

Shanxi Central Pharmaceutical International Limited
正中藥業國際有限公司



2002/2003 中期報告
INTERIM REPORT

OVERVIEW

The board (the “Board”) of directors (the “Directors”) of Shanxi Central Pharmaceutical International Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 November 2002.

The unaudited condensed consolidated financial statements (the “financial statements”) on pages 4 to 21 have not been audited and reviewed by the Group’s auditors, Ernst & Young. The financial statements have been reviewed and considered by the audit committee (the “Audit Committee”) of the Company which comprises two independent non-executive directors of the Company, Mr. Ko Siu Shing, Patrick and Mr. Siu Siu Ling, Robert. Because of the unpredictable and unforeseeable difficulties encountered in the process of preparing and reviewing the financial statements, which include the changes in directors and management of the Group and the huge outbreak of the contagious Severe Acute Respiratory Syndrome (“SARS”) in Taiyuan City, Shanxi Province, the People’s Republic of China (“PRC”) where the Group’s major operations are situated, the Directors and the Audit Committee are unable to resolve satisfactorily all outstanding issues in relation to this financial statements. Details of the outstanding issues are set out in the “Notes to the Condensed Consolidated Financial Statements” on P.8 to P.21.

CHANGES IN MANAGEMENT & DIRECTORS

As stated in the Company’s announcement dated 31 December 2002, Mr. David Y. M. Shi (“Mr. Shi”), the deputy chairman and managing director of the Company, suffered from illness and could not perform his duty. Mr. Shi has been a key member of the Group who had been in charge of the Group’s operations and the establishment and investments in the 94 Rheumatic Treatment Centres.

On 29 January 2003, Mr. Gao Guoshi and Mr. Dai Zhongcheng were appointed as the executive directors and Mr. Siu Siu Ling, Robert was appointed as the independent non-executive director. Mr. Siu also joined the Group’s Audit Committee since 29 January 2003. On 16 April 2003, Mr. Chan Bo Ching resigned from the office of independent non-executive director.

As set out in note 8 to the unaudited interim financial statements, during the financial period ended 31 May 2002, the Group had carried out an investment project for the establishment of Rheumatic Treatment Centres in 94 hospitals in the PRC with total original cost of investments amounting to approximately HK\$164.6 million. As stated in the Company's previous announcements dated 27 February 2003, 21 March 2003, 8 April 2003 and 23 May 2003 respectively, the newly appointed Directors only started to review the Group's interim financial statements since joining the Group on 29 January 2003. The new Directors carried out certain review work when preparing the interim financial statements, which include, inter alia, the evaluation on (i) the recoverability of outstanding receivable amount of approximately HK\$19.6 million and HK\$18.3 million and (ii) the impairment value for the long term investment in the remaining 30 Rheumatic Treatment Centres (64 Rheumatic Treatment Centres had been either disposed or terminated during the reporting period). Because of the huge outbreak of SARS in Taiyuan City and in the absence of Mr. Shi in performing his duty or assisting the new Directors to perform their duties during the time, the new Directors had not been able to complete the review work within the stipulated time, despite of the fact that much effort and resources had been already devoted.

POSTPONEMENT OF THE ISSUANCE OF INTERIM FINANCIAL STATEMENTS

As most of the books of accounts and records of transactions are kept in Taiyuan City, the outbreak of SARS in the PRC, in particular where Taiyuan City is one of the major infected areas, had caused difficulties for the new Directors to attend physically and carry out review work as required. In addition, a number of the PRC accounting staffs had left the Group which caused delay in relation to the preparation of the interim financial statements. With a view to speeding up the preparation process, the Board has engaged an independent firm of Certified Public Accountants (the "Accountant") to assist the review of certain information in the interim financial statements. The review was initially scheduled to be carried out in Taiyuan City and to be completed in April 2003. As a result of the outbreak of SARS, the plan had come to a halt because of the difficulties in arranging the Accountant to carry out the site visit in Taiyuan City.



As it is uncertain for how long the epidemic will continue, after due consideration, the Board considers that it is impossible and impracticable at present to fix a time schedule for the completion of the review to be carried out in Taiyuan City and it is not in the best interest of shareholders for further postponement of releasing the interim financial statements, despite of the fact that the new Directors still require additional time to complete the review. After postponement of over three months, the Board decides that it is for the best interest of shareholders to receive the interim financial statements even though there are outstanding issues of which the Board is obliged to follow up and resolve during the coming months.

The financial statements and accounting record of all PRC subsidiaries and investee companies of the Group are prepared in accordance with the generally accepted accounting practice (“GAAP”) and legal requirements of the PRC. In the past, the accounting officers of the Group in the PRC had prepared the financial statements and the auditors from Hong Kong were required to work in the office of Taiyuan City for a substantial period of time in order to review the Group’s financial statements for reporting purposes. Under the impact of SARS, the Board, although tried its best effort, was unable to carry out similar procedures. Accordingly, it caused further difficulties for the new Directors in reviewing the financial statements as they could not obtain the necessary assistance and professional advice.

