



China Bio-medical Group Limited

Interim Report 2003

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 2003.

Condensed Consolidated Income Statement

For the six months ended 30 June 2003

	Note	Six months ended 30 June 2003 HK\$'000 (Unaudited)	Six months ended 30 June 2002 HK\$'000 (Unaudited)
Turnover	4	547	4,611
Other revenue	4	–	6
Other income		604	–
Transportation service costs		–	(836)
Material cost for service income		(220)	(268)
Depreciation		(192)	(1,245)
Staff costs		(3,766)	(4,018)
Other operating expenses		(2,847)	(5,213)
Operating loss before provisions and other losses and gains		(5,874)	(6,963)
Holding losses on other investments		(3)	(1,953)
Loss on disposal of other investments		–	(566)
Reversal of losses of subsidiaries on deconsolidation	5	15,378	–
Pre-operating expenses incurred by an associate		–	(3,476)
Gain on disposal of property, plant and equipment		3,979	496
Net deficit on revaluation of investment properties		–	(1,400)
Deficit on revaluation of land and buildings		–	(7,715)
Provision for doubtful trade and other receivables		(585)	(3,791)
Impairment in value of property, plant and equipment		–	(1,591)
Profit on disposal of investment properties		–	146
Provision under corporate guarantees provided to banks	17	(5,225)	(70,420)
Write back of provision under corporate guarantees provided to banks	17	24,273	–
Profit (Loss) from operations		31,943	(97,233)
Share of result of an associate		32	–
Finance costs	6	(19,152)	(13,655)
Profit (Loss) from ordinary activities before taxation	6	12,823	(110,888)
Taxation	7	6	–
Profit (Loss) from ordinary activities		12,829	(110,888)
Minority interests		301	769
Profit (Loss) for the period		13,130	(110,119)
Earnings (Loss) per share	8	HK4.2 cents	HK(35.5) cents

Condensed Consolidated Balance Sheet

At 30 June 2003

		At 30 June 2003 <i>HK\$'000</i> (Unaudited)	At 31 December 2002 <i>HK\$'000</i> (Audited)
ASSETS AND LIABILITIES	Note		
Non-current assets			
Investment properties	9	3,000	3,000
Property, plant and equipment	10	1,217	26,560
Goodwill	11	1,548	1,548
Investment securities		1	1
Interest in associates	12	12,042	12,010
		<u>17,808</u>	<u>43,119</u>
Current assets			
Other investments	13	383	386
Trade and other receivables	14	8,681	10,874
Prepaid profits tax refundable		54	1,626
Bank balances and cash		1,394	1,194
		<u>10,512</u>	<u>14,080</u>
Current liabilities			
Borrowings	15	177,507	205,441
Trade and other payables	16	135,036	118,293
Provisions	17	107,116	137,633
		<u>419,659</u>	<u>461,367</u>
Net current liabilities		<u>(409,147)</u>	<u>(447,287)</u>
Total assets less current liabilities		<u>(391,339)</u>	<u>(404,168)</u>
Minority interests		<u>(685)</u>	<u>(986)</u>
NET LIABILITIES		<u>(392,024)</u>	<u>(405,154)</u>
Represented by:			
Issued capital		6,201	6,201
Reserves	18	3,789	3,789
Accumulated losses	19	(402,014)	(415,144)
		<u>(392,024)</u>	<u>(405,154)</u>

Condensed Consolidated Cash Flow Statement

For six months ended 30 June 2003

	Six months ended 30 June 2003 HK\$'000 (Unaudited)	Six months ended 30 June 2002 HK\$'000 (Unaudited)
Net cash from operating activities	121	9,296
Net cash from investing activities	29,130	37,259
Net cash used in financing activities	<u>(1,035)</u>	<u>(37,247)</u>
Net increase in cash and cash equivalents	28,216	9,308
Cash and cash equivalents at beginning of period	<u>(84,304)</u>	<u>(92,708)</u>
Cash and cash equivalents at end of period	<u>(56,088)</u>	<u>(83,400)</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	1,394	2,099
Bank overdrafts	<u>(57,482)</u>	<u>(85,499)</u>
	<u>(56,088)</u>	<u>(83,400)</u>

Condensed Consolidated Statement of Changes in Equity

For six months ended 30 June 2003

	Six months ended 30 June 2003 <i>HK\$'000</i> (Unaudited)	Six months ended 30 June 2002 <i>HK\$'000</i> (Unaudited)
Opening balance – Total equity	(405,154)	(265,761)
Profit (Loss) for the period	<u>13,130</u>	<u>(110,119)</u>
Closing balance – Total equity	<u>(392,024)</u>	<u>(375,880)</u>

NOTES TO THE FINANCIAL STATEMENTS

For six months ended 30 June 2003

1. BASIS OF PRESENTATION

As at 30 June 2003, the Group had a net capital deficiency of approximately HK\$392,024,000. Up to and until 30 June 2003, the Group was unable to repay its bank borrowings amounting to approximately HK\$256,708,000 when they fell due. As a consequence, the bank demanded immediate repayment of the related borrowings and interest, which have been classified as current liabilities in the financial statements as at 30 June 2003.

