

For the year ended 31 December 2001

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The activities of its subsidiaries and an associate are set out in notes 39 and 40 respectively.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in light of its net current liabilities of approximately HK\$2,484,000 as at 31 December 2001. On the basis that the Group has secured credit facilities of approximately HK\$82,000,000 which remained unutilised at the date of approval of these financial statements, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 4. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31 December 2000 have been amended so that they are presented on a consistent basis.

Leases

In the current year, the Group has adopted SSAP 14 (Revised) "Leases". Disclosures for the Group's operating lease commitments as set out in note 35 have been modified so as to meet the requirements of SSAP 14 (Revised). Comparative figures have been restated in order to achieve a consistent presentation.

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 December each year.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition of subsidiaries prior to 1 January 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition of subsidiaries after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

Goodwill arising on acquisition of associates continues to be capitalised and amortised on a straight line basis over its useful economic life and is included in the carrying amount of the associate.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the gain or loss on disposal.

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition of subsidiaries after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Turnover

Turnover represents the amounts received and receivable for goods sold to outside customers during the year.

Revenue recognition

Sales of goods are recognised when the goods are delivered and title has passed.

Service income is recognised when services are rendered.

Rental income is recognised on a straight line basis over the period of the leases.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

Property, plant and equipment other than buildings under construction are stated at cost less accumulated depreciation, amortisation and impairment losses.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Depreciation or amortisation is provided to write off the cost of items of property, plant and equipment other than buildings under construction over their estimated useful lives and after taking into account their estimated residual value, where appropriate, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining terms of the leases
Buildings	2 – 5%
Plant and machinery	10 – 15%
Furniture, fixtures and office equipment	15 – 20%
Motor vehicles	20%

Buildings under construction are carried at cost. Depreciation is not provided until the construction work is completed and the buildings are ready for their intended use.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group or, where shorter, the terms of the leases.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the consolidated income statement. Where a deficit has previously been charged to the consolidated income statement and a revaluation surplus subsequently arises, this surplus is credited to the consolidated income statement to the extent of the deficit previously charged.

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment properties (cont'd)

On subsequent disposal of an investment property, any revaluation surplus attributable to that property is included in the determination of the gain or loss on disposal.

No depreciation is provided in respect of investment properties which are held on leases with unexpired term, including the renewable period, of more than twenty years.

Patents

Costs incurred in the acquisition of patents are capitalised and amortised on a straight line basis over their useful economic lives.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been written off, less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding principal portions of the commitments are shown as obligations of the Group. The finance costs, which represent the difference between the total commitments and the original principal at the inception of the respective leases, are charged to the income statement using the actuarial method over the period of the respective leases.

All other leases are classified as operating leases and the rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

On consolidation, the financial statements of subsidiaries and associates which are denominated in currencies other than Hong Kong dollar are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on translation are dealt with in the translation reserve.

5. SEGMENT INFORMATION

Business segments

The Group's business activities are currently conducted through two operating divisions – Biopharmaceuticals Division and Trading Division. The two divisions are the basis upon which the Group reports its primary segment information.

Principal activities are as follows:

Biopharmaceuticals Division – research, development, manufacturing and sale of
biopharmaceutical products

Trading Division – trading of general goods

Segment information about these businesses is presented below:

For the year ended 31 December 2001

5. SEGMENT INFORMATION (cont'd)**Business segments (cont'd)**

For the year ended 31 December 2001

	Biopharmaceuticals	Trading	
	Division	Division	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Revenue			
External sales	11,327	10,991	22,318
Result			
Segment result	(8,111)	(2,180)	(10,291)
Other revenue			1,761
Impairment losses recognised in respect of property, plant and equipment			(10,059)
Loss on disposal of an investment property			(142)
Loss on disposal of property, plant and equipment			(1,196)
Unrealised loss on revaluation of investments in securities			(900)
Unallocated corporate expenses			(21,409)
Loss from operations			(42,236)
Finance costs			(3,416)
Gain on disposal of a subsidiary			625
Amortisation of premium on acquisition of associates			(7,000)
Gain on dilution of interest in an associate			1,381
Impairment loss recognised in respect of premium on acquisition of an associate			(11,619)
Share of losses of associates			(439)
Loss before taxation			(62,704)
Taxation			–
Loss before minority interests			(62,704)
Minority interests			5,446
Loss for the year			(57,258)

There were no inter-segment sales during the year ended 31 December 2001.