The Directors and the Accountant are still carrying out continuous assessment of the outstanding issues which have not been completed when releasing this unaudited financial statements. Having completed the review, the Board and the Audit Committee will, where appropriate, set out further information in the forthcoming audited annual report.



CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT*For the six months ended 30 November 2002*

	Notes	30 November 2002 (Unaudited) HK\$'000	30 November 2001 (Unaudited) HK\$'000
TURNOVER	3	90,049	148,542
Cost of sales		(64,942)	(87,087)
Gross profit		25,107	61,455
Other revenue		268	409
Selling and distribution costs		(13,948)	(14,832)
Administrative expenses		(5,520)	(7,700)
Other operating expenses		(189,630)	(3,863)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES		(183,723)	35,469
Finance costs		(833)	(32)
(LOSS)/PROFIT BEFORE TAX	4	(184,556)	35,437
Tax	5	(1,870)	(6,419)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(186,426)	29,018
Minority interests		–	(326)
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(186,426)	28,692
(LOSS)/EARNINGS PER SHARE	6		
– Basic		HK(8.58) cents	HK1.37 cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 November 2002

	Notes	30 November 2002 (Unaudited) HK\$'000	31 May 2002 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		17,737	18,292
Deferred development costs		4,909	5,565
Investment in securities	7	20,000	–
Long term investments	8	–	61,712
Investments held for disposal	8	–	10,953
		42,646	96,522
CURRENT ASSETS			
Investments held for disposal	8	–	66,929
Inventories		1,366	1,311
Accounts and other receivables	9	32,451	108,378
Cash and cash equivalents		13,881	52,938
		47,698	229,556
CURRENT LIABILITIES			
Accounts and other payables	10	23,480	92,599
Tax payable		5,120	2,022
Interest-bearing bank borrowings	11	35,527	19,031
		64,127	113,652
NET CURRENT (LIABILITIES) ASSETS		(16,429)	115,904
TOTAL ASSETS LESS CURRENT LIABILITIES		26,217	212,426
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	11	–	18,000
Convertible Debentures	12	10,250	–
MINORITY INTERESTS		150	1,933
		15,817	192,493
CAPITAL AND RESERVES			
Share capital	13	45,000	42,000
Reserves	14	(29,183)	150,493
		15,817	192,493

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

	30 November 2002 (Unaudited) HK\$'000	30 November 2001 (Unaudited) HK\$'000
NET CASH FROM (USED IN) OPERATING ACTIVITIES	(78,948)	52,457
NET CASH FROM (USED IN) INVESTING ACTIVITIES	19,982	(165,023)
NET CASH FROM FINANCING ACTIVITIES	20,000	30,092
DECREASE IN CASH AND CASH EQUIVALENTS	(38,966)	(82,474)
Cash and cash equivalents at beginning of period	52,847	135,321
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13,881	52,847
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	13,881	52,847

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 November 2002

	Share capital	Share premium	Assets revaluation reserve	Contributed surplus	Retained profits/ Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 June 2002 (Audited)	42,000	6,139	6,181	4,500	133,673	192,493
Issue of shares	3,000	-	-	-	-	3,000
Share premium on issue of conversion shares of convertible debentures	-	6,750	-	-	-	6,750
Net loss for the period (Unaudited)	-	-	-	-	(186,426)	(186,426)
At 30 November 2002 (Unaudited)	<u>45,000</u>	<u>12,889</u>	<u>6,181</u>	<u>4,500</u>	<u>(52,753)</u>	<u>15,817</u>
At 1 June 2001 (Audited)	42,000	6,139	8,966	4,500	112,346	173,951
Net profit for the period (Unaudited)	-	-	-	-	28,692	28,692
At 30 November 2001 (Unaudited)	<u>42,000</u>	<u>6,139</u>	<u>8,966</u>	<u>4,500</u>	<u>141,038</u>	<u>202,643</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 November 2002

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The existing Board have used their best endeavour to prepare and review all the financial and business records of the Group. However, due to the illness and the absence of Mr. Shi, the deputy chairman and managing director of the Company, and in view of the failure for arranging the Accountant to carry out the review of certain financial information of the Group in Taiyuan, the Directors encountered the following difficulties in preparing the unaudited condensed consolidated financial statements:

