

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. BASIS OF PRESENTATION

As at 30 June 2004, the Group had a net capital deficiency of approximately HK\$290,118,000. Up to and until 30 June 2004, the Group was unable to repay its bank borrowings amounting to approximately HK\$231,332,000 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 2004.

On 30 June 2004, the Company and certain of its subsidiaries entered into a preliminary agreement ("Preliminary Agreement") with a creditor bank in relation to, inter alia, the settlement of certain loans due and payable to the creditor bank by certain members of the Group. Pursuant to the Preliminary Agreement, the Group and the creditor bank agreed that, inter alia, an aggregate sum of HK\$35,411,985.19 shall be payable by the Group to the creditor bank in cash on or before 14 October 2004 as full settlement of the major portion of the bank borrowings. Upon the grant of winding-up orders of certain subsidiaries ("Undischarged Debtors") by the court, all the remaining bank borrowings owed by the Undischarged Debtors will be deconsolidated from the Group's financial statements.

On 2 July 2004, the Company and a subsidiary of the Company entered into a deed ("Settlement Deed") with a finance company in respect of the settlement of a loan due and payable to the finance company by the subsidiary. Pursuant to the Settlement Deed, the Group agreed to pay to the finance company an aggregate sum of HK\$588,014.81 as settlement of all the Group's indebtedness due to the finance company.

On 2 July 2004, the Company entered into a subscription agreement ("Subscription Agreement") with a subscriber ("Subscriber"), pursuant to which the Subscriber agreed to conditionally subscribe for a total of 643,835,616 shares of the Company at a price of HK\$0.073 per share. The Subscription Agreement was duly approved by the shareholders of the Company at the extraordinary general meeting held on 7 September 2004 but is not yet completed. Immediately following the completion of the Subscription Agreement, the Subscriber will own 643,835,616 shares of the Company, representing 67.5% of the then enlarged issued share capital of the Company.

Upon completion of the Subscription Agreement, the Company will issue the shares of the Company pursuant to the Subscription Agreement to the Subscriber and will receive the subscription monies in cash amount of HK\$40 million and a deed of discharge in respect of HK\$7 million. Following the share subscription, it is expected that the Group will still have net liabilities after the completion of the above settlements.

Although future plan for additional investment to be made in the Group has not been finalised, 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 additional funding will be made available to the Group so as to allow it to meet its obligations when due.

2. PRINCIPAL ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and complies with 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 2003 annual report.

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 2004 HK\$'000	Six months ended 30 June 2003 HK\$'000
Turnover	–	–
Other operating expenses	(65)	(1,088)
Gain on disposal of property, plant and equipment	–	79
	<hr/>	<hr/>
Loss from ordinary activities before taxation	(65)	(1,009)
Taxation	–	6
	<hr/>	<hr/>
Loss from ordinary activities	(65)	(1,003)
	<hr/> <hr/>	<hr/> <hr/>
	Six months ended 30 June 2004 HK\$'000	Six months ended 30 June 2003 HK\$'000
Net cash flows		
Operating activities	(20)	(238)
Investing activities	–	230
Financing activities	–	–
	<hr/>	<hr/>
Total cash flows	(20)	(8)
	<hr/> <hr/>	<hr/> <hr/>

3. DISCONTINUING OPERATIONS (Continued)

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

	At	At
	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Property, plant and equipment	16	18
Other assets	36	4,336
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Total assets	52	4,354
Total liabilities	(44)	(54)
	<hr/>	<hr/>
Net assets	8	4,300
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4. TURNOVER AND REVENUE

Turnover recognised by category is analysed as follows:

	Six months	Six months
	ended	ended
	30 June 2004	30 June 2003
	HK\$'000	HK\$'000
Rental income	–	96
Laboratory testing service income	560	451
	<hr/>	<hr/>
Total turnover	560	547
	<hr/> <hr/>	<hr/> <hr/>