For the year ended 31 December 2001

5. SEGMENT INFORMATION (cont'd)**Business segments (cont'd)**

At 31 December 2001

Balance sheet

	Biopharmaceuticals	Trading	Consolidated
	Division	Division	
	HK\$'000	HK\$'000	HK\$'000
<i>Assets</i>			
Segment assets	53,243	13,994	67,237
Interest in an associate			6,950
Unallocated corporate assets			45,229
Consolidated total assets			119,416
<i>Liabilities</i>			
Segment liabilities	28,577	1,526	30,103
Unallocated corporate liabilities			34,845
Consolidated total liabilities			64,948

For the year ended 31 December 2001

Other information

	Biopharmaceuticals	Trading		Consolidated
	Division	Division	Unallocated	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	869	–	480	1,349
Depreciation and amortisation	5,849	764	8,169	14,782
Impairment losses recognised	–	–	21,678	21,678
Other non-cash expenses	–	–	2,238	2,238

For the year ended 31 December 2001

5. SEGMENT INFORMATION (cont'd)**Business segments (cont'd)**

For the year ended 31 December 2000

	Biopharmaceuticals	Trading	Consolidated
	Division	Division	Division
	HK\$'000	HK\$'000	HK\$'000
<i>Revenue</i>			
External sales	466	25,920	26,386
<i>Result</i>			
Segment result	(2,217)	(1,137)	(3,354)
Other revenue			3,250
Deficit on revaluation of investment properties			(15,300)
Allowance for doubtful debts			(26,555)
Loss on disposal of property, plant and equipment			(6,488)
Unallocated corporate expenses			(19,802)
Loss from operations			(68,249)
Finance costs			(6,076)
Amortisation of premium on acquisition of associates			(6,480)
Share of losses of associates			(12,421)
Loss before taxation			(93,226)
Taxation			–
Loss before minority interests			(93,226)
Minority interests			605
Loss for the year			(92,621)

There were no inter-segment sales during the year ended 31 December 2000.

The above segment information of the Biopharmaceuticals Division only accounted for results of the division from the date of acquisition on 9 November 2000 to 31 December 2000.

For the year ended 31 December 2001

5. SEGMENT INFORMATION (cont'd)**Business segments (cont'd)**

At 31 December 2000

Balance sheet

	Biopharmaceuticals	Trading	Consolidated
	Division	Division	
	HK\$'000	HK\$'000	HK\$'000
<i>Assets</i>			
Segment assets	58,118	15,732	73,850
Interest in an associate			23,289
Unallocated corporate assets			34,553
Consolidated total assets			131,692
<i>Liabilities</i>			
Segment liabilities	37,759	3,664	41,423
Unallocated corporate liabilities			59,371
Consolidated total liabilities			100,794

Other information

	Biopharmaceuticals	Trading	Unallocated	Consolidated
	Division	Division	Division	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	2,416	3,078	1,132	6,626
Capital additions through acquisition of subsidiaries	56,750	–	–	56,750
Depreciation and amortisation	1,371	777	8,369	10,517
Other non-cash expenses	–	–	21,788	21,788

For the year ended 31 December 2001

5. SEGMENT INFORMATION (cont'd)

Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China ("PRC"). The Group's operations of Biopharmaceuticals Division is carried out in the PRC whereas the Group's Trading Division is carried out both in Hong Kong and in the PRC.

The following table provides an analysis of the Group's revenue by geographical market.

	Revenue by geographical market		Contribution to loss from operations	
	Year ended	Year ended	Year ended	Year ended
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	10,891	6,236	(25,496)	(65,275)
PRC	11,427	20,150	(16,740)	(2,974)
	22,318	26,386	(42,236)	(68,249)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	At	At	Year ended	Year ended
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	50,300	44,756	480	4,210
PRC	69,116	86,936	869	59,166
	119,416	131,692	1,349	63,376

For the year ended 31 December 2001

6. OTHER REVENUE

	2001	2000
	HK\$'000	HK\$'000
Compensation for resuming occupation of industrial properties (note)	1,364	–
Interest income	73	254
Management fee income	240	1,380
Rental income	30	627
Sundry	54	989
	1,761	3,250

Note: The amount represents the compensation receivable from The Government of the Hong Kong Special Administrative Region for resuming occupation of two industrial properties previously held by the Group. The carrying values of these properties amounting to HK\$2,246,000 were written off during the year ended 31 December 2000.