The Group is discussing with the relevant bank to restructure its existing indebtedness and to request that they continue providing credit facilities to the Group. In addition, discussions with potential investors to obtain further funding continue. 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 relevant bank will agree to restructure the Group's bank indebtedness and that the discussions with potential investors will result in additional funding.

2. PRINCIPAL ACCOUNTING POLICIES

This interim financial report has 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").

The interim financial report has been prepared on a basis consistent with the principal accounting policies adopted in the 2002 annual report except that SSAP 2.112 (revised) "Income taxes" ("SSAP 12") has been adopted in the condensed consolidated financial statements. The adoption of SSAP 12 does not have any impact on the Group's results for the current and prior periods.

3. DISCONTINUING OPERATIONS

In 2002, the Group discontinued its transportation service.

The turnover, results and net cash flows of the discontinued operation for the current period, which have been included in the financial statements, were as follows:

	Six months ended 30 June 2003 HK\$'000	Six months ended 30 June 2002 HK\$'000
Turnover	–	665
Transportation service costs	–	(836)
Other operating expenses	(1,088)	(1,311)
Gain on disposal of property, plant and equipment	79	510
Impairment of assets	–	(1,591)
	<hr/>	<hr/>
Loss from ordinary activities before taxation	(1,009)	(2,563)
Taxation	6	–
	<hr/>	<hr/>
Loss from ordinary activities	(1,003)	(2,563)
	<hr/>	<hr/>
	Six months ended 30 June 2003 HK\$'000	Six months ended 30 June 2002 HK\$'000
Net cash flows		
Operating activities	(238)	(2,430)
Investing activities	230	1,450
Financing activities	–	–
	<hr/>	<hr/>
Total cash flows	(8)	(980)
	<hr/>	<hr/>

The assets and liabilities of the discontinued operation to be disposed of are as follows:

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Property, plant and equipment	718	955
Other assets	2,505	3,453
	<hr/>	<hr/>
Total assets	3,223	4,408
Total liabilities	(940)	(1,121)
	<hr/>	<hr/>
Net assets	2,283	3,287
	<hr/>	<hr/>

4. TURNOVER AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	Six months ended 30 June 2003 HK\$'000	Six months ended 30 June 2002 HK\$'000
Transportation service income	–	665
Rental income	96	3,609
Laboratory testing service income	451	337
Turnover	547	4,611
Interest income from bank deposits	–	6
Other revenue	–	6
Total revenue	547	4,617

5. REVERSAL OF LOSSES OF SUBSIDIARIES ON DECONSOLIDATION

On 29 January 2003, a Company's subsidiary which operations have been terminated in 2001 received a court order in respect of a creditor winding up and the subsidiary was subsequently taken over by the provisional liquidators. As the Group could no longer exercise any control over the subsidiary and its subsidiaries, these companies were deconsolidated from the Group's financial statements with effect from 29 January 2003. As a result of the deconsolidation, the excess of liabilities over assets of the deconsolidated subsidiaries as at 29 January 2003 of HK\$15,378,000 has been reversed.

6. PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Six months ended 30 June 2003 HK\$'000	Six months ended 30 June 2002 HK\$'000
Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	19,071	13,569
Interest on other borrowings	81	86
	19,152	13,655

7. TAXATION

	Six months ended 30 June 2003 HK\$'000	Six months ended 30 June 2002 HK\$'000
Hong Kong Profits Tax:		
Overprovision in prior years	<u>6</u>	<u>–</u>

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

8. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2003 was based on the consolidated profit of approximately HK\$13,130,000 (Loss for the six months ended 30 June 2002: approximately HK\$110,119,000) and the approximately 310,071,000 shares (Six months ended 30 June 2002: approximately 310,071,000 shares) in issue during the six months ended 30 June 2003.

On 18 October 2002, every 20 ordinary shares of HK\$0.001 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$0.02 each. Details of share consolidation were stated in the annual report of the Company for the year ended 31 December 2002. The comparative information regarding the loss per share has been restated accordingly.

As the exercise prices of the outstanding employee share options during the period ended 30 June 2003 are higher than the market prices of the Company's shares during the period, there is no dilution effect on the basic earnings per share. For the period ended 30 June 2002, no diluted loss per share was presented as the outstanding employee share options were anti-dilutive.

9. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
Carrying value as at 1 January and 30 June 2003	<u>3,000</u>

During the period, a creditor bank took possession of the Group's investment properties which have been pledged to the bank. In the light of this development, the properties were revalued at estimated restricted realisation prices at the balance sheet date by RHL Appraisal Ltd., independent professional valuers.

10. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value as at 1 January 2003	26,560
Disposals	(25,151)
Depreciation charge for the period	(192)
	<hr/>
Net book value as at 30 June 2003	<u>1,217</u>

11. GOODWILL

	Positive goodwill	Negative goodwill	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January and 30 June 2003			
Cost	36,875	(71)	36,804
Accumulated amortisation and impairment losses	(35,327)	71	(35,256)
	<hr/>	<hr/>	<hr/>
Carrying amount	<u>1,548</u>	<u>-</u>	<u>1,548</u>

12. INTEREST IN ASSOCIATES

	Biosonic Limited	Beijing Radiant Bio-Tech Limited	At 30 June 2003	At 31 December 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	-	24,500	24,500	24,500
Share of net assets	<u>50</u>	<u>-</u>	<u>50</u>	<u>18</u>
	50	24,500	24,550	24,518
Less: Pre-operating expenses	-	(4,902)	(4,902)	(4,902)
Impairment loss	<u>-</u>	<u>(7,598)</u>	<u>(7,598)</u>	<u>(7,598)</u>
	50	12,000	12,050	12,018
Due to an associate	<u>(8)</u>	<u>-</u>	<u>(8)</u>	<u>(8)</u>
	<u>42</u>	<u>12,000</u>	<u>12,042</u>	<u>12,010</u>

12. INTEREST IN ASSOCIATES (Cont'd)

Details of the associates at the balance sheet date are as follows:

Name of associate	Form of business structure	Principal place of operation/Place of incorporation	Proportion of nominal value of issued/registered capital held by the Group	Principal activities
Biosonic Limited	Corporate	PRC/British Virgin Islands	20%	Provision of general property consultancy services
Beijing Radiant Bio-Tech Limited (北京科瑞源病毒生物技術有限公司)	Wholly foreign-owned enterprise	PRC	49%	Business not yet commenced

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 5 April 2002, its legal status of the Sino-foreign equity was changed to a wholly foreign-owned enterprise.

At the balance sheet date, this associate had not commenced business. Pre-operating expenses incurred by the associate have been fully absorbed by the Group for prudence sake. On 27 March 2003, the Company has entered into a conditional agreement to sell its entire interest in this associate for a total consideration of HK\$12,000,002. However, the purchaser was unable to fulfill a condition before the prescribed deadline, the agreement was terminated after 30 June 2003.

13. OTHER INVESTMENTS

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
At fair value:		
Equity securities listed in Hong Kong		
– Singapore Hong Kong Properties Investment Limited ("SHKP")	342	338
– Others	41	48
	<u>383</u>	<u>386</u>

14. TRADE AND OTHER RECEIVABLES

		At 30 June 2003 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i>
Trade receivables	<i>14(a)</i>	<u>1,036</u>	<u>2,530</u>
Other receivables			
Deposits, prepayment and other debtors		1,645	2,344
Due from SHKP		<u>6,000</u>	<u>6,000</u>
		<u>7,645</u>	<u>8,344</u>
		<u>8,681</u>	<u>10,874</u>

(a) Trade Receivables

The Group provides term credit to customers in accordance with the Group's established credit policies of 30 days (31 December 2002: 30 days). The ageing analysis of trade receivables is as follows:

	At 30 June 2003 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i>
Within 1 month	80	66
1 – 2 months	61	45
2 – 3 months	65	26
3 – 6 months	24	31
6 – 12 months	21	700
Over 1 year	<u>8,986</u>	<u>10,792</u>
	9,237	11,660
<i>Less: Provision for doubtful trade receivables</i>	<u>(8,201)</u>	<u>(9,130)</u>
	<u>1,036</u>	<u>2,530</u>

15. BORROWINGS

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Bank overdrafts		
– secured	955	40,846
– unsecured	56,527	44,652
Trust receipts loans, secured	20,485	20,485
Other bank borrowings		
– secured	–	35,979
– unsecured	93,334	57,355
Other borrowings	6,206	6,124
	<u>177,507</u>	<u>205,441</u>

Owing to the liquidity situation as described in note 1, the Group was unable to repay certain bank borrowings when they fell due. As a result, the entire amount of the bank borrowings became repayable on demand and have been classified as current liabilities in the financial statements. During the period ended 30 June 2003, the creditor bank revised the interest rates for the overdue bank overdrafts from the range of Hong Kong prime lending rate plus 2.125% to 3.5% per annum to Hong Kong prime lending rate plus 10% per annum.

