MEDICAL CHINA LIMITED

(Incorporated in Bermuda with limited liability)

Annual Report 2001

Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

Contents

Corporate Information 2

Chairman's Statement 3

Management Discussion and Analysis 5

Directors and Senior Executives 12

Report of the Directors 14

Auditors' Report 21

Consolidated Profit and Loss Account 22

Consolidated Statement of Recognised Gains and Losses 23

Consolidated Balance Sheet 24

Balance Sheet 26

Consolidated Cash Flow Statement 27

Notes to the Accounts 29

Corporate Information

BOARD OF DIRECTORS

Executive directors
LI Nga Kuk, James *(Chairman)*
LI Wo Hing *(General Manager)*
NG Kwai Sang
CHAN Shut Li, William
CHAN Siu Sun
LI Tai To, Titus

Non-executive directors
CHEN Minshan

Independent non-executive directors
GUO Guoqing
FAN Wan Tat
HAN K. Huang

COMPLIANCE OFFICER

LI Wo Hing

COMPANY SECRETARY

TONG Kwan Choi, Evans *AHKSA*

BERMUDA ASSISTANT SECRETARY

A.S.&K. Services Limited

QUALIFIED ACCOUNTANT

TONG Kwan Choi, Evans *AHKSA*

AUDIT COMMITTEE

GUO Guoqing
FAN Wan Tat
HAN K. Huang

SPONSOR

Celestial Capital Limited

AUDITORS

KPMG
Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Office B, 21st Floor
Teda Building
87 Wing Lok Street
Hong Kong

REGISTERED OFFICE

Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG SHARE REGISTRAR

Central Registration Hong Kong Ltd.
Rooms 1901–5, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking Corporation Ltd.

GEM STOCK CODE

8186

WEBSITE ADDRESS

www.md23.com

Chairman's Statement

I hereby present to the shareholders the annual report of the Group for the year ended 31 December 2001.

RESULT ANALYSIS

For the year ended 31 December 2001, the Group registered a turnover of $38,523,000, representing an increase of 250% over 2000. Profits attributable to shareholders were approximately $22,403,000, representing an increase of 363% over the year before. Basic earnings per share amounted to $4.34 cents, an increase of 313% compared with 2000.

OUR GOAL

Medical China Limited was founded to help fight cancer in the PRC. During these two years the existence of the Group, the directors, our senior management and I have strove to overcome a number of obstacles. On 31 December 2001, we turned this young company with huge potential into a listed company on the the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. A substantial fund was thus raised for the Group to continue to strengthen its hospital network, develop new products, provide cancer-fighting medical equipment and sell new and effective anti-cancer drugs.

Cancer has become the top killer disease in 35 cities over the PRC. Facing with the fact that most mainland hospitals have insufficient funds to import state-of-the-art medical equipment from overseas, the Group embarked on an innovative business model, which is characterized by entering into agreements with hospitals, and whereby, the Group shall provide its principal product, RFAS, and assist the affiliated hospitals in the establishment of an RFAS cancer treatment centre. The Group is entitled to share with the hospitals profits arising from the services provided by the centre. Under this win-win solution, not only the investment costs of hospitals are reduced and a quality life-line is fostered for the patients in the PRC, a stream of ongoing profit can also be sustained by the Group.

BUSINESS REVIEW

During the period under review, the Group entered into cooperation agreements with 49 hospitals respectively in the PRC. The expanded hospital network leads to a much higher use of RFAS, which has substantially enhanced the Group's profits through the collection of more medical service fees. The larger network also enables us to promote two other products for which the Group has sole distribution rights: IP6 and Neustim. In the meantime, the Group is enable to develop its own 3D laparoscope.

In order to expedite the application of RFAS by the hospitals in the PRC, in January 2001 the Group participated in the publication of "International Anticancer", a monthly journal to introduce the latest developments of RFAS. We have also organized 10 medical conferences in various major hospitals over the PRC, inviting medical experts from the United States to demonstrate to local medical professionals the use of RFAS. These promotional efforts have remarkably enhanced the development of the Group's business.

Chairman's Statement

BUSINESS OUTLOOK

There are more than 16,000 hospitals of all scales across the PRC. In view of this, expanding our hospital network will be our principal strategy to be pursued. Our short-term goal is to achieve the growth of the number of affiliated hospitals up to around 120 in the year 2003.

Cancer-treatment is a fast growing business. Across the world, research efforts are ever made for the innovation of new cancer-fighting drugs and methods. In light of this, various governments are expected to introduce new legislations from time to time to monitor their use. Besides, there will be more keen and tough competitors to attempt to share the market. Towards all these challenges which we are aware of, we are preparing to keep abreast of up-to-date information on advanced technology for anti-cancer in order to improve our products and services.

Many of our directors and senior management are prestigious and professional doctors from the PRC and abroad, as well as a number of professionals who are well experienced in the distribution and selling of medical equipment and drugs. With these necessary expertises, and a large hospital network, state-of-the-art anti-cancer treatment technology and an innovative business operating model, I firmly believe the Group will be able to achieve great success in the field of cancer-treatment business in the PRC, and thus more cancer patients will be benefited.

The operation of the Group is still in its initial stage. It is fortunate for the Group to stay away from the impact of the 911 terrorist attack in America and an encouraging growth of business was recorded for the year 2001. The PRC's entry into the World Trade Organisation will probably foster more business opportunities to the Group.

ACKNOWLEDGEMENT

I hereby express my gratitude to all the directors for their contributions, and on behalf of the Board of Directors, I would like to extend my sincere appreciation to all the shareholders, all the hospital staff, customers, suppliers and all of our staff for their continued support.

Li Nga Kuk, James
Chairman
27 March 2002

Management Discussion and Analysis

FINANCIAL REVIEW

The Group's turnover for the year ended 31 December 2001 was $38,523,000, representing an increase of 250% over the corresponding period in 2000. The Group's net profits attributable to shareholders amounting to $22,403,000 representing an increase of 363% as compared with the corresponding period in 2000. The Group's net profits increased by 12% as compared with the profit forecast as shown in the Prospectus which is mainly due to the contingent provision in the profit forecast has not been utilised.

The increase in turnover is attributable to the Group's strategy in technology and the trainings in the application of RFAS. Through the promotion of the technology of RFAS, the applications of RFAS in cancer treatments have been increased significantly and accordingly, the revenue of the Group has been increased as well. The Group's business has been benefited as a whole.

During the period under review, the basic earnings per share has increased by 313% to $4.34 cents as compared to the corresponding period in 2000. The Directors do not recommend the payment of any final dividend for the year ended 31 December 2001.

The shares of the Company were listed on the GEM of the Stock Exchange on 31 December 2001, and a net proceeds of approximately $60 million was raised.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2001, the shareholders' fund of the Group amounted to approximately HK$92,343,000 (2000: HK$4,851,000). Current assets amounted to approximately HK$98,388,000 of which approximately HK$44,165,000 were cash and bank deposits (2000: HK$334,000). The Group had no non-current liabilities or bank loans. The current liabilities of the Group amounted to approximately HK$16,759,000 of which approximately HK$9,994,000 were trade and other payables and HK$5,196,000 was provision for taxation. The net asset value per share was as at 31 December 2001 was HK$0.12. There was no charges on the Group's assets as at 31 December 2001. The gearing ratio on the basis of outstanding bank facilities is nil (2000: nil).

Apart from investment in subsidiaries, the Company has no other significant investment.

Apart from the acquisition of subsidiaries pursuant to the Reorganisation, the Group has no material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year. The details of segmental information are set out in the note 3 to the financial statements.

FINANCIAL RESOURCES, BORROWINGS AND BANKING FACILITIES

The Group generally finances its operations with internally generated resources and does not have any banking facilities. It is the Group's policy to place surplus fund with banks on deposits with maturity not more than one year.

