

(9) Related party transactions

During the six months ended 30 June 2001, the company entered into the following transactions with an associate of the Group.

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Management fee income	120	1,260
Maintenance expenses paid	60	60
Rental income for rented premise and other facility	—	30
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The above transactions were charged at cost.

(10) Post balance sheet events

Pursuant to a resolution passed in an extraordinary general meeting held on 24 July 2001 by the shareholders of LT3000 Online Limited ("LT3000"), the shareholders of LT3000 agreed to capitalise certain amounts due from LT3000 in proportion to their existing shareholding in LT3000. Accordingly, out of the amount of HK\$13,677,000 due from LT3000 as at 31 December 2000, an amount of HK\$11,004,000 was capitalised as investment cost on 24 July 2001.

Pursuant to a resolution passed in an extraordinary general meeting held on 30 July 2001 by the shareholders of LT3000, 943,138 new shares in LT3000 were issued to an existing shareholder of LT3000 for cash at US\$0.408 per share, resulting in a receipt of HK\$3,000,000 by LT3000 from the issue of the new shares. The consideration is with reference to the cost of investment for the additional 29% interest in LT3000 acquired by the Group in April 2000. The Group's interests in LT3000 was diluted to 47.47 % as a result of the issue of the new shares.

(11) Gain on disposal of a subsidiary

On 4 January 2001, the Group entered into a sale and purchase agreement with an independent third party to dispose of 51% interest in the issued share capital of Sino Crown International Holdings Limited.

(12) Comparative figures

Comparative figures in the condensed consolidated income statement have been restated to conform with the current period's presentation.

INTERIM DIVIDEND

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



BUSINESS REVIEW AND PROSPECTS

Biopharmaceutical Division

The results for the six months ended 30 June 2001 marked the transition of the Group from its trading based operations to that of biopharmaceutical development and sales. The turnover for biopharmaceuticals registered a stark increase from naught to HK\$4,865,000 generating a gross profit contribution of HK\$3,103,000 approximately to the Group. The turnover of the Biopharmaceutical Division was attributable solely to the sales of Wei Jia, developed and manufactured by the Company's PRC subsidiary, Weihai Sinogen Pharmaceutical Co., Ltd. ("Sinogen"). Wei Jia is a Category I new biotech liver drug which successfully obtained commercial production approval from the State Drug Administration ("SDA") of China earlier this year.

Market demand for Wei Jia has been enthusiastic since Sinogen commenced active production in March this year. The demand after June 2001 continued to be robust. It is expected that Sinogen will be able to sell all the quantities produced by the existing plant throughout the remaining part of the second half.

The current problem faced by Sinogen is the constraint in production capacity. The current plant is only able to produce around 150,000 vials per month. This constraint will only be resolved upon completion of the expanded plant by the end of the year. The expanded plant will be able to handle a production output of 20,000,000 vials per annum initially and could be easily scaled up to 50,000,000 vials per annum with marginal investment in equipment and installation. Significant increase in production and sales should be foreseeable in the next financial year.

The Company has further up-graded the quality of the Sinogen management team after the interim period by bringing in more focused expertise to complement the existing team. The Company's management foresees that the restructured Sinogen management team will be much more superior and balanced in its technical, marketing and general management abilities that could meet the long-term requirement of the subsidiary.

Sinogen has relocated its marketing and sales headquarters from its production base in Weihai, Shandong Province to Shanghai after the end of the interim period. A total of five new regional sales offices centrally controlled from Shanghai have been planned, of which three have been fully set up and the other two expected to be completed and operational by the end of October. The building of a national sales network is a strategic move that will provide the conduit for channeling the products of Sinogen more efficiently to wholesalers, agents and hospitals. The network also serves as the infrastructure for the future distribution of new products by Sinogen and the Group and will help to improve the quality of customer service and to cut down the distribution costs of Sinogen in the long run.

Sinogen is continuing with the development of the DNA version of Wei Jia. The policy of establishing strategic alliances inside and outside of the country also surges forward. The Company is hopeful of landing on some concrete arrangements in the foreseeable future.

Trading and PVC Division

Due to tough trading conditions, the Company's trading subsidiary had not been successful in securing a deal during the first half. This has accounted for the drop in turnover under this category compared to the previous period. Continuous effort will be devoted to securing new deals in the second half. With better quality staff being recruited recently, it is likely that certain transactions could be concluded in the remaining months. Following the gradual shift of the Group's focus to biopharmaceuticals, the resource allocation to this Division will continue to remain at the current level.

Medical Technology Division

As reported in the annual report for the year just ended, the Division scored encouraging pick-up in business and activities. Turnover was gradually building up while recurring costs and overheads were being tight monitored. This accounted for the substantial reduction in attributable loss to the Group from HK\$3,230,000 in the previous period to HK\$560,000 for the period under review. Management is hopeful of continued improvement along the way.