7. ALLOWANCE FOR DOUBTFUL DEBTS

	2001	2000
	HK\$'000	HK\$'000
Allowance for doubtful debts are analysed as follows:		
Allowance for trade debtors	1,544	6
Allowance for amounts due from former subsidiaries	–	21,194
Allowance for other debtors	–	5,355
	1,544	26,555

8. IMPAIRMENT LOSSES

The directors of the Company have reviewed the carrying amounts of the tangible and intangible assets of the Group as at 31 December 2001 and have determined that the property, plant and equipment of the subsidiary engaged in the manufacture and sale of PVC products amounting to HK\$10,059,000 (note 14) and the unamortised premium on acquisition of an associate previously engaged in the development of medical application software and hardware amounting to HK\$11,619,000 (note 17) to be fully impaired with regard to the current market situation of such businesses in the PRC.

For the year ended 31 December 2001

9. LOSS FROM OPERATIONS

	2001	2000
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Amortisation of patent	708	462
Auditors' remuneration	789	755
Depreciation and amortisation		
– owned assets	6,815	3,294
– assets held under finance leases	259	281
Loss on disposal of property, plant and equipment	1,196	6,488
Loss on disposal of an investment property	142	–
Unrealised loss on revaluation of investments in securities	900	–
Operating lease rentals paid in respect of rented premises (<i>note</i>)	2,140	1,911
Research and development expenditure	495	–
Staff cost including directors' remuneration	12,247	9,573

Note: The amount excludes the accommodation benefits provided to a director amounting to HK\$572,000 (2000: HK\$479,000) as set out in note 10.

10. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES**Directors' remuneration**

The directors' remuneration are analysed as follows:

	2001	2000
	HK\$'000	HK\$'000
Fees paid to:		
Executive directors	–	–
Independent non-executive directors	240	240
	240	240
Other emoluments paid to executive directors:		
Salaries and other benefits	5,519	4,466
Accommodation benefits	572	479
Retirement benefit scheme contribution	9	–
	6,100	4,945
Total directors' remuneration	6,340	5,185

For the year ended 31 December 2001

10. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES (cont'd)

Directors' remuneration (cont'd)

The remuneration of the directors were within the following bands:

	2001	2000
	Number of	Number of
	directors	directors
Nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$2,000,001 to HK\$2,500,000	2	–

Highest paid employees

The five highest paid employees of the Group included four directors (2000: four directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid employee for the year ended 31 December 2001, which represented his salaries and retirement benefit scheme contribution, amounted to HK\$1,200,000 and HK\$12,000 respectively (2000: HK\$1,200,000 and HK\$nil).

11. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Interest on bank and other borrowings:		
– wholly repayable within five years	2,236	4,889
– not wholly repayable within five years	728	993
Interest on other loan	336	52
Finance charges on finance leases	116	142
	3,416	6,076

12. TAXATION

No provision for taxation has been made in the financial statements as the Group incurred losses in both years.

No provision for deferred taxation has been made in the financial statements as the amounts involved are insignificant.

For the year ended 31 December 2001

13. LOSS PER SHARE

The calculation of loss per share is based on the loss for the year of HK\$57,258,000 (2000: HK\$92,621,000) and on the weighted average number of 1,177,200,740 (2000: 870,801,629) shares in issue during the year.

As the exercise of the Company's outstanding share options would be anti-dilutive, no diluted loss per share was presented in either year.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Buildings under construction	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
COST						
At 1 January 2001	36,493	13,514	24,002	4,469	1,826	80,304
Exchange realignment	258	187	320	–	3	768
Additions	–	174	564	411	200	1,349
Disposals	–	–	(764)	(1,948)	(308)	(3,020)
Eliminated on disposal of a subsidiary	–	–	(20)	–	–	(20)
Overprovision of construction cost (note)	(2,240)	–	–	–	–	(2,240)
At 31 December 2001	34,511	13,875	24,102	2,932	1,721	77,141
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES						
At 1 January 2001	1,786	–	1,172	1,671	363	4,992
Exchange realignment	4	–	13	–	–	17
Provided for the year	866	–	5,110	679	419	7,074
Eliminated on disposals	–	–	(229)	(1,499)	(82)	(1,810)
Eliminated on disposal of a subsidiary	–	–	(2)	–	–	(2)
Impairment losses recognised (note 8)	7,513	–	2,546	–	–	10,059
At 31 December 2001	10,169	–	8,610	851	700	20,330
NET BOOK VALUES						
At 31 December 2001	24,342	13,875	15,492	2,081	1,021	56,811
At 31 December 2000	34,707	13,514	22,830	2,798	1,463	75,312

For the year ended 31 December 2001

14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Note: The amount represents the reduction in the construction cost in respect of a factory building located in the PRC (the "Building") as the result of a judgment granted on 29 January 2002 by a court in the PRC in connection with the dispute between a subsidiary of the Group and the building contractor of the Building regarding the quality of the construction work of the Building.