FOREIGN EXCHANGE EXPOSURE AND HEDGING INSTRUMENTS

The Group's transactions are denominated in Renminbi, Hong Kong dollars and US dollars. During the year under review, the exchange rates of such currencies have been stable. The Group has not entered into any hedging arrangements.

As at 31 December 2001, the Group did not have outstanding hedging instrument (2000: nil).

BENEFIT SCHEME FOR THE EMPLOYEES

In addition to the Share Option Scheme, the Group also provides a mandatory provident fund scheme for its staff in Hong Kong in compliance with the requirements under the Mandatory Provident Fund Scheme Ordinance and pays retirement insurance according to the relevant regulation of the PRC.

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiary of the Group participates in a defined contribution retirement benefit scheme (the "Scheme") organized by the municipal government whereby the subsidiary is required to contribute to the Scheme to fund the retirement benefits of the eligible employees. Contributions made to the Scheme are calculated based on certain percentages of the payroll costs of the eligible employees. The government of the PRC is responsible for the entire pension obligations payable to retired employees. The Group is not liable to any retirement benefits payment beyond the contributions to the Scheme.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that compete or may compete with the business of the Group or has any other conflict of interests with the Group.

CONTINGENT LIABILITIES

As at 31 December 2001, the Group and the Company did not have any significant outstanding contingent liabilities apart from the potential contingent liabilities arising from the Group's operations as disclosed under the risk factors in the Prospectus relating to "Product liability and limited insurance coverage." As the liabilities relating to "Product liability and limited insurance coverage" under the Risk Factors in the Prospectus are very remote, accordingly no such disclosures are included in the accounts.

BUSINESS REVIEW

On 31 December 2001, the shares of the Company successfully listed on the GEM of the Stock Exchange, which is another milestone in the Group's development. This is extremely important step to the development of Group's investment and the expansion of business in future.

Following more contracts have been entered with hospitals in the PRC, the sales of RFAS, as the Group's flagship product, and the related sales has increased significantly. The Group's flagship product, RFAS has registered significant growth in sales, leading to the Group's business expansion. The details of the Group's development in the areas of product performance, research & development and sales & promotion are set out below.

Management Discussion and Analysis

Products

RFAS and LeVeen Electrons

The Group is the sole distributor of RFAS in the PRC and Hong Kong. RFAS is a cancer-treatment device produced by Radio Therapeutic Corporation, an US privately-held medical device company. It consists of the Radio Therapeutics radio-frequency generator, LeVeen Electrodes, and ultrasonic scanner, a personal computer and software for the system. The whole set can be used by hospitals to establish a RFAS treatment centre.

During the year ended 31 December 2001, the number of hospitals in the PRC installed with RFAS has increased from 47 to 49. The usage of RFAS has increased from 1,015 times in 2000 to 3,700 in 2001. The medical service fee received from the provision of RFAS service and related sales increased from HK$11 million in 2000 to $38.5 million in 2001, an increase of 250%.

During the year under review, the increase in sales was attributed to the Group's mission in the research development and in the promotion and training of the RFAS technology. In 2001, the Group has organized 10 medical conferences in Shanghai, Guangzhou, Chengdu, Zhengzhou, Lanzhou, Jilin, Shengyang, Fuzhou, Nanning and Shijiazhuang, inviting renowned medical experts from the PRC and tumor treatment experts from USA and Italy to demostrate the application of RFAS and LeVeen Electrodes. This has greatly increased the popularity of RFAS and raised proficiency in the handling of this technology by medical staff of affiliated hospitals.

IP6 and Neustim

IP6 is a product developed by Longstar International Inc. ("Longstar"), an American manufacturer. IP6 is a natural constituent of cereal diet when administered in drinking water. It has an anti-tumor effect, and helps prevent heart and liver disease and kidney stones. The Group has been appointed by Longstar to be its sole and exclusive distributor of IP6 for the PRC market till August 2004. The Group is awaiting the SDA's approval of the drug.

Neustim is produced by Shanghai GeneMedix Biotechnology Company Ltd. Neustim accelerates the reconstruction of immune systems after chemotherapy. It enables chemotherapy to continue as planned, reduces serious infection after chemotherapy and bone marrow transplant and cuts days of hospitalisation and the cost of anti-infection treatment. It also has fewer side effects. The Group is testing these products in a few affiliated hospitals, and is looking into a preliminary promotion plan.

The Group is also actively looking for other anti-cancer drugs for the PRC market, and will negotiate for more sole distribution rights of quality products, as well as developing marketing channels to hospitals in the PRC.

Research and Development

3-dimensional laparoscope

The patent of the 3-dimensional laparoscope researched and developed by the Group has successfully registered with the Chinese Intellectual Property Bureau. The product is expected to be marketed in May 2003. The laparoscopes currently available in the market are 2-dimensional, which are inserted into patients' bodies to assist the conduct of medical operations. The 3-dimensional laparoscope allows for a much better image, which can help the operation to proceed more smoothly and accurately.

Research and development is part of the Group's mission. Apart from developing the 3-dimensional laparoscope, computer system research and development team of the Group has during the year modified the existing RFAS system. The revised computer system of RFAS is more user friendly and adapted to the environment in the PRC.

Sales and Promotion

Since most hospitals in the PRC are lack of funds to buy high quality imported medical equipment, the Group has developed a new business model right from the outset through establishing long term relationship with hospitals.

Under this innovative business model, the Group provides RFAS to hospitals for setting up RFAS treatment centres, and in return shares part of the profits of the RFAS treatment centres, while the RFAS set remains as the Group's asset. This business model increases the usage rate of RFAS and the Group's profit-making ability.

As at the end of 2001, the Group has entered into co-operation contracts with 49 hospitals in the PRC. The terms of most of the contracts are six years.

As to the promotion of RFAS, the Group has organized several medical conferences in large-scale hospitals in the PRC during the year, inviting US medical experts to explain and demonstrate the application of RFAS. The Group has also supported the International Anticancer Association to publish the "International Anticancer" a monthly bulletin. With a monthly circulation of 100,000, the periodical reporting the latest development of RFAS the "International Anticancer" is distributed free to doctors and patients of affiliated hospitals. The Group's website *www.md23.com* has continued serving as a communication platform for hospitals, patients and medical professionals on various cancer issues.

Management Discussion and Analysis

FUTURE PLAN AND PROSPECTS

Expanding our affiliated hospital network is the objective of the Group. With more than 16,000 hospitals in the PRC, the opportunities for the Group are enormous. However, the performance of the Group for the first quarter of 2002 will be affected by the Chinese New Year holidays. Looking ahead, the Group is optimistic in the year 2002 and will continue our strategies in the following areas:

Continual development of the hospital network in the PRC: The Group will continue to conduct our business based on technology and promote the use of RFAS in hospitals in the PRC. We will cooperate with large-scale and tumor-specialist hospitals to set up RFAS treatment centres, and promote the usage of RFAS in small and medium sized hospitals. Our plan is to enter into new contracts with 30 more hospitals in Shanghai, Beijing, central China and northern China in 2002; and another 30 hospitals in Guangdong, Shanghai, Sichuan and Fujian in 2003, bringing the number of affiliated hospitals up to 119. Apart from entering into contracts, the Group plans to start selling RFAS to small and medium sized hospitals between 2002 and 2003.

Promoting the use of RFAS: The Group will use the internal professional resources to research the application of RFAS, such as treatment of liver cancer, to breast cancer and pancreas cancer etc. The Group will concentrate the promotion of the application of RFAS in high frequency and high-risk diseases such as lung cancer.

Setting up professional cancer treatment centres: The Group will capture the opportunities created by the PRC's entry into the World Trade Organisation and the revolutionizing of the medical industry in the PRC, in order to promote the use of RFAS. The Group will be looking for opportunities to establish professional cancer treatment centres with hospitals in the PRC. The Group plans to set up two centres in Tienjin and Shanghai in the foruth quarter of 2002, with the Group providing the equipment and systems, and hospitals providing the space and medical professionals.

