

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

1. GENERAL

The Company was incorporated in Hong Kong. On 23 April 2001, the Company changed its name from Global Link Cyber International Limited to China Bio-medical Group Limited. Its ordinary shares are listed on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and land and buildings, and the marking to market of certain other investments as explained in the accounting policies set out below.

Preparation of financial statements

For the year ended 31 December 2001, the Group reported a net loss of approximately HK\$298,211,000. In addition, as at 31 December 2001, the Group had a net capital deficiency of approximately HK\$265,761,000 which was mainly due to investment loss, valuation deficit on properties portfolio and provisions. Up to and until 31 December 2001, the Group was unable to repay principal and interest of certain bank borrowings amounting to approximately HK\$358,631,000 when they fell due. As a consequence, the banks are entitled to demand immediate repayment of the related borrowings and interest, which have been classified as current liabilities in the financial statements as at 31 December 2001.

The Group is discussing with the relevant banks to restructure the repayment terms of existing loans and to request that they continue providing credit facilities to the Group. On 16 March 2001, the Company entered into a convertible note agreement with an independent purchaser, under which the Company agreed to issue up to US\$30,000,000 convertible notes upon satisfaction of certain conditions. In addition, the Company has solicited potential investors to invest in the Company and one potential investor has provided an unsecured interest-free financing of HK\$5,000,000 as additional working capital. The investor and the Company will continue discussions as to whether further investment will be made in the Company. Also, the Directors believe that the future operations of the Group will be successful. Accordingly the financial statements have been prepared on the going concern basis which assumes that the restructuring of the repayment terms of the bank borrowings will be agreed by the relevant banks, that the issuance of the convertible notes will be successful, and that the discussions with potential investors will result in additional funding.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2001.

The results of subsidiaries acquired and disposed of during the year are accounted for from the effective dates of acquisition or to the effective dates of disposal respectively.

All significant inter-company transactions and balances have been eliminated in the preparation of the consolidated financial statements.

Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Company, directly or indirectly, holds more than half of the voting power or issued share capital, or controls the composition of the board of directors or equivalent governing body. Investments in subsidiaries are stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of a subsidiary or an associate at the date of acquisition. When the terms of an acquisition provide for a subsequent adjustment of the purchase consideration, such adjustment will be treated as addition to or reduction in the cost of acquisition when it becomes probable and a reliable estimate can be made. Goodwill on acquisition occurring on or after 1 January 2001 is recognised as an asset and is amortised on a straight-line basis over its useful economic life not more than 5 years. The carrying amount of goodwill is reviewed annually and written down to recoverable amount where it is considered as necessary.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Negative goodwill, which represents the excess of the fair value of the Group's share of the identifiable net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to expectation of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately.

Goodwill or negative goodwill on acquisition that occurred prior to 1 January 2001 has been eliminated against reserves; such goodwill or negative goodwill has not been retroactively capitalised and amortised. Any provision for impairment loss or any reversal of such a provision on goodwill or negative goodwill eliminated against reserves is recognised in the income statement in the period in which the impairment occurred.

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably, and on the following basis:

Sale of merchandise is recognised when goods are delivered and title has passed.

Transportation service income, laboratory testing service and management fee income are recognised in the period when services are rendered.

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

Rental income is recognised in the period in which the properties are let out and on a straight-line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Properties, plant and equipment

Properties, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment loss.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, which include the estimated cost for dismantling, removing the assets and restoring the site.

Expenditure incurred to replace a separate component of an item of properties, plant and equipment, including major inspection and overhaul expenditure, is capitalised and accounted for as a component of the assets. Other subsequent expenditure is capitalised as an additional cost of that assets only when it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

The gain or loss arising from the retirement or disposal of properties, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, when it is recognised as income. A decrease in net carrying amount arising on revaluation of an asset is recognised as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of properties, plant and equipment, over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over lease terms
Machinery and equipment	6.7% – 20%
Motor vehicles and vessels	10% – 20%
Furniture and fixtures	10% – 25%

NOTES TO THE FINANCIAL STATEMENTS

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Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for their investment potential.

Investment properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. No depreciation is provided in respect of investment properties with an unexpired lease term of over 20 years. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess is charged to the income statement.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations will be credited to the income statement.

Intangible assets

Intangible asset represents acquisition costs to obtain rights to operate a voice-over-internet system. Intangible asset is stated at cost less accumulated amortisation and impairment loss.

Investment in securities

Investment securities held for an identified long term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised as an expense in the period in which the decline occurs.

Securities not classified as investment securities are classified as other investments, which are stated at fair value in the balance sheet. The unrealised holding gains and losses for the investments are included in the income statement.