	2001	2000
	HK\$'000	HK\$'000
The net book value of the Group's leasehold land and buildings comprise:		
Properties situated in Hong Kong held under medium term leases	1,249	1,277
Properties situated outside Hong Kong held under medium term leases	23,093	33,430
	24,342	34,707
Net book value of property, plant and equipment held under finance leases	756	1,015

15. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
VALUATION	
At beginning of the year	13,800
Disposal	(10,600)
At end of the year	3,200

The investment property, which is rented out for rental income, was revalued as at 31 December 2001 by Dudley Surveyors Limited, an independent firm of professional valuers, on an open market value basis. There was no surplus or deficit arising on the revaluation of the investment property as at 31 December 2001.

The investment property is situated in Hong Kong and is held under long lease.

For the year ended 31 December 2001

16. PATENT

	THE GROUP HK\$'000
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COST	
At 1 January 2001	11,550
Exchange realignment	160
Adjustment on purchase consideration (<i>note</i>)	(7,005)
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At 31 December 2001	4,705
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AMORTISATION	
At 1 January 2001	462
Exchange realignment	6
Provided for the year	708
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At 31 December 2001	1,176
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NET BOOK VALUE	
At 31 December 2001	3,529
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At 31 December 2000	11,088
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Note: The amount represents the adjustment to reduce the cost of patent acquired in 1998 by a subsidiary, which was acquired by the Group during the year ended 31 December 2000 (note 31). As a result of the adjustment, the carrying value of the patent has been reduced by HK\$7,005,000 and the amount payable for the acquisition of patent has been reduced by HK\$9,777,000, resulting in an increase in the net assets of the subsidiary at the date of acquisition by the Group amounting to HK\$2,772,000, representing the accumulated amortisation of the original cost of patent at the date when the subsidiary was acquired by the Group. Of this increase in net assets, HK\$1,583,000 is attributable to the Group (note 28) and HK\$1,189,000 is attributable to the minority shareholders of this subsidiary.

Patent represents the acquired exclusive right to use certain technologies for the manufacture of certain biopharmaceutical products. The patent is amortised over the remaining period of the exclusive right assigned to the Group of four years.

For the year ended 31 December 2001

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets (liabilities)	2,877	(9,007)
Unamortised premium on acquisition of associates (note)	–	18,619
	2,877	9,612
Amount due from an associate	4,073	13,677
	6,950	23,289

Note:

Details of the movements in premium on acquisition of associates

	HK\$'000
COST	
At 1 January 2001 and 31 December 2001	24,419
AMORTISATION AND IMPAIRMENT LOSS	
At 1 January 2001	5,800
Provided for the year	7,000
Impairment loss recognised (note 8)	11,619
At 31 December 2001	24,419
NET BOOK VALUE	
At 31 December 2001	–
At 31 December 2000	18,619

The amount of interest in an associate as at 31 December 2001 represents the Group's 47.47% interest in LT3000 Online Limited ("LT3000").

Pursuant to a resolution passed in an extraordinary general meeting held on 24 July 2001 by the shareholders of LT3000, the shareholders of LT3000 agreed to capitalise certain amounts due from LT3000 in proportion to their then existing shareholdings 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 the cost of investment in LT3000 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, diluting the Group's interest from 49% to 47.47% as a result of the issue of the new shares.

Particulars of the Group's associate as at 31 December 2001 are set out in note 40.

For the year ended 31 December 2001

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	48,726	48,726
Amounts due from subsidiaries	262,346	201,252
Impairment loss	(237,079)	(189,386)
	73,993	60,592

The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1996.

Particulars of the Company's subsidiaries as at 31 December 2001 are set out in note 39.

19. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials and consumables	529	952
Work in progress	20	–
Finished goods	56	891
	605	1,843
At cost	76	1,514
At net realisable value	529	329
	605	1,843

For the year ended 31 December 2001

20. DEBTORS AND PREPAYMENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
The aging analysis of trade debtors is as follows:		
Within 30 days	1,636	62
31 – 60 days	374	–
61 – 90 days	902	–
More than 90 days	288	2,346
	3,200	2,408
Other debtors and prepayments	7,820	3,294
	11,020	5,702

The Group normally allows a credit period of 90 days to its trade debtors.

21. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Other investments:		
Equity securities listed in Hong Kong, at market value	6,100	–

22. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
The aging analysis of trade creditors is as follows:		
Within 30 days	239	13
31 – 60 days	–	4
61 – 90 day	9	10
More than 90 days	311	327
	559	354
Other creditors and accrued charges	33,623	44,937
	34,182	45,291

For the year ended 31 December 2001

23. OTHER LOAN**THE GROUP**

The amount was unsecured, carried interest at prevailing market rates, and was fully repaid during the year.

24. BANK BORROWINGS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Mortgage loans	9,936	20,168
Bank loans	17,012	25,794
Bank overdraft	481	–
	27,429	45,962
Of which:		
Secured	14,337	45,962
Unsecured	13,092	–
	27,429	45,962
The terms of repayment of the bank borrowings are analysed as follows:		
Within one year or on demand	14,275	17,219
More than one year, but not exceeding two years	4,615	11,865
More than two years, but not exceeding five years	6,133	10,304
After five years	2,406	6,574
	27,429	45,962
Less: Amount due within one year shown under current liabilities	(14,275)	(17,219)
Amount due after one year	13,154	28,743

For the year ended 31 December 2001

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts payable under finance leases:				
Within one year	371	371	295	255
More than one year, but not exceeding two years	371	371	340	295
More than two years, but not exceeding five years	46	417	44	384
Less: Future finance charges	788 (109)	1,159 (225)		
Present value of lease obligations	679	934	679	934
Less: Amount due within one year shown under current liabilities			(295)	(255)
Amount due after one year			384	679

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 4.25 years. For the year ended 31 December 2001, the average effective borrowing rate was 14.93%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

For the year ended 31 December 2001

26. SHARE CAPITAL

	2001	2000	2001	2000
	Number of shares	Number of shares	HK\$'000	HK\$'000
Shares of HK\$0.01 each				
Authorised:				
At beginning and at end of the year	10,000,000,000	10,000,000,000	100,000	100,000
Issued and fully paid:				
At beginning of the year	1,073,945,946	632,000,000	10,739	6,320
Placement of new shares (<i>note a and note b</i>)	342,000,000	120,000,000	3,420	1,200
Issue of shares for acquisition of subsidiaries and additional interest in an associate	–	321,945,946	–	3,219
At end of the year	1,415,945,946	1,073,945,946	14,159	10,739

Changes in the issued share capital of the Company during the year are as follows:

- (a) On 29 March 2001, the Company entered into a placing and underwriting agreement with Best Top Offshore Limited ("Best Top"), a company wholly owned by Mr. Shan Shiyong who is a substantial shareholder and also a director of the Company, and a placing agent for the placement of 142,000,000 existing shares of HK\$0.01 each in the Company held by Best Top at HK\$0.275 per share through the placing agent to independent third parties, and the subscription by Best Top of the same number of new shares in the Company at HK\$0.275 per share. The allotment of new shares was completed on 12 April 2001. The allotted shares rank *pari passu* with the then existing shares in the Company in all respects. The net proceeds from the placement amounting to approximately HK\$37,600,000 was applied as general working capital of the Group.
- (b) On 17 December 2001, the Company entered into a placing and underwriting agreement with Best Top and a placing agent for the placement of 200,000,000 existing shares of HK\$0.01 each in the Company held by Best Top at HK\$0.235 per share through the placing agent to independent third parties, and the subscription by Best Top of the same number of new shares in the Company at HK\$0.235 per share. The allotment of new shares was completed on 31 December 2001. The allotted shares rank *pari passu* with the then existing shares in the Company in all respects. The net proceeds from the placement amounting to approximately HK\$45,600,000 was applied for financing the marketing activities of the Company's subsidiary and as general working capital of the Group.