Establishing RFAS Training Centres: The Group plans to set up four RFAS Training Centres in Shanghai, Guangzhou, Zhengzhou and Chengdu to provide local doctors with free trainings on the use of RFAS, which will facilitate early operation of local RFAS centres. The training centres will also engage in researching into other cancer treatment by the application of RFAS, and raising its success rate of treating liver and lung cancers.

Introducing new products: Since December 2001, the Group has been arranging our marketing staff to attend training courses and started promoting IP6 and Neustim to affiliated hospitals. The Group plans to appoint contractors to produce 3-dimensional laparoscopes in the first half of 2002 and first half of 2003. The Group will utilize its existing hospital network to research and develop and introduce more cancer-prevention and cancer-treatment drugs and other quality medical products. The Group shall try to solicit exclusive distribution rights for more products in the PRC and abroad, and establish long-term relationship with various local and overseas medical suppliers as to tapping the opportunities in the huge market in the PRC.

Management Discussion and Analysis

EMPLOYEES

As at 31 December 2001, the Group has 60 (2000: 45) employees. The total of employee remuneration, including that of the Directors, for the year ended 31 December 2001 and period ended 31 December 2000 amounted to HK$1,362,000 and HK$ 615,000 respectively.

Comparison of business objectives with actual business progress

The following is a summary of the Group's actual business progress as compared to the business objectives set out in the prospectus of the Company dated 19 December 2001 ("the Prospectus").

	Business objectives for the period of 15 December 2000 to 31 December 2001 as disclosed in the Prospectus	**Actual business progress up to the period of 15 December 2000 to 31 December 2001**
Continual development of the network of hospitals in the PRC for RFAS	Enter new cooperation contracts with 10 hospitals in Beijing and Guangdong	The Group has entered into memoranda of cooperation with ten hospitals.
Promotion of application of RFAS and establishment of RFAS training centres	Host three conferences to demonstrate and promote the application of RFAS in curing lung, liver and bone cancers	The Group organized one conference in Chengdu to demonstrate and promote the application of RFAS in curing various cancers.
Development of the market for or assisting in the sales of anti-cancer drugs and 3-dimensional laparoscope	Continue to provide assistance in relation to the sale of IP6 and Neustim to the contracted hospitals in the PRC	IP6 and Neustim are undergoing product sales tests with the contracted hospitals in the PRC
Establishment of cancer treatment centres	Enter into contracts in relation to establishment of cancer treatment centres with Tianjin Nam Kai Hospital, Tianjin	The Group has signed a Memorandum of Understanding with Tianjin Nam Kai Hospital, Tianjin in relation to establishment of cancer treatment centres.
	Commence preparation work in establishing the cancer treatment centre including selection of the appropriate medical devices	The preparation work is under progress as planned.

Management Discussion and Analysis

THE USE OF NET PROCEEDS RESULTING FROM PLACING OF NEW SHARES

	Amount would have been used from 15 December 2001 to 31 December 2001 as disclosed in the Prospectus (RMB million)	Actual Amount used for the period from 15 December 2001 to 31 December 2001 (RMB million)
Continual development of the network of hospitals in the PRC for RFAS	2.50	–
Promotion of application of RFAS and establishment of RFAS training centres	–	–
Development of the market for or assisting in the sales of anti-cancer drugs and 3-dimensional laparoscope	–	–
Establishment of cancer treatment centres	–	–
Total	**2.50**	**–**

The Group was listed on the GEM of the Stock Exchange on 31 December 2001 through the placement of 144,000,000 shares. The net proceeds from the placement of shares after deducting the relevant expenses were approximately $60 million. As of the date of this announcement, the Group has not spent any of the proceeds from the placement of shares as disclosed in the Prospectus and such proceeds are deposited with licenced banks. The Directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

Directors and Senior Executives

DIRECTORS

Executive Directors

Dr. Li Nga Kuk, James, aged 56, is an Executive Director, Chairman of the Company responsible for the strategic development of the Group. He graduated from 中國上海第二醫學院 in 1970. He was granted medical doctor's licenses in Hong Kong and doctor qualification in US in 1981 and 1987 respectively and worked as a medical doctor in the PRC and Hong Kong during 1975 to 1985.

Mr. Ng Kwai Sang, aged 40, is an Executive Director and the Deputy Chairman of the Company responsible for the strategic development of the Group. He is currently a 廣東惠來市政協委員 (a member of the Chinese People's Political Consultation Committee in Huilai City of Guangdong Province) and a guest professor in marketing management in 中國人民大學 Renming University of China.

Mr. Li Wo Hing, MBA, aged 55, is an Executive Director and General Manager of the Company responsible for the daily management of the Group. He has more than 10 years' experience in the trading of medical products and investment in the PRC.

Mr. Chan Shut Li, William, MBA, aged 48, is the an Executive Director and Vice General Manager of the Company responsible for marketing and operations of the Group. Before joining the Group, he was the Sales Manager of 丹麥寶隆洋行（中國）有限公司 (Great Asiatic Company Limited), one of the largest international enterprise in Denmark, and was the General Manager of 韓國雙龍株式會社 (Ssang Yong Corporation) in Guangzhou.

Mr. Chan Siu Sun, aged 47, is an Executive Director and Vice General Manager of the Company, responsible for the product development of the Group. Before joining the Group, he was the general manager of 金寶威強有限公司 Glitter Power Limited and the General Manager of 湖南金樂醫藥實業有限公司 Hunan Jinle Medical Industrial Co., Ltd.. This Company is a joint venture enterprise of pharmaceutical manufacturer.

Dr. Li Tai To, Titus, aged 62, is an Executive Director and Vice General Manager of the Company responsible for promoting the RFA technology in the PRC. He graduated from 中國上海第一醫學院 and has obtained a medical diploma in Taiwan. He was a surgeon in 浙江嘉興第二醫院 (Zhejian Jiaxing No. 2 Hospital).

Directors and Senior Executives

Non-executive Director

Dr. Chen Min Shan, aged 37, is a non-executive Director. Dr. Chen is a medical doctor and an associate professor, Hepatobiliary Department, Tumor Hospital, Zhong Shan Medical University.

Independent non-executive Directors

Mr. Han K. Huang, aged 62, is an independent non-executive Director. Mr. Huang is a professor of School of Medicine University of Southern California, the United States and the chair professor of Medical Informatics Department of Optometry and Radiography, The Hong Kong Polytechnic University.

Mr. Fan Wan Tat, aged 57, is an independent non-executive Director. Mr. Fan is a medical doctor in Hong Kong.

Mr. Guo Guoqing, aged 39, is an independent non-executive Director. Mr. Guo is the president of Commercial College, Zhongguo Renmin University.

SENIOR MANAGEMENT

Consultants

Dr. Chen Min Shan, aged 37, is a consultant of the Company. Dr. Chen is a medical doctor at the Tumor Hospital, Zhongshan University, Guangzhou, the PRC.

Mr. Tian Fu Zhou, aged 58, is a consultant of the Company. Mr. Tian is a professor of the Military Hospital of Chengdu, the PRC.

Mr. Wang Guang Tian, aged 65, is a consultant of the Company. Mr. Wang is a professor of the Affiliate Hospital of Henan Medical University, the PRC.

Report of the Directors

The directors hereby present their first annual report together with the audited financial statements of Medical China Limited ('the Company") and its subsidiaries (together with the "Group") for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 15 August 2001. Pursuant to a group reorganisation (the "Reorganisation") completed on 10 December 2001 to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group. The Company's shares were listed on the GEM on 31 December 2001.

Details of the Reorganisation and the basis of preparation of the financial statements are set out in Note 1 to the financial statements and in the Company's prospectus dated 19 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the provision of medical equipment and related accessories services in the People's Republic of China (" the PRC"). The principal activities and other particulars of its subsidiaries are set out in note 12 to the financial statements.