5. GAIN ON DISCHARGE OF BANK INDEBTEDNESS

On 31 December 2003, Landune International Limited (formerly known as Singapore Hong Kong Properties Investment Limited) and certain of its subsidiaries ("SPI Group") entered into a settlement agreement ("SPI Settlement Agreement") with Bank of China (Hong Kong) Limited ("BOC"). Pursuant to the SPI Settlement Agreement, part of the outstanding indebtedness owing by the Company to BOC in the amount of approximately HK\$34,527,000 should be discharged and released ("the Conditionally Discharged Indebtedness") subject to the performance by SPI Group of certain duties and the revocation of the SPI Settlement Agreement under certain conditions. On 30 June 2004, the Company and certain of its subsidiaries entered into the Preliminary Agreement with BOC in relation

5. GAIN ON DISCHARGE OF BANK INDEBTEDNESS (Continued)

to, inter alia, the settlement of certain loans due and payable to BOC by the Group. It was recited in the Preliminary Agreement that the Conditionally Discharged Indebtedness had been conditionally discharged pursuant to the SPI settlement on 18 March 2004. Pursuant to the Preliminary Agreement, BOC agrees that the Company shall not be liable to make any further payment to BOC in respect of the Conditionally Discharged Indebtedness other than a sum of approximately HK\$223,000 payable by the Group to BOC if the SPI Settlement Agreement is subsequently revoked and the assignment of an indemnity (the "Indemnity") executed by the Company and/or the claims thereunder are not held by any court of first instance of any competent jurisdiction to be invalid or unenforceable in any respect or is otherwise annulled or set aside by such court (despite and notwithstanding that the decision of such of first instance should subsequently be overruled, set aside or annulled, whether wholly or partially and whether by a higher court or otherwise). The Indemnity refers to an indemnity executed by SPI to indemnify and keep the Company indemnified against all losses and damages suffered by the Company in respect of certain indebtedness of the SPI Group and part of the outstanding indebtedness owing by the Company to BOC pursuant to a deed of confirmation entered into between the Company and SPI on 15 June 2001. The directors consider that the occurrence of the SPI Settlement Agreement being revoked is not probable. The full amount of the Conditionally Discharged Indebtedness has been written back as income for the current period.

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Six months ended 30 June 2004 HK\$'000	Six months ended 30 June 2003 HK\$'000
Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	8,799	19,071
Interest on other borrowings	217	81
	<u>9,016</u>	<u>19,152</u>

7. TAXATION

	Six months ended 30 June 2004 HK\$'000	Six months ended 30 June 2003 HK\$'000
Hong Kong Profits Tax:		
Overprovision in prior years	<u>-</u>	<u>6</u>

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

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2004 was based on the consolidated profit of approximately HK\$18,804,000 (Six months ended 30 June 2003: approximately HK\$13,130,000) and the approximately 310,071,000 shares (Six months ended 30 June 2003: approximately 310,071,000 shares) in issue during the six months ended 30 June 2004.

No diluted earnings per share is presented as there were no dilutive potential ordinary shares in issue for the six months period ended 30 June 2004. As the exercise prices of the outstanding employee share options during the six months period ended 30 June 2003 were higher than the respective average market price of the Company's shares during the period, there was no dilution effect on the basic earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value as at 1 January 2004	424
Additions	532
Disposals	(18)
Depreciation charge for the period	(120)
	818
Net book value as at 30 June 2004	818

10. INTEREST IN AN ASSOCIATE

	At	At
	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	2	49
Due to an associate	(4)	(4)
	(2)	45

Investment in an associate at the balance sheet date represents 20% of the issued ordinary share capital of Biosonic Limited, a company which is incorporated in the British Virgin Islands and was inactive during the period.