16. TRADE AND OTHER PAYABLES

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
	<i>Note</i>	
Trade payables	901	6,096
	16(a)	
Other payables		
Accrued charges and other creditors	17,677	15,427
Accrued bank interest expenses	85,407	66,336
Convertible note deposit received	7,200	7,200
Due to directors	2,603	1,986
Due to a former related company	1,546	1,546
Due to a subsidiary of SHKP	19,702	19,702
	<u>134,135</u>	<u>112,197</u>
	<u>135,036</u>	<u>118,293</u>

16. TRADE AND OTHER PAYABLES (Cont'd)**(a) Trade Payables**

The ageing analysis of trade payables is as follows:

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Within 1 month	78	71
1 – 2 months	51	76
2 – 3 months	39	58
3 – 6 months	145	126
6 – 12 months	211	186
Over 1 year	377	5,579
	<u>901</u>	<u>6,096</u>

(b) Due to Directors

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Dr. Wan Kwong Kee (<i>Note (i)</i>)	1,766	1,558
Mr. Chan Peng Kuan (<i>Note (ii)</i>)	834	428
Mr. Zhou Haijun	3	–
	<u>2,603</u>	<u>1,986</u>

Notes:

- (i) During the period ended 30 June 2003, cash advances of approximately HK\$208,000 were received from Dr. Wan Kwong Kee to finance the laboratory testing operation.
- (ii) During the period ended 30 June 2003, a cash advance of approximately HK\$400,000 was received from Mr. Chan Peng Kuan to finance the Group's operation.
- (iii) The amounts due to directors are unsecured, interest-free and have no fixed repayment terms.

17. PROVISIONS

	Note	Provision under corporate guarantees HK\$'000	Other provisions HK\$'000	Total HK\$'000
At 1 January 2003		108,350	29,283	137,633
Write back of provision related to deconsolidation of subsidiaries	17(a)	–	(10,434)	(10,434)
Amount used for release of a corporate guarantee given to a creditor bank	17(b)	(1,035)	–	(1,035)
Write back of unused provision under corporate guarantees given to creditor banks	17(b)	(24,273)	–	(24,273)
Additional provision	17(c)	5,225	–	5,225
At 30 June 2003		88,267	18,849	107,116

- (a) A subsidiary which carried a provision for a legal claim was deconsolidated from the Group's financial statements during the period ended 30 June 2003.
- (b) On 16 June 2003, the Company entered into a settlement deed with a creditor bank and SHKP. Pursuant to the settlement deed, the creditor bank agreed to discharge and release all the liabilities and obligations of the Company under a guarantee given by the Company in favour of the creditor bank in respect of the banking facilities extended to a SHKP's subsidiary for a consideration of HK\$1,000,000 paid to the creditor bank and HK\$35,000 paid to its solicitors. Upon the settlement, provision previously made under corporate guarantee of approximately HK\$16,289,000 was written back for the six months ended 30 June 2003.

On 19 September 2003, the Company entered into a settlement deed with a creditor bank, SHKP and certain of SHKP's subsidiaries. Pursuant to the settlement deed, the creditor bank agreed to discharge and release all the liabilities and obligations of the Company under a guarantee given by the Company in favour of the creditor bank in respect of the banking facilities extended to a SHKP's subsidiary for a consideration of HK\$850,000 paid to the creditor bank and HK\$50,000 paid to its solicitors. Upon the settlement, provision previously made under corporate guarantee of approximately HK\$7,984,000 was written back for the six months ended 30 June 2003.

- (c) As mentioned in the Company's 2002 Annual Report, the Company had given corporate guarantees to the banks in respect of banking facilities extended to certain subsidiaries of SHKP. These banking facilities were secured by certain investment properties owned by the subsidiaries of SHKP. The additional provision represented the increase in the shortfall between the estimated restricted realisation prices of the investment properties estimated by professional valuers and the estimated unsettled bank loans as at 30 June 2003.