The Group's turnover for the year is principally attributable to the provision of medical equipment, net of business tax and the sales value of medical accessories to customers, net of value added tax. An analysis of the turnover from the principal activities during the financial year are set out in note 3 to the financial statements.

ACCOUNTS

The profit of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs as at that date are set out in the accounts on pages 22 to 55.

DIVIDENDS AND RESERVES

The directors do not recommend the payment of any final dividend for the year ended 31 December 2001.

Details of the movements in reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	8%	–
Five largest customers in aggregate	28%	–
The largest supplier	–	62%
Five largest suppliers in aggregate	–	100%

Save as disclosed in note 30 to the financial statements, at no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CHARITABLE DONATIONS

No donation was made by the Group during the year.

FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

The Company and the Group had no bank loans and other borrowings as at 31 December 2001.

Report of the Directors

DIRECTORS

The directors during the financial year and up to date of this report were:

Executive Directors

Dr. Li, Nga Kuk James, Chairman	(appointed on 7 September 2001)
Mr. Ng, Kwai Sang	(appointed on 7 September 2001)
Mr. Li, Wo Hing	(appointed on 7 September 2001)
Mr. Chan, Shut Li William	(appointed on 7 September 2001)
Mr. Chan, Siu Sun	(appointed on 7 September 2001)
Dr. Li, Tao To Titus	(appointed on 7 September 2001)

Non-executive Director

Dr. Chen Minshan	(appointed on 10 December 2001)

Independent and Non-executive Directors

Mr. Guo Guoqing	(appointed on 10 December 2001)
Mr. Fan Wan Tat	(appointed on 10 December 2001)
Mr. Han K. Huang	(appointed on 10 December 2001)

Pursuant to the By-Laws of the Company, Messrs. Chan Shut Li William, Chan Siu Sun and Li Tao To Titus will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The biographical details of directors are set out in pages 12 to 13.

DIRECTORS' SERVICE CONTRACTS

On 14 December 2001, all the executive directors entered into a service contract with the Company for an initial term of three years effective from 1 December 2001. The executive directors are committed by the respective service contracts to devote himself exclusively and diligently to the business and interests of the Group and to keep the Board promptly and fully informed of his conduct of business affairs, among other commitments.

The service contracts of the existing independent non-executive directors were for a term of one years commencing on 1 December 2001.

Report of the Directors

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2001, according to the register kept under Section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance"), the interests of the Company's directors and their associates in shares of the Company or any associated corporations (as defined in the SDI Ordinance) were as follows:

Name of Director	Personal interest	Family interests	Corporate interests	Other interests	Total
Li Nga Kuk, James	32,800,000	–	–	–	32,800,000
Li Tai To, Titus	16,400,000	–	–	–	16,400,000
Li Wo Hing	32,800,000	–	212,320,000 *(Note 1)*	–	245,120,000
Ng Kwai Sang	32,800,000	–	212,320,000 *(Notes 1&2)*	–	245,120,000
Chan Siu Sun	32,800,000	–	–	–	32,800,000

Notes:

1. By a letter of undertaking dated 14 December 2001, Mr. Ng Kwai Sang undertook to grant a right of first refusal to Mr. Li Wo Hing regarding his 5% shareholding in the share capital of People Market Management Limited ("PMM"), which is in turn owned as to 28.57% by Mr. Li Wo Hing. Therefore, Mr. Li Wo Hing is deemed to be interested in 212,320,000 Shares held directly by PMM.

2. 212,320,000 Shares are owned by PMM, which is in turn owned as to 35.71% by Mr. Ng Kwai Sang.

Save as disclosed above, as at 31 December 2001, none of the directors or chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all the shareholders of the Company on 14 December 2001, the Company had conditional approved and adopted a share option scheme ("the Share Option Scheme").

The principal terms of the Share Option Scheme are set out in the Company's prospectus dated 19 December 2001.

During the year, no option was granted by the Company under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 14 December 2001, the Company had conditional approved and adopted the Share Option Scheme pursuant to which any employees and directors of the Company and its subsidiaries, may be granted options to subscribe for Shares of the Company. During the year, no option has been granted by the Company under the Share Option Scheme.

Save as disclosed above, as at 31 December 2001, none of the directors or chief executive or their associates had any interest or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or its holding company a party to any arrangement to enable the Company's directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed above in respect of directors and their associates, as at 31 December 2001, according to the register of interests kept by the Company under section 16(1) of the SDI Ordinance, the following persons were interested in 10 percentage or more of the issued share capital of the Company:

Name	No of issued share	Percentage of shareholding
PMM *(note)*	212,320,000	26.54%
China Equity Associates L.P.	118,720,000	14.84%

Note: PMM is beneficially owned as to 35.71% by Mr. Ng Kwai Sang, 28.57% by Mr. Li Wo Hing, 17.86% by Dr. Li Nga Kuk, James, 8.93% by Mr. Li Tai To, Titus and 8.93% by Mr. Li Yue Erh. PMM acquired the Shares through the Reorganisation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 30 to the financial statements, no contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

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

Since the date of listing on 31 December 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's By-Laws or the laws in Bermuda.

PENSION SCHEMES

Details of the Group's pension scheme for the year ended 31 December 2001 are set out in note 28 to the financial statements.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practice and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 31 December 2001.

AUDIT COMMITTEE

As required by the Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee ("Committee") with written terms of reference which deal with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Directors.

The Committee comprises three independent non-executive directors, namely Messrs. Guo Guoqing, Fan Wan Tat and Han K. Huang.

INTEREST OF SPONSOR

As at 31 December 2001, the Sponsor of the Company, Celestical Capital Limited, its directors, employees and its associates did not have any interest in the securities of the Company or any subsidiaries of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Celestical Capital Limited has entered into a sponsorship agreement with the Company whereby, for a fee, Celestical Capital Limited will act as the Company's continuing sponsor for the period from December 31, 2001 to December 31, 2003.

AUDITORS

The financial statements for the year were audited by KPMG, Certified Public Accountants. KPMG will retire at the conclusion of the forthcoming Annual General Meeting, and being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 27 March 2002

Auditors' Report

To the shareholders of
Medical China Limited
(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 22 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 27 March 2002

Consolidated Profit and Loss Account

for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	Note	Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
Turnover	3	**38,523**	11,017
Cost of services/sales		**(9,415)**	(2,909)
Gross profit		**29,108**	8,108
Other income	4	**2,897**	1,445
Other net loss		**(10)**	(13)
Selling and distribution expenses		**(1,952)**	(1,245)
Administrative expenses		**(2,869)**	(2,313)
Other operating expenses		**(238)**	(16)
Profit from operations		**26,936**	5,966
Finance cost	5(a)	**(316)**	(137)
Profit before taxation	5	**26,620**	5,829
Taxation	6(a)	**(4,217)**	(995)
Profit attributable to shareholders	9	**22,403**	4,834
Earnings per share	10		
Basic (in Hong Kong cents)		**4.34**	1.05
Diluted (in Hong Kong cents)		**3.45**	0.95

The notes on pages 29 to 55 form part of these accounts.

Consolidated Statement of Recognised Gains and Losses

for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	Note	**Year ended 31 December 2001 $'000**	Period from 26 April 2000 to 31 December 2000 $'000
Foreign exchange translation difference		**10**	7
Share issuance expenses		**(12,376)**	–
Net (loss)/gains not recognised in the profit and loss account		**(12,366)**	7
Net profit for the year/period		**22,403**	4,834
Total recognised gains		**10,037**	4,841

The notes on pages 29 to 55 form part of these accounts.