11. OTHER INVESTMENTS

	At	At
	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
At fair value:		
Equity securities listed in Hong Kong		
– Landune International Limited (formerly known as Singapore Hong Kong Properties Investment Limited) (“SPI”)	620	386
– Others	41	41
	661	427

12. TRADE AND OTHER RECEIVABLES

		At	At
		30 June	31 December
		2004	2003
	<i>Note</i>	HK\$'000	HK\$'000
Trade receivables	<i>12(a)</i>	160	145
Other receivables			
Deposits, prepayment and other debtors		921	5,136
Due from a related company	<i>12(b)</i>	57	45
		978	5,181
		1,138	5,326

12. TRADE AND OTHER RECEIVABLES (Continued)

12(a) Trade Receivables

The Group provides term credit to customers in accordance with the Group's established credit policies of 30 days (31 December 2003: 30 days). The ageing analysis of trade receivables is as follows:

	At	At
	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Within 1 month	105	76
1 – 2 months	16	39
2 – 3 months	22	–
3 – 6 months	6	1
6 – 12 months	3	2
Over 1 year	8	27
	160	145
	160	145

12(b) Due from a related company

It represents amount due from ReliaLab Medical Laboratory & X-Ray Centre Limited ("ReliaLab"). Dr. Wan Kwong Kee, a director of the Company, and Mr. Chow Wing Cho, a director of a wholly-owned subsidiary of the Company, are also directors and indirect minority shareholders of ReliaLab. The amount due is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the six months period ended 30 June 2004 is HK\$57,000 (31 December 2003: HK\$45,000).

13. BORROWINGS

	At	At
	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Bank borrowings (note 13(a))		
Bank overdrafts, unsecured	29,587	50,606
Trust receipts loans, unsecured	17,404	17,404
Other bank borrowings, unsecured	90,553	90,553
Other borrowings (note 13(b))	3,653	3,684
	141,197	162,247
	141,197	162,247

13. BORROWINGS *(Continued)*

13(a) Bank borrowings

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. On 30 June 2004, the Company and certain of its subsidiaries entered into the Preliminary Agreement with a creditor bank in relation to, inter alia, the settlement of certain loans due and payable to the creditor bank by certain members of the Group. Pursuant to the Preliminary Agreement, the Group and the creditor bank agreed that, inter alia, an aggregate sum of HK\$35,411,985.19 shall be payable by the Group to the creditor bank in cash on or before 14 October 2004 as full settlement of the major portion of the bank borrowings. Upon the grant of winding-up orders of the Undischarged Debtors by the court, all the remaining bank borrowings owed by the Undischarged Debtors will be deconsolidated from the Group's financial statements.

13(b) Other borrowings

Included in other borrowings were an amount of approximately HK\$1,263,000 (31 December 2003: HK\$1,294,000) due to a securities broker and an amount of approximately HK\$2,390,000 (31 December 2003: HK\$2,390,000) which represented a part of bank borrowings assigned to a finance company. On 2 July 2004, the Company and a subsidiary of the Company entered into the Settlement Deed with the finance company in respect of the settlement of a loan due and payable to the finance company by the subsidiary. Pursuant to the Settlement Deed, the Group agreed to pay to the finance company an aggregate sum of HK\$588,014.81 as settlement of all the Group's indebtedness due to the finance company. The amount due to a securities broker bore interest at 14% per annum (31 December 2003: 14% per annum) and was secured by the Group's other investments with a net book value of approximately HK\$604,000 (31 December 2003: HK\$378,000). The amount due to the finance company was unsecured and bore interest at Hong Kong prime lending rate plus 6% per annum.

14. TRADE AND OTHER PAYABLES

		At 30 June 2004 <i>HK\$'000</i>	At 31 December 2003 <i>HK\$'000</i>
Trade payables	<i>14(a)</i>	196	234
Other payables			
Accrued charges and other creditors		14,624	9,287
Accrued interest expenses		91,398	95,975
Convertible note deposit received		7,200	7,200
Due to directors	<i>14(b)</i>	440	1,297
Due to a former related company		1,546	1,546
Due to a subsidiary of SPI		17,852	17,852
		133,060	133,157
		133,256	133,391

14(a) Trade payables

The ageing analysis of trade payables is as follows:

		At 30 June 2004 <i>HK\$'000</i>	At 31 December 2003 <i>HK\$'000</i>
Within 1 month		28	51
1 – 2 months		20	33
2 – 3 months		1	9
3 – 6 months		23	23
6 – 12 months		48	66
Over 1 year		76	52
		196	234

14. TRADE AND OTHER PAYABLES (Continued)

14(b) Due to directors

	At	At
	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Dr. Wan Kwong Kee (Note (i))	59	798
Mr. Chan Peng Kuan	381	499
	<u>440</u>	<u>1,297</u>

Notes:

- (i) During the six months period ended 30 June 2004, cash advances of approximately HK\$84,000 were received from Dr. Wan Kwong Kee to finance the laboratory testing operation.
- (ii) The amounts due to directors are unsecured, interest-free and have no fixed repayment terms.

15. PROVISIONS

	Other provisions
	<i>HK\$'000</i>
At 1 January 2004 and 30 June 2004	<u>18,850</u>

16. RESERVES

	Capital reserve	General reserve	Special capital reserve	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2004	3,571	200	18	3,789
Transfer as required under the Order on Petition	–	–	22,835	22,835
At 30 June 2004	<u>3,571</u>	<u>200</u>	<u>22,853</u>	<u>26,624</u>

16. RESERVES *(Continued)*

- (a) 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 of 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.
- (b) During the six months period ended 30 June 2004, the Company recovered the provision for amount due from SPI as prescribed in the Order in the amount of approximately HK\$22,835,000. As required by the terms of the Order, this amount has been credited to special capital reserve. Up to 30 June 2004, the Company credited approximately HK\$44,556,000 (31 December 2003: 21,721,000) to the special capital reserve, thus resulting in a reduction of maximum amount to be credited to the special capital reserve to approximately HK\$945,764,000(31 December 2003: HK\$968,599,000).

16. RESERVES (Continued)

- (c) The Company did not have any reserves available for distribution to shareholders as at 30 June 2004 (31 December 2003: Nil).

17. ACCUMULATED LOSSES

	<i>HK\$'000</i>
At beginning of period	(318,912)
Transfer as required under the Order on Petition	(22,835)
Profit for the period	<u>18,804</u>
At balance sheet date	<u><u>(322,943)</u></u>

18. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions/information disclosed elsewhere in these financial statements, during the six months period ended 30 June 2004, the Group had the following transactions with ReliaLab.

	Six months ended 30 June 2004 <i>HK\$'000</i>	Six months ended 30 June 2003 <i>HK\$'000</i>
Shared office related expenses		
recharged (<i>note i</i>)	(22)	(25)
Salaries received for shared staff (<i>note i</i>)	(25)	(25)
Salaries paid for shared staff (<i>note i</i>)	45	–
Testing fee expenses (<i>note ii</i>)	4	5
Laboratory testing service income (<i>note ii</i>)	(23)	(1)
	<u><u> </u></u>	<u><u> </u></u>

- (i) These expenses were recharged/shared with reference to the actual expenses incurred.
- (ii) These transactions were carried out at market prices.
- (iii) The above transactions did not fall under the definition of “connected transaction” or “continuing connected transaction” in Chapter 14A of the Listing Rules.

18. RELATED PARTY TRANSACTIONS *(Continued)*

- (b) On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, chairman of the Company and director of the wholly-owned subsidiary of the Company, as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with monthly rental of HK\$11,250. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.

19. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases payable as follows:

	At	At
	30 June	31 December
	2004	2003
	HK\$'000	HK\$'000
Within one year	597	174
In second to fifth years inclusive	998	–
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	1,595	174
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20. CONTINGENT LIABILITIES

Pursuant to the settlement agreement made between SPI, certain of its subsidiaries and BOC on 31 December 2003 as mentioned in note 5, the Company is liable to reinstatement of all liabilities and obligations of the Conditionally Discharged Indebtedness when the SPI Settlement Agreement is revoked, occurrence of which is not considered probable. The Conditionally Discharged Indebtedness released and discharged on 18 March 2004 amounted to approximately HK\$34,527,000.