Acquisitions and Disposals

As disclosed in the annual report for the year just ended, the Company disposed of its 51% owned subsidiary, Sino Crown International Holdings Limited ("Sino Crown"). The disposal of Sino Crown resulted in a net gain of HK\$625,000 which has been fully accounted for in the current period. Sino Crown was engaged in the sales of health food in Hong Kong. The disposal was consistent with the Company's rationalization strategy to concentrate on the development of biopharmaceutical business in the future.

The Company disposed of a major property in April this year for HK\$10,600,000. As full provision for loss had been made in the accounts for the year ended 31 December 2000, no loss has been recorded in the accounts of the current period except for the transaction costs of the disposal.

FINANCIAL REVIEW AND LIQUIDITY

The Company raised approximately HK\$37,556,000 net proceeds by means of a share placement in April this year. Part of the proceeds has been applied for the construction of the new production plant and working capital of Sinogen. The remaining balance has been applied for reducing the revolving credit line of the Company which will be redrawn to finance the activities of Sinogen as and when required.

As at the date of this report, the Company had aggregate credit facilities of HK\$82,000,000, of which HK\$2,300,000 had been utilized. The available un-utilized facilities will be adequate for financing the needs of ongoing activities of the Group.

The percentage of total liabilities to total assets as at 30 June 2001 stood at 59.8% which compares favorably to 76.5% as at the balance sheet date for the year just ended.

EMPLOYEE SCHEME

At the date of this report, the Group employed a total of 104 staff including full-time executives and directors. The terms of employment of the staff, executives and directors conform to normal commercial practice. Share option benefits are granted to and included in the employment terms of selected senior executives of the Company.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, the interests of directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares held	
	Personal interests	Corporate interests
Mr. Shan Shiyong	Nil	236,804,000 (note 1)
Mr. Cai Ming Xi	Nil	12,844,000 (note 2)

Note: (1) This represents 12,844,000 shares and 223,960,000 shares respectively owned by Great Smart Limited and Best Top Offshore Limited. The entire issued share capital of Great Smart Limited is owned as to 50% by each of Mr. Shan Shiyong and New Star Global Limited. New Star Global Limited is wholly owned by Mr. Cai Ming Xi. Best Top Offshore Limited is wholly owned by Mr. Shan Shiyong.

(2) This represents the shares owned by Great Smart Limited only.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors of the Company in trust for the Group as at 30 June 2001 none of the directors or their associates had any interests in the securities of the Company or any of its associated corporation as defined in the SDI Ordinance.

DIRECTORS' AND EXECUTIVES' INTEREST IN SHARE OPTIONS

Apart from the share as disclosed herein, share options to subscribe for ordinary shares of the Company have been granted to Mr. Shan Shiyong, Mr. Jay Chun and Mr. Wang Xi Gang on 2 June 2000 and Mr. Yeung Kam Lung Patrick on 19 April 2000 and 5 June 2001 pursuant to the Company's share option scheme which was adopted at a special general meeting of the Company held on 3 January 1997. Particular of share options outstanding at 30 June 2001 were as follows:

Name	Exercisable period	Exercise Price HK\$	Number of share option		
			Balance at 1 January 2001	Granted during the period	Balance at 30 June 2001
Shan Shiyong	2 Jun 2000 – 1 Jun 2003	0.06848	21,800,000	–	21,800,000
Jay Chun	2 Jun 2000 – 1 Jun 2003	0.06848	21,800,000	–	21,800,000
Wang Xi Gang	2 Jun 2000 – 1 Jun 2003	0.06848	21,800,000	–	21,800,000
Yeung Kam Lung, Patrick	19 Apr 2000 – 18 Apr 2003	0.24000	1,500,000	–	1,500,000
	5 Jun 2001 – 4 Jun 2004	0.19600	–	2,500,000	2,500,000

Save as disclosed above and other than certain nominee shares in subsidiaries held by Directors of the Company in trust for the Group, at 30 June 2001, none of the directors, chief executives or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed under the heading "Directors' Interests in Shares" above and Metro Worldwide Inc. which held 149,835,946 shares representing 12.32% of the issued share capital of the Company, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance discloses no other person as having an interest representing 10% or more of the issued share capital of the Company as at 30 June 2001.

CHANGE OF DIRECTORS

Mr. Chow Man Chung resigned as an independent non-executive director of the Company on 7 September 2001. On the same date, Mr. Ma Yin Ming was appointed in his place. On 26 September 2001, Mr. Cai Ming Xi resigned as a director of the Company.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2001 which have not been audited.

COMPLIANCE WITH CODE OF BEST PRACTICE

The contents of this announcement have been reviewed and approved by the Audit Committee of the Company. Except for the delay in the publication of the final results announcement and dispatch of annual reports for the year ended 31 December 2000 as previously published, it is the opinion of the Directors that the Company has complied with the other requirements of the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

By Order of the Board

Jay Chun

Managing Director

Hong Kong, 26 September 2001