Consolidated Balance Sheet

at 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2001 $'000	2000 $'000	2000 $'000
Non-current assets					
Fixed assets	11		**22,420**		19,053
Negative goodwill	13		**(11,706)**		(14,588)
			10,714		4,465
Current assets					
Inventories	14	**868**		–	
Amount due from a related company	18	**–**		8,912	
Trade receivables	15	**2,105**		1,024	
Other receivables	16	**51,250**		2,261	
Time deposit		**16,972**		–	
Cash and cash equivalents	21	**27,193**		334	
		98,388		12,531	
Current liabilities					
Amounts due to related companies	19	**897**		4,714	
Amount due to a director	23	**672**		–	
Trade and other payables	17	**9,994**		988	
Taxation	6	**5,196**		988	
		16,759		6,690	
Net current assets			**81,629**		5,841
Non-current liabilities					
Convertible loan	20		**–**		5,455
NET ASSETS			**92,343**		4,851

Consolidated Balance Sheet

at 31 December 2001
(Expressed in Hong Kong dollars)

		2001		2000	
	Note	**$'000**	**$'000**	$'000	$'000
CAPITAL AND RESERVES					
Share capital	24		**8,000**		10
Reserves	25(a)		**84,343**		4,841
			92,343		4,851

Approved by the board of directors on 27 March 2002

Li Nga Kuk, James
Chairman

Li Wo Hing
Director

The notes on pages 29 to 55 form part of these accounts.

Balance Sheet

at 31 December 2001
(Expressed in Hong Kong dollars)

	Note	2001 $'000	2001 $'000
Non-current assets			
Investments in subsidiaries	12		**5,465**
Current assets			
Amount due from a subsidiary	22	**13,012**	
Other receivables	16	**47,664**	
Cash and cash equivalents	21	**2,729**	
		63,405	
Current liabilities			
Trade and other payables	17	**2,665**	
Amount due to a subsidiary	22	**1,175**	
Amount due to a director	23	**672**	
		4,512	
Net current assets			**58,893**
NET ASSETS			**64,358**
CAPITAL AND RESERVES			
Share capital	24		**8,000**
Reserves	25(b)		**56,358**
			64,358

Approved by the board of directors on 27 March 2002

Li Nga Kuk, James
Chairman

Li Wo Hing
Director

The notes on pages 29 to 55 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

		Year ended 31 December 2001		Period from 26 April 2000 to 31 December 2000	
	Note	$'000	$'000	$'000	$'000
Net cash inflow/(outflow) from operating activities	26(a)		**43,718**		(4,953)
Returns on investments and servicing of finance					
Interest received		**15**		4	
Net cash inflow from returns on investments and servicing of finance			**15**		4
Taxation					
Income tax paid outside Hong Kong		**(9)**		(7)	
Tax paid			**(9)**		(7)
Investing activities					
Payment for purchase of fixed assets		**(7,139)**		(175)	
Placement of time deposit		**(16,972)**		–	
Payment for acquisition of business		**(4,714)**		–	
Advances to third party		**(34,462)**		–	
Net cash outflow from investing activities			**(63,287)**		(175)
Net cash outflow before financing carried forward			**(19,563)**		(5,131)

Consolidated Cash Flow Statement

for the year ended 31 December 2001
(Expressed in Hong Kong dollars)

	Note	Year ended 31 December 2001 $'000	$'000	Period from 26 April 2000 to 31 December 2000 $'000	$'000
Net cash outflow before financing brought forward			**(19,563)**		(5,131)
Financing					
Convertible loan	26(c)	–		5,455	
Net proceeds from issuance of new shares	26(c)	**46,422**		10	
Net cash inflow from financing			**46,422**		5,465
Increase in cash and cash equivalents			**26,859**		334
Cash and cash equivalents at 1 January			**334**		–
Cash and cash equivalents at 31 December			**27,193**		334
Analysis of the balances of cash and cash equivalents					
Cash at bank and in hand			**15,879**		334
Deposits with banks maturing within three months of the balance sheet date			**11,314**		–
			27,193		334

The notes on pages 29 to 55 form part of these accounts.

Notes to the Accounts

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

(a) Reorganisation

The Company was incorporated in Bermuda on 15 August 2001 as an exempted company with limited liability under the Companies Act of Bermuda. The Company became the holding company of the Group on 10 December 2001 through a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the public listing of the Company's shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company acquired by share exchange the entire share capital of Future Asia Management Limited ("Future Asia"), the then holding company of the subsidiaries included in the Reorganisation, and thereby became the holding company of the companies now comprising the Group.

Further details of the Reorganisation are set out in the prospectus dated 19 December 2001 issued by the Company and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 12 to the financial statements. The shares of the Company were listed on the GEM of the Stock Exchange with effect from 31 December 2001.

(b) Basis of presentation

The Company and its subsidiaries (the "Group") resulting from the Reorganisation has been regarded as a continuing group. Accordingly the consolidated results have been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for both years presented, rather than from 10 December 2001. Furthermore, the results of the Group for the period from 26 April 2000 to 31 December 2000 and for the year ended 31 December 2001 include the results of the Company and its subsidiaries with effect from 26 April 2000 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

The Company was incorporated on 15 August 2001. During the period ended 31 December 2000, the Company had not yet set up and accordingly, no comparative figures are presented in respect of the Company's balance sheet at 31 December 2001.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These accounts also comply with the disclosure requirements of the Listing Rules of the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation

The measurement basis used in the preparation of the account is historical cost.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company and all of its subsidiaries prepared on the basis of presentation as described in note 1(b). All material inter-company transactions and balances are eliminated on consolidation.

(d) Negative goodwill

Negative goodwill represents the excess of the aggregate fair value ascribed to the separable net tangible assets acquired over purchase consideration and is amortised on a straight-line basis in accordance with the remaining estimated useful economic life of the relevant assets acquired.

(e) Investments in subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(g)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company.

(f) Fixed assets and depreciation

(i) Valuation

Fixed assets are stated in the balance sheets at cost less accumulated depreciation (see note 2(f)(iii)) and impairment losses (see note 2(g)). The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and location for its intended use.

(ii) Subsequent expenditure

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over the estimated useful lives as follows:

Medical equipment	Shorter of 6 years and the remaining terms of the agreements with hospitals
Office, computer and other equipment	5 years

(iv) Disposals

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets; and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets (continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amount of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Medical service fee

Medical service fee is recognised at the time when services are rendered, net of business tax.

(ii) Sale of goods

Revenue is recognised when medical accessories are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(n) Operating leases

Rental payable under the operating leases are accounted for in the profit and loss account on a straight line basis over the period of the respective leases.

(o) Website/portal development costs

Costs incurred in the development of new websites/portals and enhancements of existing websites/portals, including costs incurred in the development and enhancement of contents, are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Retirement benefits scheme costs

The Group's contributions to retirement benefit schemes are charged to the profit and loss account as and when incurred.

(q) Research and development costs

Research and development costs comprise costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. In the circumstances, research and development costs are recognised as expenses in the period in which they are incurred.

(r) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(s) Related parties

For the purposes of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

3 TURNOVER

The Company acts as an investment holding company and the Group is principally engaged in the provision of medical equipment and related accessories services in the People's Republic of China ("PRC").

Turnover represents service fees arising from the provision of medical equipment, net of business tax and the sales value of medical accessories to customers, net of value added tax.

Pursuant to various agreements with hospitals in the PRC, the Group agrees to provide certain medical equipment at the relevant hospitals and in return, share the medical service fees arising from the utilisation of the medical equipment after deducting the related direct expenses.

3 TURNOVER (continued)

Turnover recognised during the year may be analysed as follows:

	Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
Medical service fees	**28,921**	9,302
Sales of LeVeen Electrodes	**8,968**	1,582
Sales of electric plates	**634**	133
	38,523	11,017

The Group's turnover and operating profit are almost entirely derived from the provision of medical equipment and related accessories services in the PRC. Accordingly, no analysis by geographical and business services segments has been provided.