For the year ended 31 December 2001

27. SHARE OPTIONS

At 31 December 2001, the following share options which entitle the holders to subscribe for shares in the Company were outstanding under the Company's share option scheme:

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options outstanding
19 April 2000	19 April 2000 to 18 April 2003	0.24000	1,500,000
2 June 2000	2 June 2000 to 1 June 2003	0.06848	65,400,000
5 June 2001	5 June 2001 to 4 June 2004	0.19600	2,500,000
			69,400,000

28. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000 (Note 1)	Contributed surplus HK\$'000 (Note 2)	Goodwill reserve HK\$'000 (Note 3)	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 2000	-	88,643	-	93	-	(36,068)	52,668
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	-	467	-	467
Issue of shares	84,581	-	-	-	-	-	84,581
Expenses incurred in connection with the placement of shares	(809)	-	-	-	-	-	(809)
Share of exchange reserve of an associate	-	-	-	-	(6)	-	(6)
Goodwill arising on acquisition of subsidiaries	-	-	-	(40,154)	-	-	(40,154)
Loss for the year	-	-	-	-	-	(92,621)	(92,621)
At 31 December 2000	83,772	88,643	-	(40,061)	461	(128,689)	4,126
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	-	266	-	266
Issue of shares	82,630	-	-	-	-	-	82,630
Expenses incurred in connection with the placement of shares	(2,919)	-	-	-	-	-	(2,919)
Goodwill adjustment (note 16)	-	-	-	1,583	-	-	1,583
Share of exchange reserve of an associate	-	-	-	-	(63)	-	(63)
Loss for the year	-	-	-	-	-	(57,258)	(57,258)
At 31 December 2001	163,483	88,643	-	(38,478)	664	(185,947)	28,365

For the year ended 31 December 2001

28. RESERVES (cont'd)

	Share premium HK\$'000	Special reserve HK\$'000 (Note 1)	Contributed surplus HK\$'000 (Note 2)	Goodwill reserve HK\$'000 (Note 3)	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY							
At 1 January 2000	-	-	110,223	-	-	(57,555)	52,668
Issue of shares	84,581	-	-	-	-	-	84,581
Expenses incurred in connection with the placement of shares	(809)	-	-	-	-	-	(809)
Loss for the year	-	-	-	-	-	(92,253)	(92,253)
At 31 December 2000	83,772	-	110,223	-	-	(149,808)	44,187
Issue of shares	82,630	-	-	-	-	-	82,630
Expenses incurred in connection with the placement of shares	(2,919)	-	-	-	-	-	(2,919)
Loss for the year	-	-	-	-	-	(57,055)	(57,055)
At 31 December 2001	163,483	-	110,223	-	-	(206,863)	66,843

The deficit of the Group included deficit of HK\$6,693,000 (2000: HK\$6,254,000) retained by an associate of the Group.

Notes:

- (1) Special reserve represents the aggregate of:
- (i) the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the share premium account of LifeTec (Holdings) Limited, the subsidiary which was acquired by the Company pursuant to the group reorganisation in 1996, and
 - (ii) the effects of the capital reduction, share premium cancellation and elimination of deficit, took place in 1999.

For the year ended 31 December 2001

28. RESERVES (cont'd)

Notes: (cont'd)

- (2) Contributed surplus represents the aggregate of:
- (i) the difference between the consolidated shareholders' funds of LifeTec (Holdings) Limited at the date on which the group reorganisation became effective and the nominal amount of the share capital of the Company issued under the group reorganisation and after distributions, and
 - (ii) the effects of the capital reduction, share premium cancellation and elimination of deficit, took place in 1999.

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company did not have reserves available for distribution to shareholders as at 31 December 2000 and 31 December 2001.

- (3) Goodwill reserve at the balance sheet date comprises HK\$38,571,000 (2000: HK\$40,154,000) and HK\$93,000 (2000 HK\$93,000) in respect of goodwill and negative goodwill respectively.