- i. As stated in note (17), the Directors were unable to obtain sufficient information to assess the outcome of a court proceeding instituted by a body corporate against (i) the Company; (ii) Central Pharmaceutical Holdings (BVI) Limited, a wholly-owned subsidiary of the Company; (iii) Mr. Shi; and (iv) Madam Hou Li Ping for the claim of HK\$17,550,000 and the interest thereon arising from a dishonoured cheque drawn by Central Pharmaceutical Holdings (BVI) Limited. Instruction was given to the Company's solicitors for further investigation on the detail of the proceeding and the outcome is unknown up to the date of this report. Against the background described above, although the Directors have tried their best efforts, they were unable to represent as to the completeness of records of transactions entered into by the Group in the PRC for the period ended 30 November 2002 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements. The Directors are also unable to represent as to the completeness of identification and disclosure of related and connected party transactions and balances.
- ii. The huge outbreak of SARS in Taiyuan City and other cities in the PRC, in short term, inevitably has adverse impact on the Group's operation, which are closely relied via alliance with hospitals in the PRC. However, in view of insufficient information, the Board is unable to assess the long term impact of SARS. Based on the Group's prudent accounting policy and in view of the fundamental uncertainty relating to the impact of SARS, the Board considers it's prudent to provide impairment loss of HK\$61.7 million in the value of the investment in the remaining 30 Rheumatic Treatment Centres. Also, the Group made a full or partial provision for certain outstanding receivables which include HK\$18.3 million relating to the remaining balance on the disposal of 28 Rheumatic Treatment Centres, HK\$19.6 million relating to the remaining balance on the medical equipment of 36 Rheumatic Treatment Centres returned to an independent medical equipment supplier and certain outstanding trade receivables amounting to approximately HK\$67.2 million.

- iii. Any adjustments arising from the matters described in (i) to (ii) above would materially affect the net assets of the Company and the Group as at 30 November 2002 and the net loss and cash flows of the Group for the six months then ended.

The Company was incorporated in Bermuda on 4 November 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company had not carried on any business since the date of its incorporation save for the acquisition on 8 July 2000 of the entire issued share capital of Central Pharmaceutical Holdings (BVI) Limited, the intermediate holding company of other subsidiaries within the Group, in preparation for the listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The unaudited condensed consolidated financial statements for the six months ended 30 November 2002 had been prepared using the merger basis of accounting and is consolidated according to the management accounts of the PRC subsidiaries.

The financial information relating to the financial year ended 31 May 2002 included in the financial statements is extracted from the Group's audited financial statements for the year ended 31 May 2002. The Group's auditors, Ernst & Young, have expressed an unqualified opinion on those financial statements in their report dated 29 October 2002.

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.2.125 "Interim Financial Reporting", issued by the Hong Kong Society of Accountant and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation are the same as those used in the audited annual financial statements for the year ended 31 May 2002, except that the following new and revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP 1 (Revised)	Presentation of Financial Statements
SSAP 11 (Revised)	Foreign Currency Translation
SSAP 15 (Revised)	Cash Flow Statements
SSAP 25 (Revised)	Interim Financial Reporting
SSAP 34	Employee Benefits

The adoption of new/revised standards during the period has no material effect on the Group's results of the current and prior period other than the changes in the format of presentation of consolidated cash flow statement and the consolidated statement of changes in equity. Certain comparative figures have been reclassified to conform with the current period's presentation.

Short term liquidity

As stated in note (11), two banks instituted court proceedings claiming the Company and/or its subsidiary for repayment of bank loans totaling about HK\$35.5 million. As stated in note (17), one body corporate instituted a court proceeding demanding a subsidiary company HK\$17.55 million and the interest thereon arising from a dishonoured cheque drawn by that subsidiary. Also stated in note (17), a printing company instituted a court proceeding against the Company claiming for the settlement of outstanding printing services fees in the sum of HK\$204,138.60 and the interest thereon.

2. SEGMENT INFORMATION

The principal activities of the Group consist of the development, manufacturing and provision of Chinese pharmaceutical products which are predominantly medicinal preparations and anti-rheumatoid capsules primarily for the treatment of rheumatoid and/or arthritic conditions, the operation of Taiyuan City Rheumatoid Hospital ("Taiyuan Hospital") and wholesale and retail of Chinese and Western pharmaceutical products and health care products in the PRC. The results of operations by principal activity for the six months ended 30 November 2002 are summarized as follows:

	Turnover		Contribution to	
	Six months ended		(loss)/profit before tax	
	30 November		30 November	
	2002	2001	2002	2001
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacturing business	75,466	135,635	(184,667)	35,563
Trading business	10,314	9,574	(50)	(74)
Operation of Taiyuan Hospital	4,269	3,333	161	(52)
	<u>90,049</u>	<u>148,542</u>	<u>(184,556)</u>	<u>35,437</u>

The principal activities of the Group are carried out in the PRC.

3. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and services provided. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

4. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	Six months ended 30 November	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Cost of inventories sold	62,993	84,671
Cost of services provided	1,949	2,416
Depreciation	917	1,170
Amortisation of deferred development costs *	544	1,163
Provision for deferred development costs *	11,020	2,700
Provision for impairment of long term investments *	61,712	-
Provision for bad and doubtful debts *	105,060	-
Research and development expenses *	11,294	-
Interest income	(268)	(409)

* Included in "Other operating expenses" on the face of the condensed consolidated profit and loss account.

5. TAX

Hong Kong profits tax not been provided (2001: Nil) as the Group has no assessable profits arising in Hong Kong for the period.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of taxation prevailing in the jurisdictions in which the subsidiaries operated during the period based on existing legislation, interpretation and practices in respect thereof.

PRC income tax for all of the subsidiaries operating in the PRC is calculated at a unified tax rate of 33% (2001: 33%) on their taxable profits unless waivers are granted by relevant tax authorities during the period.