4 OTHER INCOME

	Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
Interest income	**15**	4
Amortisation of negative goodwill	**2,882**	1,441
	2,897	1,445

Notes to the Accounts

(Expressed in Hong Kong dollars)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
(a)	Finance cost:		
	Interest expense on convertible loan	**316**	137
(b)	Other items:		
	Cost of inventories	**5,686**	1,045
	Depreciation	**3,772**	1,873
	Auditors' remuneration	**662**	70
	Operating lease charges in respect of office premises	**476**	276
	Website/portal development costs	**–**	450
	Research and development costs	**186**	83
	Staff costs (including directors' remuneration in note 7)		
	– wages and salaries	**1,244**	608
	– staff retirement benefits*	**118**	7
	Average number of employees during the year	**60**	45

* *At 31 December 2001, there were no forfeited contributions available to the Group to reduce contributions of the staff retirement scheme in future years (2000: nil).*

6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
PRC income tax	**4,217**	995

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year/period.

The Company's subsidiary, Tat Lung Medical Treatment Technology (Shenzhen) Limited ("Tat Lung Shenzhen"), located in the Shenzhen Special Economic Zone in the PRC, is subject to PRC income tax at a reduced rate of 15% (2000: 15%).

No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

(b) Taxation in the consolidated balance sheet represents:

	2001 $'000	2000 $'000
Provision for PRC income tax	**4,217**	995
PRC income tax paid	**–**	(7)
	4,217	988
Balance of PRC income tax provision relating to prior period	**979**	–
Tax payable	**5,196**	988

Notes to the Accounts

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
The amount comprise:		
Executive directors		
Fees	**–**	–
Salaries and other emoluments	**389**	150
Retirement benefit scheme contributions	**16**	2
Bonus	**–**	–
	405	152
Non-executive directors		
Fees	**20**	–

The remuneration of the directors is within the following bands:

	Year ended 31 December 2001 ***Number of directors***	Period from 26 April 2000 to 31 December 2000 *Number of directors*
Nil – $1,000,000	**6**	6

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. The executive directors entered into service contracts with the Company for an initial period of three years commencing on 1 December 2001, and will continue thereafter unless and until, after the expiry of the first year of service, terminated by either party by serving not less than three months' prior written notice or by payment of three months' salary in lieu of such notice. Two directors waived or agreed to waive all of their remuneration and two directors waived or agreed to waive half of their remuneration in 2001.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2000: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2000: three) individuals is as follows:

	Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
Basic salaries, allowances and other benefits	**206**	73
Discretionary bonuses	**–**	–
Retirement benefit scheme contributions	**2**	1
	208	74

The emoluments of the three (2000: three) individuals with the highest emoluments are within the following bands:

	Year ended 31 December 2001 Number of individuals	Period from 26 April 2000 to 31 December 2000 Number of individuals
Nil – $1,000,000	**3**	3

During the year, no emoluments were paid to the Directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of $731,000 which has been dealt with in the accounts of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2001 is based on the profit attributable to shareholders of $22,403,000 divided by the weighted average number of 515,629,589 shares in issue during the year.

The calculation of basic earnings per share for the period ended 31 December 2000 is based on the combined profit attributable to shareholders of $4,834,000 divided by 459,200,000 shares, prior to the placing but after adjusting the effect of the capitalisation issue on 20 December 2001.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2001 and the period from 26 April 2000 to 31 December 2000 is based on the adjusted combined profit attributable to shareholders of $22,719,000 and $4,971,000 respectively and the weighted average number of ordinary shares of 657,972,603 and 520,666,301 shares respectively after adjusting for the effects of the dilutive potential ordinary shares committed under the convertible loan issued on 8 September 2000 which entitled the noteholders to convert the paid up principal into 30% enlarged issued share capital of Tat Lung Medical Treatment Technology Limited ("Tat Lung Hong Kong") upon conversion.

(c) Reconciliation

	Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
Profit attributable to shareholders	**22,403**	4,834
Interest paid for the convertible loan	**316**	137
Adjusted profit attributable to shareholders	**22,719**	4,971

	Year ended 31 December 2001 Number of shares	Period from 26 April 2000 to 31 December 2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**515,629,589**	459,200,000
Deemed issue of ordinary shares	**142,343,014**	61,466,301
Weighted average number of ordinary shares used in calculating diluted earnings per share	**657,972,603**	520,666,301

11 FIXED ASSETS

	The Group		
	Medical equipment $'000	**Computer equipment $'000**	**Total $'000**
Cost:			
At 1 January 2001	20,743	183	20,926
Additions	7,071	68	7,139
At 31 December 2001	27,814	251	28,065
Aggregate depreciation:			
At 1 January 2001	(1,865)	(8)	(1,873)
Charge for the year	(3,729)	(43)	(3,772)
At 31 December 2001	(5,594)	(51)	(5,645)
Net book value:			
At 31 December 2001	22,220	200	22,420
At 31 December 2000	18,878	175	19,053

Notes to the Accounts

(Expressed in Hong Kong dollars)

12 INVESTMENTS IN SUBSIDIARIES

	The Company 2001 $'000
Unlisted shares, at cost	5,465

Details of the subsidiaries at 31 December 2001 are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Percentage of equity: Group's effective holding	held by the company	held by subsidiary	Issued/ registered capital	Principal activities
Future Asia	British Virgin Islands ("BVI")	100%	100%	–	US$20,000	Investment holding
Tat Lung Hong Kong	Hong Kong	100%	–	100%	$142,900	Investment holding
Tat Lung Shenzhen	PRC	100%	–	100%	$5,000,000	Provision of medical equipment and related services

13 NEGATIVE GOODWILL

	The Group 2001 $'000	2000 $'000
Negative goodwill	**(16,029)**	(16,029)
Less: Accumulated amortisation	**4,323**	1,441
	(11,706)	(14,588)

The balance represents the negative goodwill arising from the Group's acquisition of the medical equipment business together with the relevant assets from Guangxi Wuzhou Tat Lung Medical Equipment Company Limited ("Wuzhou Tat Lung") (note 30(ii)).

14 INVENTORIES

	The Group	
	2001	2000
	$'000	$'000
Finished goods – medical accessories	**868**	–

All finished goods are stated at cost.

15 TRADE RECEIVABLES

All of the trade receivables are expected to be recovered within one year.

An ageing analysis of trade receivables (net of provision for bad and doubtful debts) is as follows:

	The Group	
	2001	2000
	$'000	$'000
Within 3 months of the date of billing	**2,105**	1,024

Debts are normally due within 60 days from the date of billing.

16 OTHER RECEIVABLES

		The Group		The Company
		2001	2000	**2001**
	Note	**$'000**	$'000	**$'000**
Proceeds receivable from issuance of Placing Shares	(i)	**13,202**	–	**13,202**
Advances to third party	(ii)	**34,462**	–	**34,462**
Other receivable, deposits and prepayments		**3,586**	2,261	**–**
		51,250	2,261	**47,664**

Notes:

(i) Proceeds receivable from issuance of Placing Shares

It represents the remaining balance of the net proceeds obtained from issuance of Placing Shares. The balance has been fully received in January 2002.

(ii) Advances to third party

It represent advances made by the Company to an independent third party in December 2001. The amount due from the third party is unsecured, interest bearing at 4% per annum and repayment on demand. The advances have been repaid subsequent to the balance sheet date.

17 TRADE AND OTHER PAYABLES

	The Group		The Company
	2001	2000	**2001**
	$'000	$'000	**$'000**
Trade payable	**1,279**	–	–
Other payable and accrued liabilities	**8,715**	988	**2,665**
	9,994	988	**2,665**

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	The Group	
	2001	2000
	$'000	$'000
Due within 3 months or on demand	**1,279**	–

18 AMOUNT DUE FROM A RELATED COMPANY

	The Group	
	2001	2000
	$'000	$'000
Wuzhou Tat Lung	**–**	8,912
Maximum amount outstanding during the period	**8,912**	8,912

The amount due from related company was unsecured, interest free, and had no fixed terms of repayment.

19 AMOUNTS DUE TO RELATED COMPANIES

	The Group	
	2001	2000
	$'000	$'000
Wuzhou Tat Lung	**–**	4,714
Everblooming Enterprises Company ("Everblooming")	**897**	–
	897	4,714

Amounts due to related companies are unsecured, interest free, and have no fixed terms of repayment.