Save as disclosed above, there has been no material change in other contingent liabilities since the publication of the Company's 2003 Annual Report.

21. SEGMENT INFORMATION

The analysis of the principal activities of the operations of the Group during the period is as follows:

(a) By business segments

The Group comprises the following main business segments:

	Property investment <i>HK\$'000</i>	Transportation services <i>HK\$'000</i>	Pharmaceutical and bio- pharmaceutical <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended					
30 June 2003					
Sales 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					
Capital expenditures	–	–	–	–	–
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

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21. SEGMENT INFORMATION (Continued)

(a) By business segments (Continued)

	Property investment <i>HK\$'000</i>	Transportation services <i>HK\$'000</i>	Pharmaceutical and bio- pharmaceutical <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended					
30 June 2004					
Sales from external customers	-	-	560	-	560
Segment result	(278)	(68)	(413)	(6)	(765)
Unallocated operating income and expenses					27,298
Profit from operations					26,533
Share of results of an associate					-
Finance costs					(9,016)
Profit from ordinary activities before taxation					17,517
Taxation					-
Profit from ordinary activities					17,517
Minority interests					1,287
Profit for the period					18,804
OTHER INFORMATION					
Capital expenditures	-	-	268	264	532
Depreciation	-	2	72	46	120
Other non-cash expenses other than depreciation	-	-	-	3,513	3,513
Other non-cash revenue	-	-	-	(322)	(322)

21. SEGMENT INFORMATION (Continued)

(a) By business segments (Continued)

	Property investment <i>HK\$'000</i>	Transportation services <i>HK\$'000</i>	Pharmaceutical and bio- pharmaceutical <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
As at 31 December 2003					
Assets					
Segment assets	601	795	721	5	2,122
Unallocated assets					4,734
Total assets					<u>6,856</u>
Liabilities					
Segment liabilities	(135,057)	(54)	(725)	(22)	(135,858)
Unallocated liabilities					(178,630)
Total liabilities					<u>(314,488)</u>
As at 30 June 2004					
Assets					
Segment assets	573	29	770	4	1,376
Unallocated assets					1,812
Total assets					<u>3,188</u>
Liabilities					
Segment liabilities	(139,557)	(44)	(326)	(22)	(139,949)
Unallocated liabilities					(153,354)
Total liabilities					<u>(293,303)</u>

21. SEGMENT INFORMATION *(Continued)*

(b) By geographic segments

For the six months ended 30 June 2003 and 30 June 2004, all sales revenue and result generated from the business activities were derived from Hong Kong.

All the segment assets of the Group as at 31 December 2003 and as at 30 June 2004 were located in Hong Kong.

22. SUBSEQUENT EVENTS

Subsequent to 30 June 2004 and up to the date of approval of these financial statements, the following significant events took place :

- (a) On 2 July 2004, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber agreed to conditionally subscribe for a total of 643,835,616 shares of the Company at a price of HK\$0.073 per share. The Subscription Agreement was duly approved by the shareholders of the Company at the extraordinary general meeting held on 7 September 2004 but is not yet completed. Immediately following the completion of the Subscription Agreement, the Subscriber will own 643,835,616 shares of the Company, representing 67.5% of the then enlarged issued share capital of the Company.
- (b) On 2 July 2004, the Company and a subsidiary of the Company entered into the Settlement Deed with a finance company in respect of the settlement of a loan due and payable to the finance company by the subsidiary. Pursuant to the Settlement Deed, the Group agreed to pay to the finance company an aggregate sum of HK\$588,014.81 as settlement of all the Group's indebtedness due to the finance company.
- (c) At the extraordinary general meeting held on 7 September 2004, the proposed change of Company's name from China Bio-medical Group Limited to Sanyuan Group Limited was duly approved by the shareholders of the Company.