Shanxi Zhengzhong Pharmaceutical Co., Ltd. was exempted from PRC income tax for two years from its first profit-making year of operations, which was the year ended 31 December 1998, and thereafter is eligible for a 50% relief from PRC income tax for the following three years under the Income Tax Law of the PRC.

Deferred tax has not been provided (31 May 2002: Nil) as the Group had no significant timing differences at 30 November 2002.

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the net loss from ordinary activities attributable to shareholders for the six months ended 30 November 2002 of HK\$186,426,000 (2001: profits of HK\$28,692,000), and the weighted average number of 2,171,910,000 (2001: 2,100,000,000) ordinary shares.

No diluted loss per share has been calculated for period ended 30 November 2002 as the exercise of share options and the conversion of the convertible debentures would result in a decrease in the loss per share for the period.



7. INVESTMENT IN SECURITIES

In August 2002, the Group entered into an agreement with an independent third party for the acquisition of 11% equity interest in a PRC entity, which is also engaged in the pharmaceutical industry, for a consideration of HK\$20,000,000 (the "Acquisition"). As certain conditions as set out in the agreement were not satisfied, the Acquisition was terminated in November 2002.

In November 2002, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party to purchase approximately 9.8% equity interest in an entity at a consideration of HK\$20,000,000. The investee is principally engaged in genetic development and research in relation to the rheumatoid arthritis, leukemia and congenital disease market.

8. LONG TERM INVESTMENTS AND INVESTMENTS HELD FOR DISPOSAL

	30 November 2002 (Unaudited) HK\$'000	31 May 2002 (Audited) HK\$'000
Unlisted investments, at cost	61,712	144,191
Provision for impairment	<u>(61,712)</u>	<u>(4,597)</u>
	–	139,594
Investments held for disposal	<u>–</u>	<u>(77,882)</u>
Long term investments	<u>–</u>	<u>61,712</u>
Investments held for disposal	77,882	77,882
Provision for bad and doubtful debts	<u>37,900</u>	<u>–</u>
	39,982	77,882
Proceeds received during the period	<u>(39,982)</u>	<u>–</u>
	–	77,882
Portion classified as current asset	<u>–</u>	<u>(66,929)</u>
Long term portion	<u>–</u>	<u>10,953</u>

During the financial year ended 31 May 2002, the Group signed various agreements (the "Agreements") with 94 hospitals in the PRC for the establishment of the Rheumatic Treatment Centres in these hospitals.

Pursuant to the Agreements, the hospitals are responsible for the establishment of the Rheumatic Treatment Centres within a time frame prescribed in the Agreements. The ownership and day to day responsibility for the operation of the Rheumatic Treatment Centres vest with the hospitals. The Group is responsible for the sourcing of appropriate medical equipment, supply of the necessary medicinal preparations and anti-rheumatoid capsules for the treatment of rheumatoid and/or arthritic conditions for the Rheumatic Treatment Centres. Pursuant to the purchase agreements entered into with the medical equipment supplier (the "Supplier"), the medical equipment can be returned to the Supplier should the medical equipment not meet the Group's requirements. The Group also funds part of the initial establishment costs of the Rheumatic Treatment Centres which are non-refundable. In return, the Group receives a participating right in the Rheumatic Treatment Centres' profits for the duration of the periods specified in the Agreements, generally 12 years. Pursuant to the Agreements, the Group can share 50% of the profit generated from the operation of the Rheumatic Treatment Centres, after a 10% appropriation reserved for future development of the Rheumatic Treatment Centres, commencing from 1 January 2003. The total original cost of investments in Rheumatic Treatment Centres, after taking into account the initial establishment costs of the Rheumatic Treatment Centre as further detailed below, amounted to approximately HK\$164.6 million.

During the period ended 30 November 2002, based on the Group's continuous assessment of the operation of the Rheumatic Treatment Centres and in view of the unsatisfactory performance of some of these centres, the Group terminated or disposed 64 centres in total.

In August and September 2002, the Group entered into various termination agreements (the "Termination Agreements") with 36 hospitals for the termination of its investments in the Rheumatic Treatment Centres (the "Terminated Centres") due to their unsatisfactory performance. Pursuant to the Termination Agreements, all the medical equipment delivered to the Terminated Centres were returned to the Group and the cooperation with these 36 hospitals were terminated. On the other hand, the Group entered into an agreement (the "Supplier Agreement") with the Supplier. Pursuant to the Supplier Agreement, the Supplier agreed to buy back those medical equipment returned from the Terminated Centres at aggregate consideration of approximately HK\$41.4 million, representing 90% of the original cost, resulting in a loss of approximately HK\$4.6 million, which was incorporated into the



financial statements during the year ended 31 May 2002. The initial establishment costs of the Terminated Centres of a total of approximately HK\$11.5 million are not refundable and were charged to the profit and loss account during the year ended 31 May 2002. Pursuant to the Supplier Agreement, the Group received approximately HK\$21.8 million from the Supplier in September 2002. In accordance with the Supplier Agreement, the remaining balance will be settled as to approximately HK\$5.5 million and approximately HK\$14.1 million in November 2002 and January 2003, respectively. The Group has not received the outstanding amount of HK\$19.6 million in due course. The Group has assessed the recoverability of the outstanding amount and based on the Group's prudent accounting policy, the Directors are of the view to make full provision for bad and doubtful debts on the total outstanding amount of HK\$19.6 million and charged to the profit and loss account during the reporting period.