20 CONVERTIBLE LOAN

The convertible loan was unsecured and interest bearing at a fixed rate of 8% per annum. On 21 September 2001, the right attached to the convertible loan was exercised in full by Mr. Li Wo Hing and accordingly, in accordance with the terms and conditions of the convertible loan, 4,290 shares of $1 each of Tat Lung Hong Kong were allotted to Mr. Li Wo Hing and his designated person in full settlement of the loan liability.

21 CASH AND CASH EQUIVALENTS

	The Group		The Company
	2001	2000	**2001**
	$'000	$'000	**$'000**
Deposits with banks	**11,314**	–	**–**
Cash at bank and in hand	**15,879**	334	**2,729**
	27,193	334	**2,729**

22 AMOUNT DUE FROM/(TO) A SUBSIDIARY

Amount due from/(to) a subsidiary is unsecured, interest free and has no fixed terms of repayment.

23 AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest free and has no fixed terms of repayment.

Notes to the Accounts

(Expressed in Hong Kong dollars)

24 SHARE CAPITAL

	Note	2001 Number of Ordinary shares of $0.1 each	2001 Number of Ordinary shares of $0.01 each	2001 $'000	2000 Number of Ordinary shares of $1.0 each	2000 $'000
Authorised:						
On incorporation at 15 August 2001	(ii)	1,000,000	–	100	–	–
Change of nominal value of shares from $0.1 each to $0.01 each	(iv)	(1,000,000)	10,000,000	–	–	–
Increase in authorised share capital on 10 December 2001	(v)	–	100,000,000	1,000	–	–
Increase in authorised share capital on 14 December 2001	(vii)	–	1,890,000,000	18,900	–	–
At 31 December	(i)	–	2,000,000,000	20,000	10,000	10
Issued and fully paid:						
At 1 January 2001 / 1 May 2000	(i)	–	–	10	10,000	10
Capital eliminated on consolidation		–	–	(10)	–	–
Issuance of shares	(iii)	1,000,000	–	100	–	–
Change of nominal value of shares from $0.1 each to $0.01 each	(iv)	(1,000,000)	10,000,000	–	–	–
Issuance of shares for the acquisition of subsidiaries	(vi)	–	10,000,000	100	–	–
Capitalisation issue	(viii)	–	636,000,000	6,360	–	–
Issuance of shares for cash	(ix)	–	144,000,000	1,440	–	–
At 31 December		–	800,000,000	8,000	10,000	10

Notes:

(i) The share capital on the combined balance sheet as at 31 December 2000 represents the issued share capital of Tat Lung Hong Kong.

(ii) On 15 August 2001 (date of incorporation), the authorised share capital of the Company was $100,000 divided into 1,000,000 shares of $0.1 each.

(iii) On 16 August 2001, 1,000,000 shares were allotted and issued, credited as fully paid at par.

(iv) Pursuant to the written resolutions passed by all the shareholders on 28 November 2001, by means of a sub-division of share capital, the par value to the shares of the Company was reduced from $0.1 each to $0.01 each, and each of the issued share of $0.1 each in the capital of the Company was sub-divided into ten shares.

(v) Pursuant to the written resolutions passed by all the shareholders of the Company on 10 December 2001, the authorised share capital of the Company was increased from $100,000 to $1,100,000 by the creation of an additional 100,000,000 shares of $0.01 each.

24 SHARE CAPITAL (continued)

(vi) Pursuant to the written resolutions passed by all the shareholders of the Company on 10 December 2001, the Company acquired the entire share capital of Future Asia and became the holding company of the Group. The Company allotted and issued 10,000,000 shares of $0.01 each, credited as fully paid at par and together with the shares issued on 16 August 2001 as consideration for the acquisition of the entire share capital of Future Asia.

(vii) Pursuant to the written resolutions passed by all the shareholders of the Company on 14 December 2001, the authorised share capital of the Company was increased from $1,100,000 to $20,000,000 by the creation of an additional 1,890,000,000 shares of $0.01 each.

(viii) On 20 December 2001, an amounting of $6,360,000 standing to the credits of the share premium account was applied in paying up in full at par 636,000,000 shares of $0.01 each which were allotted and distributed as fully paid to the then shareholders pursuant to their equity percentages.

(ix) On 27 December 2001, a further 144,000,000 shares of $0.01 each were issued and offered for subscription at a price of $0.50 per share upon the listing of the Company's shares on the GEM of the Stock Exchange. The Group raised approximately $59,624,000 net of related expenses from the issue.

(x) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

25 RESERVES

(a) The Group

	General reserve $'000	Share premium $'000	Contributed surplus $'000	Retained profits $'000	Exchange reserves $'000	Total $'000
At 26 April 2000	–	–	–	–	–	–
Profit for the period	–	–	–	4,834	–	4,834
Appropriations to general reserve	564	–	–	(564)	–	–
Exchange differences	–	–	–	–	7	7
At 31 December 2000	564	–	–	4,270	7	4,841
At 1 January 2001	564	–	–	4,270	7	4,841
Premium on the issuance of shares	–	70,560	–	–	–	70,560
Shares issue expenses	–	(12,376)	–	–	–	(12,376)
Capitalisation issue of shares	–	(6,360)	–	–	–	(6,360)
Arising on the acquisition of a subsidiary under the Reorganisation	–	–	5,265	–	–	5,265
Profit for the year	–	–	–	22,403	–	22,403
Appropriations to general reserve	2,390	–	–	(2,390)	–	–
Exchange difference	–	–	–	–	10	10
At 31 December 2001	2,954	51,824	5,265	24,283	17	84,343

25 RESERVES (continued)

According to the relevant rules and regulations in the PRC, Tat Lung Shenzhen is required to appropriate 10% of after-tax profit (after offsetting prior year losses), based on the PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a general reserve fund until the balance of the fund reaches 50% of the Tat Lung Shenzhen's registered capital. Thereafter, any further appropriation can be made at the directors' discretion. The general reserve fund can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such issuance.

According to the relevant rules and regulations in the PRC, Tat Lung Shenzhen may also appropriate a portion of its after-tax profit (after offsetting prior year losses), based on Tat Lung Shenzhen's PRC statutory financial statements, to an enterprise expansion fund and a staff and worker's bonus and welfare fund at the directors' discretion. No such appropriations have been made during the relevant year.

(b) Company

	Share premium $'000	Contributed surplus $'000	Accumulated losses $'000	Total $'000
At 1 January 2001	–	–	–	–
Premium on issuance of Shares	70,560	–	–	70,560
Share issue expenses	(12,376)	–	–	(12,376)
Capitalisation issue of shares	(6,360)	–	–	(6,360)
Arising on the acquisition of a subsidiary under the Reorganisation	–	5,265	–	5,265
Loss for the year	–	–	(731)	(731)
At 31 December 2001	51,824	5,265	(731)	56,358

The application of the share premium account is governed by Bye-Law 140(A) of the Company's Bye-Laws and the Companies Act 1981 of Bermuda ("Companies Act").

Pursuant to a group reorganisation during the year, the Company was incorporated on 15 August 2001 and on 10 December 2001 the Company became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation during the year was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of section 54 of the Companies Act.

As at 31 December 2001, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to $4,534,000 subject to the restriction stated above.

The Company was incorporated on 15 August 2001 and has not carried out any business since the date of its incorporation save for the transactions related to the Reorganisation. Accordingly, there was no reserve available for distribution to shareholders as at 31 December 2000.