18. RESERVES

- (a) There was no movement in reserves during the period from 1 January 2003 to 30 June 2003 (Six months ended 30 June 2002: Nil).
- (b) Pursuant to the undertakings given to the Court, any future recoveries by the Company in respect of certain provision for diminution in value beyond their written down value in the Company's audited accounts for the period ended 31 December 2001 up to an overall aggregate amount of approximately HK\$990,320,000 will be credited to a special capital reserve. So long as there remains outstanding any debt or claim against the Company which, if the date on which the reduction of capital and cancellation of the share premium account became effective (the "Effective Date") were the date of the commencement of the winding up of the Company would have been admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance (Cap. 32) or any statutory re-enactment or modification thereof provided that:
 - (i) The Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;
 - (ii) The overall aggregate limit of special capital reserve of approximately HK\$990,320,000 may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount of the share premium account of the Company as the result of the issue of shares for new consideration or the capitalisation of distributable profits;
 - (iii) The overall aggregate limit of special capital reserve of approximately HK\$990,320,000 may be reduced upon the realisation, after the Effective Date, of any of the assets identified in the Court Order by the amount of the total provision made in relation to each such asset as at 31 December 2001 less such amount (if any) as is credited to the said special capital reserve as a result of such realisation; and
 - (iv) When the credit amount of the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (ii) and/or (iii) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.
- (c) Up to 30 June 2003, the Company has credited approximately HK\$18,000 to the special capital reserve, thus resulting in a reduction of maximum amount to be credited to the special capital reserve to approximately HK\$990,302,000.
- (d) The Company did not have any reserves available for distribution to shareholders as at 30 June 2003 (31 December 2002: Nil).

19. ACCUMULATED LOSSES

	<i>HK\$'000</i>
At beginning of period	(415,144)
Profit for the period	<u>13,130</u>
At balance sheet date	<u>(402,014)</u>

20. BANKING FACILITIES

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

- (a) the Group's investment properties with carrying value of HK\$3,000,000; and
- (b) investment properties owned by certain subsidiaries of SHKP.

Due to the liquidity situation described in note 1, the Group was unable to repay its bank borrowings amounting to approximately HK\$256,708,000 when they fell due. As at the date of approval of these financial statements, the Group is still in discussion with the relevant bank to restructure the repayment terms of its existing indebtedness and to continue providing credit facilities to the Group.

21. CONTINGENT LIABILITIES

There has been no material change for contingent liabilities since the publication of the Company's 2002 Annual Report.

22. SEGMENT INFORMATION

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

22. SEGMENT INFORMATION (Cont'd)

(a) By business segments (Cont'd)

	Property investment 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 2003					
Sales revenue from external customers	96	–	451	–	547
Segment result	148	(1,012)	(677)	(25)	(1,566)
Unallocated operating income and expenses					33,509
Profit from operations					31,943
Share of result of an associate					32
Finance costs					(19,152)
Profit from ordinary activities before taxation					12,823
Taxation					6
Profit from ordinary activities					12,829
Minority interests					301
Profit for the period					13,130
OTHER INFORMATION					
Depreciation	–	86	50	56	192
Other non-cash expenses other than depreciation	–	580	–	5,233	5,813
Other non-cash revenue	–	79	–	43,551	43,630

22. SEGMENT INFORMATION (Cont'd)

(a) By business segments (Cont'd)

	Property investment HK\$'000	Trans- portation services HK\$'000	Pharma- ceutical and biophar- maceutical HK\$'000	Others HK\$'000	Consolidated HK\$'000
As at 31 December 2002					
Assets					
Segment assets	3,626	7,202	12,834	5	23,667
Unallocated assets					<u>33,532</u>
Total assets					<u>57,199</u>
Liabilities					
Segment liabilities	(129,832)	(896)	(1,534)	(22)	(132,284)
Unallocated liabilities					<u>(329,083)</u>
Total liabilities					<u>(461,367)</u>
As at 30 June 2003					
Assets					
Segment assets	3,776	4,747	12,703	5	21,231
Unallocated assets					<u>7,089</u>
Total assets					<u>28,320</u>
Liabilities					
Segment liabilities	(135,752)	(845)	(1,741)	(22)	(138,360)
Unallocated liabilities					<u>(281,299)</u>
Total liabilities					<u>(419,659)</u>

(b) By geographic segment

No analysis of the Group's geographical segment information on sales revenue and result was presented, as other than part of the sales revenue and loss from pharmaceutical and biopharmaceutical segment in the PRC which were 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 for the six months ended 30 June 2002. For the six months ended 30 June 2003, except for the share of result of an associate whose principal place of operation is in the PRC, all sales revenue and result generated from the business activities were derived from Hong Kong.

Other than an investment in an associate which is located in the PRC, substantially all the segment assets of the Group as at 31 December 2002 and as at 30 June 2003 are located in Hong Kong.

23. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2003 and up to the date of approval of these financial statements:

- (a) On 19 September 2003, the Company entered into a settlement deed with a creditor bank, SHKP and certain of SHKP's subsidiaries. Pursuant to the settlement deed, the creditor bank agreed to discharge and release all the liabilities and obligations of the Company under a guarantee given by the Company in favour of the creditor bank in respect of the banking facilities extended to a SHKP's subsidiary.
- (b) In July 2003, the Group disposed of certain plant and equipment for a total consideration of HK\$120,000 to an independent third party.
- (c) Subsequent to the balance sheet date, a property owned by a subsidiary which had been taken possession by the creditor bank was disposed of by the bank for a cash consideration of HK\$1,200,000. The proceeds have been used to repay the bank borrowings.
- (d) On 19 September 2003, a 70% owned subsidiary has entered into a conditional sale and purchase agreement with an independent third party in respect of the sale of plant and equipment for a cash consideration of HK\$2,000,000.