In October 2002, the Group entered into sale and purchase agreements (the "Disposal Agreement") with two independent third parties (the "Purchasers") to dispose of its entire interests in the investments in the Rheumatic Treatment Centres with some other 28 hospitals (the "Disposed Centres") at aggregate consideration of approximately HK\$36.5 million. The initial establishment costs of the Disposed Centres of a total of approximately HK\$8.9 million were charged to the profit and loss account during the year ended 31 May 2002. The Group received non-refundable deposits of a total of approximately HK\$18.2 million from the Purchasers in October 2002 in accordance with the Disposal Agreements. The remaining balance will be settled as to approximately HK\$7.3 million and approximately HK\$11.0 million by the Purchasers in April 2003 and December 2003, respectively, according to the Disposal Agreements. The Group has not received the balance of approximately HK\$7.3 million in April 2003 and based on the Group's prudent accounting policy, the Directors are of the view to make full provision for bad and doubtful debts on the total disposal proceeds of HK\$18.3 million and charged to the profit and loss account during the reporting period.

The Directors consider that further impairment in value of the investments in the Rheumatic Treatment Centres with the remaining 30 hospitals of approximately HK\$61.7 million are provided as there is only a minimal revenue generated from the 30 hospitals. Resources from these hospitals are driven to against SARS and accordingly, the Rheumatic Treatment Centres would not be able to generate profit in the near future. Based on the Group's prudent accounting policy, the Directors are of the view to make full impairment on the long term investments of approximately HK\$61.7 million.

9. ACCOUNTS AND OTHER RECEIVABLES

	30 November 2002 (Unaudited) HK\$'000	31 May 2002 (Audited) HK\$'000
Accounts receivable		
Less than 90 days	32,200	54,356
91 – 180 days	49,864	40,252
Over 180 days	1,196	884
	<u>83,260</u>	<u>95,492</u>
Less: Provision for bad and doubtful debts	(67,160)	–
	<u>16,100</u>	<u>95,492</u>
Prepayments, deposits and other receivables	<u>16,351</u>	<u>12,886</u>
Total	<u>32,451</u>	<u>108,378</u>

10. ACCOUNTS AND OTHER PAYABLES

	30 November 2002 (Unaudited) HK\$'000	31 May 2002 (Audited) HK\$'000
Accounts payable		
Current to 90 days	1,396	27,472
91 – 180 days	672	8,593
Over 180 days	4,155	5,007
	<u>6,223</u>	<u>41,072</u>
Accrued liabilities and other payables	<u>17,257</u>	<u>51,527</u>
Total	<u>23,480</u>	<u>92,599</u>

11. INTEREST – BEARING BANK BORROWINGS

	30 November 2002 (Unaudited) HK\$'000	31 May 2002 (Audited) HK\$'000
Trust receipt loan, unsecured and repayable on demand	5,527	7,031
Unsecured bank loan repayable:		
Within one year or on demand	30,000	12,000
In the second year	–	12,000
In the third to fifth years, inclusive	–	6,000
	<u>35,527</u>	<u>37,031</u>
Portion classified as current liabilities	<u>(35,527)</u>	<u>(19,031)</u>
Long term portion	<u>–</u>	<u>18,000</u>

At 30 November 2002, the banking facilities of the Group were supported by:

- (i) corporate guarantees executed by the Company and a subsidiary of the Company;
- (ii) personal guarantees executed by two Directors of the Company.

A writ dated 26 March 2003 was issued by solicitors acting for Dao Heng Bank Limited against the Company, as guarantor, for the repayment of the instalment loans in the sum of approximately HK\$30,000,000 together with all interest arising from the instalment loans made by the borrower, Shanxi Zhengzhong Pharmaceutical Co., Ltd., a 99% non-wholly owned subsidiary of the Company. An Order 14 Summons hearing is fixed on 7 July 2003.

A writ dated 27 March 2003, a statement of claim dated 23 April 2003 and an amended statement of claim dated 24 April 2003 were issued respectively by solicitors acting for CITIC Ka Wah Bank Limited against (i) Central International Investments Limited, a wholly-owned subsidiary of the Company, as borrower and (ii) the Company, as guarantor claiming for the repayment of the overdue trust receipt loans in the sum of approximately HK\$5,500,000 together with all interest.

12. CONVERTIBLE DEBENTURES

In July 2002, the Company issued convertible debentures of HK\$20,000,000 (the "Convertible Debentures"), bearing interest at 4.5% per annum, to Honest Concord Enterprises Limited, an independent third party.

The Convertible Debentures are convertible into new shares of the Company at any time after 29 July 2002 and up to the maturity date of the Convertible Debentures of 29 July 2004. The conversion price of the debentures is determined based on the higher of (i) the fixed conversion price of HK\$0.065 per share, subject to adjustment; and (ii) 93% of the average closing price of the shares of the Company during the 10 business days immediately prior to conversion of the Convertible Debentures.

