30 June 2002.

DE-MINIMIS CONCESSION

The Group has an audited negative net tangible asset value of approximately HK\$267 million based on the Group's latest published annual accounts as of 31 December 2001. As a result of the negative net tangible asset value, the Company would be required to disclose and obtain shareholders' approval in respect of all acquisitions and realisations of assets notwithstanding that, in monetary terms, the transactions in question may be insignificant. As such, the Company applied to the Stock Exchange for the De-minimis Concession which would allow the Company flexibility to carry out its business activities, whilst providing the market with sufficient information to appraise the position of the Company.

On 17 May 2002, the Company obtained the approval from the Stock Exchange to adopt the De-minimis Concession for the purpose of determining the "assets test" and the "consideration test" under Chapter 14 of the Listing Rules for classifying notifiable transactions (other than connected transactions) of the Company in accordance with the guidelines issued by the Stock Exchange on 3 May 2001.

The Stock Exchange's approval for the De-minimis Concession will remain valid from 17 May 2002 until the date of publication of or the due date of the next annual report of the Company, whichever is earlier.

The Company shall adopt the De-minimis Concession such that each transaction (other than connected transactions) will be considered de-minimis if:

- (1) the transaction is carried out in the normal and ordinary course of business of the Company;
- (2) the transaction is entered into on normal commercial terms; and
- (3) the consideration or the value of the transaction does not exceed HK\$1,000,000.

In such circumstances, the "assets test" and the "consideration test" shall not apply and such transaction shall not be subject to any disclosure or shareholders' approval requirements.

**DIRECTORS' INTERESTS IN EQUITY SECURITIES**

As at 30 June 2002, 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 2002, 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 period 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

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.

The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its interim report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial period. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The Directors therefore consider the disclosure of only the exercise price, which are readily ascertainable, will be appropriate.

EMPLOYEE SHARE OPTIONS

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the directors and other employees of the Group. The Scheme became effective on 29 May 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Under the Scheme, it may grant options to executive directors and other employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price is determined by the Company's board of directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date of granting of the options.

Movements in employee share options were as follows:

Name of grantee	Date of grant	Exercise period	Exercise price HK\$	Number of employee share options outstanding		
				At beginning of the period	Lapsed during the period	At balance sheet date
				'000	'000	'000
Directors						
Chan Peng Kuan	5 October 2000	5 October 2000 to 4 October 2003	0.206	10,000	–	10,000
Wan Kwong Kee	5 October 2000	5 October 2000 to 4 October 2003	0.206	10,000	–	10,000
Other employees	5 October 2000	5 October 2000 to 4 October 2003	0.206	12,000	5,000 (note a)	7,000

- (a) The employees resigned during the period and the options granted to them became lapse.
- (b) None of the options was exercised during the period.

The Stock Exchange has introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. An option granted under the Scheme shall be subject to the new changes which include, inter alia, the followings:

- (a) the maximum number of shares issuable under the share option to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting;



EMPLOYEE SHARE OPTIONS (Con't)

- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors; and
- (c) the exercise price of the share options is determined by directors, but may not be less than the higher of (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

The Company shall amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

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 2002 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 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, 20 September 2002