BUSINESS REVIEW

Overview

The Group has made satisfactory progress in its debt restructuring plan during the period. In June 2003, the Company had executed a settlement deed with one of its creditor banks that the bank would waive our indebtedness amounting to approximately HK\$14,493,000 for a consideration of HK\$1,000,000. The remaining property portfolio and other non-core assets of the Group were continued to be disposed of to generate cash to reduce bank borrowings and as additional working capital. As most of the Group's loss-making non-core business operations have been terminated and effective cost cutting measures have been implemented to constrain administrative expenses, operating expenses of the Group has been reduced significantly. Despite the fact that the business of our pharmaceutical/bio-pharmaceutical unit, GenePro Medical Biotechnology Limited ("GenePro"), was inevitably affected by the SARS incident, its business volume continued to grow significantly on a period on period basis which illustrates that the demand for DNA biotechnology for disease diagnosis and human identification is getting stronger and stronger in Hong Kong. Subsequent to the period end, the Group had entered into another settlement deed with another creditor bank to release its corporate guarantee to that bank. Negotiation with the last creditor bank in respect of the debt restructuring plan is still underway. The Group is also in discussions with certain potential investors for making investments in and/or providing funding to the Group. However, no agreement has yet been reached.

Financial results

The Group recorded a consolidated turnover of HK\$547,000 for the six months ended 30 June 2003, representing a decrease of approximately 88.1% as compared with that of the last corresponding period. This decline was mainly due to the drop of rental income as the Group has disposed of most of its investment properties and the reduction of income as a result of the termination of its transportation business in late 2002. The operating loss before provisions and other losses and gains dropped from HK\$6,963,000 in the first half of 2002 to HK\$5,874,000 in the first half of 2003, representing a decrease of approximately 15.6%. This was mainly attributable to the termination of the transportation business and the adoption of effective cost cutting measures. The net profit of the Group for the period amounted to HK\$13,130,000 as compared to a net loss of HK\$110,119,000 for the corresponding period of last year. Such net profit was mainly attributable to: (i) the gain on disposal of a property located at Convention Plaza; (ii) the write back of provision made in respect of corporate guarantees provided to two creditor banks; and (iii) the reversal of losses of subsidiaries (which have ceased operations in 2001) on deconsolidation.

BUSINESS REVIEW (Cont'd)

Financial results (Cont'd)

Despite the reduction of bank borrowings of the Group, interest expense rose to HK\$19,152,000, representing an increase of approximately 40.3% over that of the last corresponding period, as the major creditor bank has charged a higher default interest rate on the outstanding overdraft facilities of the Group.

Earnings per share was HK4.2 cents as compared to a loss per share of HK35.5 cents (adjusted for share consolidation) for the six months ended 30 June 2002.

Review of operations

The rental income for the first half of 2003 amounted to HK\$96,000, representing a decrease of approximately 97.3% as compared with that of the last corresponding period. Such decrease was mainly due to the disposal of most of the Group's investment properties in last year. In April 2003, one of the Group's property located at Convention Plaza was disposed of by its mortgagee bank for a consideration of HK\$28,900,000. Most of the proceeds were used to repay bank borrowings. Subsequent to the period end, another property of the Group located at 1/F Metropolitan Industrial and Warehouse Building No. 2 was disposed of by its mortgagee bank for a consideration of HK\$1,200,000, the majority of which was also used to repay bank borrowings. The remaining properties of the Group (being 2/F and 3/F Metropolitan Industrial and Warehouse Building No. 2) were taken possession by its mortgagee bank in April 2003. No further provision for the remaining property portfolio was made for the period as sufficient provision had been made last year. The Group had provided some general property related consultancy services through its 20% owned associated company during the period. However, contribution derived therefrom was insignificant.

As the Group had discontinued its transportation business in the last quarter of 2002, no revenue was generated and a loss of HK1,003,000 was suffered therefrom during the period. During the period, certain assets were disposed of for a total consideration of HK\$230,000, all of which were used as additional working capital of the Group. Subsequent to the period end, certain other assets of this business unit were sold to generate additional working capital of the Group. The Group will continue to dispose of the remaining assets of this business unit.

Pacific Engineering Limited ("PEL"), a wholly-owned subsidiary of the Group that has ceased operations since 2001, was ordered by the High Court to be wound up in January 2003. As PEL had a net deficit as at the date of the winding up order, the Group recorded a reversal of losses of subsidiaries on deconsolidation due to the liquidation of PEL amounting to HK\$15,378,000 during the period.