In September 2002, a portion of the Convertible Debentures amounting HK\$9,750,000 were converted into 150,000,000 shares of the Company of HK\$0.02 each at a conversion price of HK\$0.065 per share (note 13).

13. SHARE CAPITAL

	30 November 2002 (Unaudited) HK\$'000	31 May 2002 (Audited) HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.02 each	200,000	200,000
<i>Issued and fully paid:</i>		
2,250,000,000 ordinary shares of HK\$0.02 each (31 May 2002: 2,100,000,000 ordinary shares of HK\$0.02 each)	45,000	42,000

HK\$9,750,000 of the Convertible Debentures were converted into 150,000,000 shares at the conversion price of HK\$0.065 in September 2002 (note 12). As a result, the issued share capital of the Company increased to HK\$45,000,000 comprising 2,250,000,000 ordinary shares of HK\$0.02 each.

Share option scheme

Pursuant to a share option scheme adopted by the Company effective on 25 July 2000 (the "Original Share Option Scheme"), the Board may, at its discretion invite any full-time employees, including executive Directors but not non-executive Directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares. The subscription price shall not be less than the higher of (i) 80% of the average of the official closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option; and (ii) the nominal value per share. A nominal consideration of HK\$1 is payable by the grantee upon acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the Original Share Option Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time.

On 23 August 2001, the Stock Exchange has announced amendments to Chapter 17 of the Listing Rules in respect of share option schemes, which has come into effect on 1 September 2001. To comply with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Company has terminated the Original Share Option Scheme and adopted a new share option scheme (the "New Share Option Scheme"). An ordinary resolution was passed at the Company's annual general meeting held on 22 November 2002 for the approval of the New Share Option Scheme and termination of the Original Share Option Scheme.

Pursuant to the New Share Option Scheme, the Board may, at its discretion invite any eligible employees including executive Directors and non-executive Directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for shares. The subscription price shall be a price determined by the Directors, but shall not be less than the highest of (i) closing price of the shares on the date of the offer; (ii) the average closing price of the shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share.

The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the New Share Option Scheme i.e. 22 November 2002 (equivalent to 225,000,000 shares). The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the New Share Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit. No option shall be granted under the New Share Option Scheme or any other share option schemes which would result in the aggregate number of shares which may be issued upon exercise of all outstanding options granted any yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company exceeding 30% of the shares in issue.

No options have been granted up to 30 November 2002 under the New Share Option Scheme.

14. RESERVES

	Share premium HK\$'000	Asset revaluation reserve HK\$'000	Contributed surplus# HK\$'000	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
At 1 June 2002 (Audited)	6,139	6,181	4,500	133,673	150,493
Share premium on issue of conversion shares of convertible debentures	6,750	-	-	-	6,750
Net loss for the period (Unaudited)	-	-	-	(186,426)	(186,426)
At 30 November 2002 (Unaudited)	<u>12,889</u>	<u>6,181</u>	<u>4,500</u>	<u>(52,753)</u>	<u>(29,183)</u>
At 1 June 2001 (Audited)	6,139	8,966	4,500	112,346	131,951
Revaluation deficit	-	(2,785)	-	-	(2,785)
Net profit for the year	-	-	-	21,327	21,327
At 31 May 2002 (Audited)	<u>6,139</u>	<u>6,181</u>	<u>4,500</u>	<u>133,673</u>	<u>150,493</u>

The contributed surplus arose as a result of the Group reorganisation in 2000 and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share/registered capital of the subsidiaries acquired.

15. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Guarantees executed by two Directors of the Company in respect of the Group's banking facilities are included in note 11.

16. CONTINGENT LIABILITIES

As at 30 November 2002, the Company had provided corporate guarantees for banking facilities utilised by certain subsidiaries of HK\$35,527,000 (31 May 2002: HK\$37,031,000).

17. POST BALANCE SHEET EVENT

A writ dated 26 March 2003 was issued by solicitors acting for Dao Heng Bank Limited against the Company, as guarantor, for the repayment of the instalment loans in the sum of approximately HK\$30,000,000 together with all interest arising from the instalment loans made by the borrower, Shanxi Zhengzhong Pharmaceutical Co., Ltd., a 99% non-wholly owned subsidiary of the Company. An Order 14 Summons hearing is fixed on 7 July 2003.

A writ dated 27 March 2003, a statement of claim dated 23 April 2003 and an amended statement of claim dated 24 April 2003 were issued respectively by solicitors acting for CITIC Ka Wah Bank Limited against (i) Central International Investments Limited, a wholly-owned subsidiary of the Company, as borrower and (ii) the Company, as guarantor claiming for the repayment of the overdue trust receipt loans in the sum of approximately HK\$5,500,000 together with all interest.