For the year ended 31 December 2001

29. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK\$'000	HK\$'000
Loss before taxation	(62,704)	(93,226)
Share of losses of associates	439	12,421
Amortisation of premium on acquisition of associates	7,000	6,480
Amortisation of patent	708	462
Gain on dilution of interest in an associate	(1,381)	–
Gain on disposal of a subsidiary	(625)	–
Interest income	(73)	(254)
Interest expense	3,416	6,076
Impairment losses recognised in respect of property, plant and equipment	10,059	–
Impairment loss recognised in respect of premium on acquisition of an associate	11,619	–
Depreciation and amortisation of property, plant and equipment	7,074	3,575
Loss on disposal of property, plant and equipment	1,196	6,488
Loss on disposal of an investment property	142	–
Unrealised loss on revaluation of investments in securities	900	–
Deficit on revaluation of investment properties	–	15,300
Decrease in amount due from a former subsidiary	–	3,644
Decrease (increase) in inventories	1,075	(1,089)
(Increase) decrease in debtors and prepayments	(5,336)	42,229
Increase (decrease) in creditors and accrued charges	2,514	(13,606)
(Decrease) increase in amounts due to directors	(2,049)	4,706
Exchange differences	(539)	130
Net cash outflow from operating activities	(26,565)	(6,664)

For the year ended 31 December 2001

30. DISPOSAL OF A SUBSIDIARY

	2001	2000
	HK\$'000	HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	18	–
Inventories	163	–
Debtors and prepayments	18	–
Bank balances and cash	10	–
Creditors and accrued charges	(834)	–
Net liabilities disposed of	(625)	–
Gain on disposal of a subsidiary	625	–
Total consideration	–	–
Net cash outflow from disposal of a subsidiary:		
Bank balances and cash disposed of	(10)	–

The subsidiary disposed of during the year did not have significant impact on the turnover, results and cash flow of the Group for the year.

For the year ended 31 December 2001

31. ACQUISITION OF SUBSIDIARIES

	2001	2000
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	–	45,200
Patent	–	11,550
Inventories	–	571
Debtors and prepayments	–	3,130
Bank balances and cash	–	451
Creditors and accrued charges	–	(39,327)
Minority interests	–	(9,251)
Net assets	–	12,324
Interest acquired in previous year as associate	–	(8,055)
Goodwill arising on acquisition of subsidiaries	–	40,154
Total consideration	–	44,423
Satisfied by:		
Issue of shares	–	44,000
Cash	–	423
	–	44,423
Net cash inflow from acquisition of subsidiaries:		
Bank balances and cash acquired	–	451
Cash consideration paid	–	(423)
	–	28

For the year ended 31 December 2001

32. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital including premium	Bank and other borrowings	Obligations under finance leases
	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2000	6,320	48,680	1,163
Proceeds from issue of shares	18,000	–	–
Expenses incurred in connection with the placement of shares	(809)	–	–
Issue of shares for acquisition of			
– additional interest in an associate*	27,000	–	–
– subsidiaries*	44,000	–	–
New borrowings raised	–	45,620	–
Repayment during the year	–	(44,438)	(229)
Balance at 31 December 2000	94,511	49,862	934
Proceeds from issue of shares	86,050	–	–
Expenses incurred in connection with the placement of shares	(2,919)	–	–
New borrowings raised	–	15,172	–
Repayment during the year	–	(38,086)	(255)
Balance at 31 December 2001	177,642	26,948	679

* Major non-cash transactions

For the year ended 31 December 2001

33. PLEDGE OF ASSETS

At 31 December 2001, the Group's bank borrowings were secured by charges over properties of the Group with aggregate net book value of approximately HK\$19,087,000 (2000: HK\$30,059,000).

34. CONTINGENT LIABILITIES

The Company has given unlimited cross guarantees to banks to secure general banking facilities granted to the subsidiaries. The extent of such facilities utilised by the subsidiaries as at 31 December 2001 amounted to approximately HK\$4,401,000 (2000: HK\$6,501,000).

On 15 September 1999, LifeTec Enterprise Limited ("LifeTec Enterprise"), a subsidiary of the Company, was named as a defendant in a High Court action in respect of an alleged failure to repay a loan in amount of HK\$20,000,000. The plaintiff took out an application for summary judgment under Order 14 of the Rules of the High Court on 6 October 1999 and in the hearing of the application on 25 October 1999, LifeTec Enterprise was given unconditional leave to defend the plaintiff's claim in the above action. LifeTec Enterprise filed its Defence on 8 November 1999. The plaintiff should have filed its reply, if any, fourteen days thereafter, but LifeTec Enterprise had not received any reply from the plaintiff up to 17 May 2000 and the time for the plaintiff to file the same had long expired and the pleadings should be deemed to be closed. The directors believe that there is no ground for the above claim and it will not have any material adverse impact on the Group's operations.

35. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Within one year	3,009	2,196
In the second to fifth year inclusive	722	2,471
	3,731	4,667

Leases are negotiated for an average term of two years and rentals are fixed throughout the terms of respective leases.