BUSINESS REVIEW (Cont'd)

Review of operations (Cont'd)

In June 2003, the Company entered into a settlement deed with CITIC Ka Wah Bank and Singapore Hong Kong Properties Investment Limited, pursuant to the terms of which, among others, the bank would waive the Company's indebtedness amounting to HK\$14,493,000 for a consideration of HK\$1,000,000. As the Company had made a provision of approximately HK\$17,324,000, a write back of provision made in respect of corporate guarantees provided to creditor banks of HK\$16,289,000 was recorded by the Group. For further details of the settlement deed, please refer to the Company's announcement dated 16 June 2003.

In September 2003, the Company entered into a settlement deed with Bank of Communications Hong Kong Branch, Singapore Hong Kong Properties Investment Limited and certain of its subsidiaries, pursuant to the terms of which, among others, the bank would release the Company's corporate guarantee provided to the bank with a total exposure of approximately HK\$22,643,000 (out of which a provision of HK\$8,884,000 has been made) for a consideration of HK\$850,000. As a result, a write back of provision made in respect of corporate guarantees provided to creditor banks of HK\$7,984,000 was recorded by the Group. For further details of the settlement deed, please refer to the Company's announcement dated 19 September 2003.

The Group is the 49% equity partner of a wholly foreign-owned enterprise established in Beijing, the PRC ("WFOE"), which is intended to engage in the pharmaceutical/bio-pharmaceutical business in the PRC. The Group had been in discussion with the other 51% equity partner of the WFOE as to which projects should be invested by the WFOE. However, no agreement between the partners of the WFOE could be reached so far and as such, the WFOE had not commenced operation yet. The pre-operating expenses incurred by the WFOE since its establishment had been provided for by the Group. In March 2003, the Group entered into a conditional sale and purchase agreement with an independent third party in relation to the disposal of its 49% interest in the WFOE for a total consideration of HK\$12,000,002. However, as one of the conditions precedent of the agreement (being obtaining the approvals from the relevant PRC authorities) was unable to be satisfied on or before the prescribed deadline of the agreement, such disposal was terminated after 30 June 2003. The Group is currently considering different possibilities of revitalizing this investment, including disposal to another party if possible.

Despite the negative impact of SARS in the first half of the year, the business of GenePro has been growing well. The turnover of GenePro amounted to HK\$451,000 for the period under review, representing an increase of approximately 33.8% over that of last corresponding period. As one of the leading laboratories in Hong Kong that has the capability to develop and provide DNA related diagnostic services, GenePro has benefited from the growing demand for DNA related diagnostic and personal identity services in Hong Kong. The Group believes that this trend will continue as the advantages and application of DNA technology are getting better understanding and acceptance by medical and legal practitioners as well as the community at large. Furthermore, projects under development will soon open up new and enlarge existing markets.

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.

BUSINESS REVIEW (Cont'd)

Liquidity and financial resources

As at 30 June 2003, the Group's total bank borrowings comprising mortgage loans, trust receipt loans, overdrafts and accrued interest amounted to HK\$256,708,000, representing a decrease of approximately HK\$8,945,000 or approximately 3.4% as compared to that of last year. This was mainly caused by the repayment of bank borrowings with the proceeds from the disposal of a property of the Group during the period and the increase in accrued interest on the outstanding bank borrowings. All of the total bank borrowings were immediately due and should have been repaid to the relevant creditors. Despite the increase in accrued interest expenses amounting to HK\$19,071,000, the increase in amount due to an independent third party of HK\$2,420,000 and the further provision made in respect of corporate guarantees provided to creditor banks of HK\$5,225,000, total liabilities (all of which are of current nature) decreased by HK\$41,708,000 or approximately 9.0% to HK\$419,659,000 mainly due to: (i) the deconsolidation of subsidiaries as a result of the liquidation of PEL; (ii) the write back of provision made in respect of corporate guarantees provided to creditor banks as a result of the settlement deeds referred to above; and (iii) the repayment of bank borrowings. Current ratio of the Group decreased slightly from approximately 3.1% as at 31 December 2002 to approximately 2.5% as at 30 June 2003. This was mainly attributable to the decrease in current assets resulting from the return of taxation prepayment from Inland Revenue Department and the deconsolidation of subsidiaries as a result of the liquidation of PEL. The gearing ratio (total liabilities as a percentage of total assets) increased from approximately 806.6% as of 31 December 2002 to approximately 1,481.8% as of 30 June 2003, which was mainly due to the extent of the decrease in total assets as referred to above (in terms of percentage) was greater than that of the total liabilities for the period. As at the end of the period under review, the Group had a net deficit of HK\$392,024,000.