A court proceeding was instituted by a body corporate on 13 May 2003 against (i) the Company; (ii) Central Pharmaceutical Holdings (BVI) Limited, a wholly-owned subsidiary of the Company; (iii) Mr Shi Yue Ming; and (iv) Madam Hou Li Ping for the claim of HK\$17,550,000 and the interest thereon arising from a dishonoured cheque drawn by Central Pharmaceutical Holdings (BVI) Limited. Instruction was given to the Company's solicitors for further investigation on the detail of the proceeding and the outcome is unknown up to the date of this report.

A writ dated 14 May 2003 was issued by solicitors acting for a printing company against the Company for the settlement of outstanding printing services fees in the sum of HK\$204,138.60 and the interest thereon. The Company has appointed solicitors acting on behalf of the Company to handle the litigation.

18. OPERATING LEASE ARRANGEMENTS

- (a) The total future minimum lease payment, in respect of non-cancellable operating leases committed at the balance sheet date to be made by the Group was as follows:

	30 November 2002 (Unaudited) HK\$'000	31 May 2002 (Audited) HK\$'000
Within one year	871	1,302
In the second to fifth year, inclusive	90	783
	961	2,085

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 November 2002 (2001: Nil).

BUSINESS REVIEW

For the six months ended 30 November 2002, the Group recorded consolidated turnover of approximately HK\$90 million, representing a decrease of 39.4% over that of the same period in 2001. The Board considers that the decrease in turnover for the previous six months was mainly attributable to (i) the intensified market competition which was led by the continuous decline of the medicine prices under the PRC government policy; and (ii) the higher-profit sharing ratio as required by the hospitals which resulted in the decrease in the sales of pharmaceutical products to hospitals and over-the-counter drug markets. Gross profit amounted to HK\$25.1 million, representing a decrease of 59.2% over that of the same period in 2001. Gross profit margin fell from 41.4% to 27.9%. The decline in the gross profit margin was mainly due to intense price competition and higher production costs on the manufacture and development of medicinal products.

During the period under review, the Group recorded its first net loss attributable to shareholders since the listing of its shares in July 2000. The loss of HK\$186.4 million was mainly attributable to (i) the provision for impairment of long term investments amounting to approximately HK\$61.7 million and (ii) the provision of bad and doubtful debts amounting to approximately HK\$105.1 million. During the reporting period, approximately HK\$11.3 million of the research and development expenses of the two newly developed products, Runchang Tongbian Cha (潤腸通便茶) and Tongluo Zhitong Jiaonang (通絡止痛膠囊) were charged to the profit and loss account. Provision for deferred development costs of approximately HK\$11 million were made for products which are in the initial stage of development.

Manufacturing Operation

For the six months ended 30 November 2002, the manufacturing operation contributed approximately 83.8% of the Group's turnover. The turnover decreased approximately 44.4% as compared to the last corresponding period.

Rheumatic Treatment Centres

As set out in note (8) to the financial statement, the Group entered into various agreements with 94 hospitals in the PRC for the establishment of the Rheumatic Treatment Centres in these hospitals during the financial year ended 31 May 2002. The total original cost of investments in the Rheumatic Treatment Centres, amounted to approximately HK\$164.6 million. During the period under review, the Group carried out continuous assessment of the operation of the Rheumatic Treatment Centres. The results of these centers were not performing satisfactory. As a result, during the period from August to October 2002, the Group terminated the co-operations with 36 hospitals and disposed of its investments in other 28 hospitals.

In August and September 2002, the Group entered into various Termination Agreements with 36 hospitals for the termination of its investments in the Rheumatic Treatment Centres. As a result of the Termination Agreements, the Group incurred a loss of HK\$4.6 million while the loss for the initial establishment costs amounted to HK\$11.5 million, which were all charged to the profit and loss account for the year ended 31 May 2002. Pursuant to the Supplier Agreement, the Group was entitled to receive a total of HK\$41.4 million in relation to the return of the medical equipment in the 36 Rheumatic Treatment Centers. The Group received HK\$21.8 million from the Supplier in September 2002 but has not received the HK\$5.5 million and HK\$14.1 million which was due to in November 2002 and January 2003. The Group has assessed the recoverability of the outstanding amount and based on the Group's prudent accounting policy, the Directors are of view to make full provision for bad and doubtful debts on the total of HK\$19.6 million and charged to the profit and loss account during the reporting period (note 8).

In October 2002, the Group entered into the Disposal Agreements to dispose of its entire interests in the 28 Rheumatic Treatment Centres at aggregate consideration of approximately HK\$36.5 million. As a result of the Disposal Agreements, the Group incurred a loss of its initial establishment cost of approximately HK\$8.9 million which were charged to the profit and loss account of the Group for the year ended 31 May 2002.

Pursuant to the Disposal Agreements, the Group received non-refundable deposits of approximately HK\$18.2 million from the Purchasers in October 2002. In accordance with the Disposal Agreements, the remaining balance will be settled as to approximately HK\$7.3 million and approximately HK\$11.0 million by the Purchasers in April 2003 and December 2003, respectively. The Group has not received the balance of approximately HK\$7.3 million in April 2003 and based on the Group's prudent accounting policy, the Directors are of the view to make full provision for bad and doubtful debts on the total disposal proceeds of HK\$18.3 million and charged to the profit and loss account during the reporting period. (note 8).