26 NOTES TO THE COMBINED CASH FLOW STATEMENTS

(a) Reconciliation of profit from operations to net cash inflow/(outflow) from operating activities

	Year ended 31 December 2001 $'000	Period from 26 April 2000 to 31 December 2000 $'000
Profit from operations	**26,936**	5,966
Interest income	**(15)**	(4)
Depreciation	**3,772**	1,872
Amortisation of negative goodwill	**(2,882)**	(1,441)
Increase in inventories	**(868)**	–
Increase in trade receivables	**(1,081)**	(1,024)
Increase in other receivables	**(1,326)**	(2,261)
Increase in trade and other payables	**10,575**	850
Decrease/(increase) in amount due from related companies	**7,027**	(8,912)
Increase in amount due to related companies	**898**	–
Increase in amount due to director	**672**	–
Foreign exchange	**10**	1
Net cash inflow/(outflow) from operating activities	**43,718**	(4,953)

(b) Acquisition of business

	$'000
Net assets acquired:	
Fixed assets	20,743
Negative goodwill	(16,029)
	4,714
Satisfied by:	
Cash	4,714

On 30 June 2000, the Group acquired Wuzhou Tat Lung's provision of medical equipment business in the PRC together with the relevant assets at a consideration of $4,714,000. The amount was paid during the year ended 31 December 2001.

26 NOTES TO THE COMBINED CASH FLOW STATEMENTS (continued)

(c) Analysis of changes in financing

	Share capital (including share premium and contributed surplus) $'000	Convertible loan $'000
At 1 January 2000		
Cash inflow from issuance of convertible loan	–	5,455
Cash inflow from issuance of shares	10	–
At 31 December 2000	10	5,455
At 1 January 2001	10	5,455
Cash inflow from issuance of new shares (note)	46,422	–
Conversion into ordinary shares (note 20)	5,455	(5,455)
At 31 December 2001	51,887	–

Note: The Group raised approximately $59,624,000(net of related expenses) from issuance of new shares. The remaining balance of the proceeds from issuance of new shares included in other receivables as at 31 December 2001 amounted to $13,202,000 (note 16(i)).

(d) Major non-cash transactions

(i) Part of the outstanding balance due from related company, Wuzhou Tat Lung, at 30 June 2001 of $1,885,000 was assigned to Everblooming which is a related company and supplier of the Group, to settle an equivalent amount due to Everblooming.

(ii) On 21 September 2001, an aggregate 4,290 shares of $1 each of Tat Lung Hong Kong were allotted, issued and credited as fully paid to Mr. Li Wo Hing and his designated person upon the conversion of the convertible loan (note 20 and note 30(iii)).

(iii) In preparation for the listing of the Company's shares, on 16 August 2001, the Company issued 1,000,000 share at $0.1 each and together with the 10,000,000 shares issued on 10 December 2001 at $0.01 each and credited as fully paid at par in exchange and as consideration for the acquisition by the Company of the entire issued share capital of Future Asia.

27 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of plant and machinery and other fixed assets outstanding at 31 December 2001 not provided for in the accounts were as follows:

	The Group		The Company
	2001	2000	**2001**
	$'000	$'000	**$'000**
Contracted for	**–**	897	**–**
Authorised but not contracted for	**4,800**	–	**–**
	4,800	897	**–**

(b) Operating lease commitments

At 31 December 2001, the total future minimum lease payments under noncancelable operating leases are payable as follows:

	The Group		The Company
	2001	2000	**2001**
	$'000	$'000	**$'000**
Within 1 year	**493**	387	–
After 1 year but within 5 years	**65**	451	–
	558	838	–

28 RETIREMENT BENEFITS SCHEMES

Hong Kong

Since 1 December 2000, the Hong Kong subsidiary is are required to join the Mandatory Provident Fund (the "MPF"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance.

28 RETIREMENT BENEFITS SCHEMES (continued)

A new Mandatory Provident Fund scheme (the “MPF Scheme”) has been set up by the Group for this purpose and employer’s contributions are made under the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they became payable in accordance with the rules of the MPF Scheme. The Group’s employer contributions vest fully with the employees when contributed to the scheme in accordance with the rules of the MPF Scheme. No forfeited contributions were utilised or available for the year.

PRC, other than Hong Kong

The PRC subsidiary of the Group participates in a mandatory central pension scheme organised by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees’ salaries and are charged to the profit and loss account as they became payable, in accordance with the rules of the scheme. The employers’ contributions vest fully once they are made.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate amount of employers’ contributions by the Group in respect of retirement benefits scheme dealt with in the profit and loss account of the Group is disclosed in note 5 to the financial statements.

29 SHARE OPTION SCHEME

On 14 December 2001, the Company has conditionally adopted a share option scheme pursuant to which any employees and directors of the Company and its subsidiaries may be granted options to subscribe for shares of the Company.

During the year, no option was granted under the share option scheme.

30 RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

	Note	**Year ended 31 December 2001 $'000**	Period from 26 April 2000 to 31 December 2000 $'000
Everblooming	(i)		
Purchase of medical accessories		**3,970**	1,045
Purchase of medical equipment		**6,936**	–
Wuzhou Tat Lung			
Consideration for purchase of medical equipment business together with all relevant assets	(ii)	**–**	4,714
Li Wo Hing			
Interest expense on convertible loan	(iii)	**316**	137

Notes:

(i) Everblooming, a sole proprietorship registered in the United States of America and wholly-owned by Dr Li Nga Kuk, James who is a shareholder and director of the Company and director of Tat Lung Hong Kong, supplies Tat Lung Shenzhen with medical equipment and accessories at cost. In addition, the outstanding balance due from Wuzhou Tat Lung was assigned to Everblooming as disclosed in note 26(d). No outstanding balance was due to Everblooming as at 30 June 2001.

Tat Lung Shenzhen ordered certain medical equipment totalling $2,356,000 from Everblooming in June 2001. Downpayments totalling $1,459,000 were paid pursuant to the relevant sales and purchases agreement, the remaining balance of $897,000 was included as amount due to related company at 31 December 2001.

(ii) On 30 June 2000, Tat Lung Shenzhen acquired Wuzhou Tat Lung's provision of medical equipment business in the PRC together with the relevant assets for a consideration of Rmb5,000,000 (equivalent to $4,714,000) (the "Acquisition"), by taking into account the registered capital of Tat Lung Shenzhen. The amount was paid during the year. In addition, Wuzhou Tat Lung collected service fees and income in respect of the Group's sales of medical materials from certain hospitals during the period from 1 July 2000 to 31 December 2000 totalling $8,912,000 on behalf of Tat Lung Shenzhen. The wife of Dr. Li Tai To, Titus was a major shareholder of Wuzhou Tat Lung. Dr. Li Tai To, Titus is a shareholder and director of the Company and director of Tat Lung Hong Kong. Part of the outstanding balance due from Wuzhou Tat Lung at 30 June 2001 of $1,885,000 was assigned to Everblooming as disclosed in section 26 note (d).

30 RELATED PARTY TRANSACTIONS (continued)

(iii) On 8 September 2000, Mr Li Wo Hing entered into an agreement with Dr Li Nga Kuk, James and Mr Ng Kwai Sang whereby Mr Li Wo Hing provided a loan of $5,455,000 to Tat Lung Hong Kong, which was convertible into new shares of Tat Lung Hong Kong representing 30% of the enlarged issued share capital of Tat Lung Hong Kong upon conversion. Mr Li Wo Hing was appointed director of the Tat Lung Shenzhen on 30 December 2000. The convertible loan was unsecured and interest bearing at a fixed rate of 8% per annum.

The interest payable to Mr Li Wo Hing included in trade and other payables as at 31 December 2001 amounted to $453,000 (31 December 2000: $137,000).

On 21 September 2001, the right attached to the convertible loan was exercised in full by Mr Li Wo Hing and accordingly, in accordance with the terms and conditions of the convertible loan, 4,290 shares of $1 each of Tat Lung Hong Kong were allotted to Mr Li Wo Hing and his designated person in full settlement of the loan liability.

The Directors of the Company are of the opinion that the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business. The Directors of the Company have confirmed that these transactions will not continue in the future after the listing of the Company's shares on the GEM.

Apart from the above there were no other material related party transactions entered into by the Group during the year.