In order to improve its financial position and liquidity, the Group is currently in negotiation with its last creditor bank in relation to a debt restructuring plan. The Group is also in discussions with certain potential investors for making investment in and/or providing funding to the Group.

However, prior to the finalisation and completion of the debt restructuring plan, should the Group's creditors demand for repayment of its immediately due indebtedness, 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.

Except for the investment in a PRC associate, most of the cash and cash equivalents, 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. As the exchange rates for Hong Kong dollars and Renminbi were relatively stable during the period, the Group was not exposed to any material exchange rate fluctuation during the period.

BUSINESS REVIEW (Cont'd)

Charges on assets

As at 30 June 2003, certain assets of the Group with an aggregate carrying value of HK\$3,335,000 were pledged to secure the Group's borrowings as compared to HK\$28,330,000 as at 31 December 2002.

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 2003, the Group had 14 employees and were all based in Hong Kong.

Contingent liabilities

There has been no material change for contingent liabilities since the publication of the Company's 2002 Annual Report.

Prospects

The Group has witnessed the growing acceptance of and demand for DNA related diagnostic services and products in Hong Kong. In order to capture this fast growing business opportunity, GenePro, one of the leading DNA laboratories in Hong Kong, has made a lot of effort in developing new diagnostic kits for the diagnosis of diseases such as cervical cancer and Hepatitis B as well as building up connections with leading research institutes in the PRC and abroad. The Group has also set priority on finalising the debt restructuring plan with its only remaining creditor bank and soliciting investors in making investments in and/or providing funding to the Group. Upon finalisation of the above, the Group believes that it will have much stronger financial strength to pursue its business endeavors.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements. 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 auditors' 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 2003 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 indebtedness 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 any interim dividend for the six months ended 30 June 2003 (For the six months ended 30 June 2002: 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 2003.

DE-MINIMIS CONCESSION

The Group has an audited negative net tangible asset value of approximately HK\$406.7 million based on the Group's latest published annual accounts as of 31 December 2002. 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 16 May 2003, 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 19 May 2003 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 2003, the interests of the directors and the company's chief executives in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or which were recorded in the register required to be kept under section 352 of the SFO, were as follows:

Chief executive (within the meaning of the SFO)	Capacity in which the shares were held	Number of Shares
Leung Hon Man (<i>Note</i>)	Nominee	54

Note: Mr. Leung was authorised to hold the fractions of the consolidated shares arising from the share consolidation effective on 18 October 2002.

As at 30 June 2003, the directors and chief executive of the Company had the following options to subscribe for the shares of the Company under the Company's share option scheme.

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	500,000	5 October 2000	5 October 2000 – 4 October 2003	4.12
Chan Peng Kuan	500,000	5 October 2000	5 October 2000 – 4 October 2003	4.12
Chief executive (within the meaning of the SFO)				
Leung Hon Man	100,000	5 October 2000	5 October 2000 – 4 October 2003	4.12

Save as disclosed above, as at 30 June 2003, none of the directors or their associates had any personal, family, corporate or other interest in the equity securities or debentures of, or has a short position in shares in the relevant share capital of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including the interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to herein.

DIRECTORS' INTERESTS IN EQUITY SECURITIES (Cont'd)

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 executive directors and other employees of the Group. The Scheme became effective on 31 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 '000	Lapsed during the period '000	At balance sheet date '000
Directors						
Chan Peng Kuan	5 October 2000	5 October 2000 to 4 October 2003	4.12	500	–	500
Wan Kwong Kee	5 October 2000	5 October 2000 to 4 October 2003	4.12	500	–	500
Other employees (include chief executive)	5 October 2000	5 October 2000 to 4 October 2003	4.12	350	250 <i>(note a)</i>	100

- (a) The options granted to a former employee became lapse during the period.
- (b) None of the options was exercised during the period.

EMPLOYEE SHARE OPTIONS (Cont'd)

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;
- (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 closing price of the shares quoted on the Stock Exchange on the date of grant of the share options; and (ii) the average closing price quoted on the Stock Exchange 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

As at 30 June 2003, the following interests (whether direct or indirect) of 5% or more of shares comprised in the share capital of the Company were recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate percentage of existing issued share capital of the Company
Chiang Wee Tiong	18,401,250	5.9%
Yuan Yun Nan	17,322,000	5.6%

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (Cont'd)

According to the register of interests in shares and short positions kept by the Company under Section 336 of the SFO and so far as was known to the directors, other than the interests disclosed above, there was no other person (other than a director or chief executive of the Company) who, as at 30 June 2003, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in any options in respect of such capital.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (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, 25 September 2003