Trading Business Operation

For the six months ended 30 November 2002, the turnover of the Group's trading operations increased approximately 7.7% as compared to the last corresponding period. The trading operations will continue to focus on selling the Group's core products to secure sales increase.

Taiyuan Hospital Operation

For the six months ended 30 November 2002, the turnover of the Group's Taiyuan Hospital operation increased approximately 28.1% as compared to the last corresponding period. The Taiyuan Hospital is maintained as the base for the development and promotion of the Group's self-manufactured pharmaceutical products.

PROSPECTS

The outbreak of SARS starting in the first quarter of 2003 has affected the overall business and financial performance of the Group. The Board is of the view that the continued persistence of the outbreak of SARS could have a negative impact of the business operation and financial position of the Group.



To sustain the Group's future development, the Group continues to expand its product mix to meet the needs of the market. During the reporting period, the Group had completed the approval procedure and successfully obtained the approval from State Drug Administration (國家藥品監督局) for the production of Runchang Tongbian Cha (潤腸通便茶) and Tongluo Zhitong Jiaonang (通絡止痛膠囊).

Foreseeing the increasing competition in the PRC's pharmaceutical market, the management of the Group will be prudent during its implementation of technological improvement and expansion of production facilities. The Group will carefully evaluate the investment on the establishment of the new GMP factory on the manufacture and development of medicinal products. The Group will make an effort to rationalize and streamline its existing operations to improve the operational results. Capitalizing on the Group's experience in the Chinese pharmaceutical products for the treatment of rheumatoid and/or arthritic conditions, the Group will utilize its market advantages and study the possibility of cooperation between pharmaceutical companies and look for investment opportunities for future development.

EMPLOYEES

As at 30 November 2002, the Group has a workforce of approximately 175 in both the PRC and Hong Kong. Remuneration policies are reviewed annually and certain staffs are entitled to commission. During the period, there was no significant change in the Company's employees and remuneration policies.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 November 2002, the Group's cash and cash equivalents was HK\$13.9 million (31 May 2002: HK\$52.9 million) and its net current liabilities was HK\$16.4 million (31 May 2002: net current assets HK\$115.9 million). The gearing ratio, defined as long-term liabilities to shareholder's fund, was 0.65 (31 May 2002: 0.10).

The Group's bank borrowings amounted to HK\$35.5 million (31 May 2002: 37 million). As the Group has defaulted in payment of the bank borrowings, consequently, the bank borrowings of the Group become due for immediate repayment. The banking facilities of the Group were supported by corporate guarantees executed by the Company and a subsidiary of the Company together with personal guarantees executed by two executive Directors of the Company.

Most of the Group's monetary assets and borrowings are denominated in Renminbi and Hong Kong dollar. The foreign exchange fluctuation between Hong Kong dollar and Renminbi is not material. Thus, the exchange rate risk of the Group is considered to be minimal.

DIRECTORS' INTERESTS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 November 2002, the interests of the Directors of the Company and their associates in the securities of the Company and its associated corporations, shown in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

1. The Company

Name	Type of interest in the Company	Number of issued ordinary shares of HK\$0.02 each
Mr. David Y. M. Shi	Corporate	872,252,344 (note)

Note: These shares are held by Healthlink International Inc., a company incorporated in the British Virgin Islands. The entire issued share capital of this company is beneficially owned by Mr. David Y.M. Shi.

2. Associated corporation

Two executive Directors of the Company, Mr. Shi and Madam Hou Li Ping, have beneficial interests in Shanxi Zhengzhong Enterprise Group Company Limited ("Shanxi Enterprise"), a limited liability company incorporated in the PRC. Shanxi Enterprise and the Group beneficially own 1% and 99% respectively of the equity interests in the registered capital of Shanxi Zhengzhong Pharmaceutical Co., Ltd..

SUBSTANTIAL SHAREHOLDER IN THE SHARE CAPITAL OF THE COMPANY

As at 30 November 2002, the following shareholder had notified the Company of a direct interest in 10 per cent. or more of the issued share capital of the Company:

Name	Number of shares	Approximate Percentage (%)
Healthlink International Inc. (note)	872,252,344	38.77%

Note: The entire issued share capital of Healthlink International Inc. is beneficially owned by Mr. David Y. M. Shi.

Save as disclosed above, no other person was recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance having an interest of 10 per cent. or more of the issued share capital of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 November 2002, no options to subscribe for equity or debentures (if any) have been granted to any director or chief executive or their respective associates or any employees of the Group under the New Share Option Scheme of the Company adopted on 22 November 2002.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising two independent non-executive Directors 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 Group's unaudited interim financial statements for the six months ended 30 November 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 30 November 2002, in compliance with Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

APPRECIATION

On behalf of the Board, I would like to extend our gratitude and sincere appreciation to all management and staff members of the Group for their hard work and dedication throughout the period.

By Order of the Board
Hou Li Ping
Chairman

Hong Kong, 2 June 2003