For the year ended 31 December 2001

36. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the financial statements	12,714	–

37. RETIREMENT BENEFIT SCHEME

Hong Kong

Prior to 1 December 2000, the Group operated a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effective from 1 December 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong and all the assets of the Defined Contribution Scheme has been transferred to the MPF Scheme. The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

Retirement benefits scheme contributions less forfeited contributions utilised of HK\$nil (2000: HK\$5,400) for the year amounted to HK\$128,116 (2000: HK\$35,000).

As at 31 December 2001 and 2000, there was no amount of forfeited contributions, which arose upon employees leaving the scheme and which are available to reduce future contributions payable by the Group in the future years.

For the year ended 31 December 2001

37. RETIREMENT BENEFIT SCHEME

PRC

According to the relevant laws and regulations in the PRC, the Group's subsidiaries in the PRC are required to contribute a specified percentage of the payroll of their employees to the retirement benefit schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the respective schemes.

The Group's contribution under the respective schemes for the year amounted to HK\$211,000 (2000: HK\$23,000).

38. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with an associate of the Group:

	2001 HK\$'000	2000 HK\$'000
Management fee income (<i>note a</i>)	240	1,380
Rental income for rented premise and other facility (<i>note a</i>)	–	30
Maintenance expenses paid (<i>note a</i>)	120	120
Purchase of computer hardware and software (<i>note b</i>)	522	–
Amount due from an associate (<i>note c</i>)	4,073	13,677

Notes:

- (a) The transactions were charged at cost.
- (b) The transaction was charged at cost plus a markup.
- (c) The amount is unsecured, interest-free and has no fixed terms of repayment.

For the year ended 31 December 2001

39. SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2001 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued/registered capital held by the Group	Principal activities
Asset Manager Enterprises Limited	Hong Kong	HK\$100	100%	Property holding
Bestful International Ltd.	British Virgin Islands	US\$1	100%	Investment holding
東莞黃江銀堅玩具制品有限公司 Dongguan Huangjiang Silver Grand Toys Manufacturing Co., Ltd.	PRC	HK\$7,000,000	100%	Property holding in the PRC
Goldstone International Holdings Limited	British Virgin Islands	US\$6,600	100%	Investment holding
Hop Fu (Hong Kong) Trading Company Limited	Hong Kong	HK\$10,000	100%	Inactive
LifeTec (Holdings) Limited (note a)	British Virgin Islands	HK\$141,176	100%	Investment holding
LifeTec Enterprise Limited	Hong Kong	HK\$100	100%	General trading
龍口旭達仿皮有限公司 Longkou Sunny Link Leathering Co., Ltd.	PRC	US\$3,100,000	68%	Manufacture and sale of PVC products

For the year ended 31 December 2001

39. SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued/registered capital held by the Group	Principal activities
Silver Grand International Limited	Hong Kong	HK\$10,000	100%	Investment holding
Sunny Link Trading Limited	Hong Kong	HK\$2	100%	General trading
威海基安生物工程有限公司 Weihai Genen Biotech Limited	PRC	US\$110,000 (note b)	100%	Not yet commenced business
威海賽洛金藥業有限公司 Weihai Sinogen Pharmaceutical Co., Ltd.	PRC	RMB66,631,670	57.12%	Research, development, manufacturing and sale of biopharmaceutical products
Yip Hing Toys Manufactory Limited	Hong Kong	HK\$100,000	100%	Inactive

Notes:

- a. The subsidiary is directly held by the Company.
- b. The Group had outstanding commitments of approximately HK\$14,742,000 (2000: Nil) relating to the injection of registered capital to this subsidiary.

Apart from 龍口旭達仿皮有限公司 Longkou Sunny Link Leathering Co., Ltd. and 威海賽洛金藥業有限公司 Weihai Sinogen Pharmaceutical Co., Ltd., the principal activities of the above subsidiaries are carried out in Hong Kong.

None of the subsidiaries had any debt capital subsisting at 31 December 2001 or at any time during the year.

For the year ended 31 December 2001

40. ASSOCIATE

Particulars of the Group's associate as at 31 December 2001 are as follows:

Name of associate	Place of incorporation	Attributable proportion of nominal value of issued share capital indirectly held by the Company	Principal activities
LT3000 Online Limited	British Virgin Islands	47.47%	Development and trading of computer hardware and software