The profit or loss on disposal of investments securities and other investments is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the securities.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment loss

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 those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Foreign currencies

Transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are recognised as an expense and revenue on the straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. For example, segment assets may include, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

3. TURNOVER AND REVENUE

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in property investment, pharmaceuticals, biopharmaceuticals, financial services, leasing of vessel and vehicle and trading of sand and gravel for construction use.

Turnover and revenue recognised by category are analysed as follows:

	2001	2000
	HK\$'000	HK\$'000
Transportation service income	4,364	23,826
Rental income	11,111	9,233
Net sales of merchandise	9,169	6,608
Interest income from loan receivables	569	2,831
Laboratory testing service income	2	-
Turnover	25,215	42,498
Management fee income	-	2,232
Interest income:		
- bank deposits	9	1,723
- amount due from related companies	4,435	7,668
Other revenue	4,444	11,623
Revenue	29,659	54,121

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

4. DISCONTINUED OPERATIONS

During the year, the Group ceased its trading of sand and gravel and disposed of the high-end electronic consumer products business operations as part of the restructuring of its operations and concentrating the financial resources on the pharmaceutical/biopharmaceutical business.

The results of the trading of sand and gravel and high-end electronic consumer products operations for the year were as follows:

	Electronic consumer products		Sea sand and gravel	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	-	-	9,169	6,608
Other revenue	51	-	687	-
Cost of merchandise sold	-	-	(6,256)	(4,517)
Other operating expenses	(3,164)	(1,227)	(16,145)	(3,651)
	(3,113)	(1,227)	(12,545)	(1,560)
Finance costs	-	-	-	(3,802)
Loss before taxation	(3,113)	(1,227)	(12,545)	(5,362)
Taxation	-	-	-	-
Loss after taxation	(3,113)	(1,227)	(12,545)	(5,362)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

5. LOSS BEFORE TAXATION

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
This is stated after charging (crediting):		
(a) Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	36,570	36,458
Interest on bank borrowings wholly repayable after five years	-	23,578
Interest on other borrowings	948	4,081
	37,518	64,117
(b) Other items		
Staff costs (including retirement costs of HK\$416,000 (2000: HK\$17,000))	11,271	22,531
Auditors' remuneration	1,155	1,280
Amortisation of negative goodwill	(71)	-
Amortisation of positive goodwill	1,000	4,894
Depreciation	3,259	3,152
Operating lease charges:		
Hire of plant and machinery	507	48
Premises	1,573	1,375
Holding losses on other investments:		
Singapore Hong Kong Properties Investment Limited	1,944	26,017
Others	8	285
Profit on disposal of other investments	(627)	(130)
Loss on disposal of property, plant and equipment	1,788	471
Rental income (gross: HK\$10,443,000 (2000: HK\$9,027,000)) net of outgoings from operating leases on investment properties	(8,573)	(7,055)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	30	726
Salaries, other emoluments and other benefits in kind	3,577	18,474
Bonus	-	5,000
Retirement scheme contributions	31	-
	3,638	24,200

Included in the directors' emoluments were fees of HK\$30,000 (2000: HK\$300,000) paid to the independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's Employee Share Option Scheme. These benefits in kind include the difference between the market price of the Company's shares and the exercise price of share options granted to the directors at the date of exercise of the share options by the directors irrespective of whether the resulting shares were sold or retained by the directors. For the year ended 31 December 2001, no share options were exercised by the directors.

The Company's executive directors were entitled to discretionary bonus. For the year ended 31 December 2001, no discretionary bonus was paid.

The emoluments of directors are within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	-	2
HK\$2,500,001 to HK\$3,000,000	1	-
Over HK\$20,000,000	-	1
	7	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

The five highest-paid individuals of the Group for the year included 2 directors whose emoluments have been disclosed above. The emoluments of these individuals other than directors are as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,521	1,286
Retirement schemes contributions	26	-

The number of the 3 highest-paid individuals other than directors whose emoluments fell within the following bands is as follows:

	Number of employees	
	2001	2000
Nil – HK\$1,000,000	3	-
HK\$1,000,001 – HK\$1,500,000	-	1

7. TAXATION

	The Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits Tax:		
Overprovision in prior years	(243)	-
Deferred taxation	(528)	-
	(771)	-

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

For the year ended 31 December 2001, unprovided deferred tax assets, primarily representing the tax effect of current losses amounted to approximately HK\$14,286,000 (2000: HK\$9,246,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

8. LOSS AFTER TAXATION

The loss after taxation includes a loss of HK\$120,679,000 (2000: HK\$449,444,000) which has been dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2001 was based on the consolidated loss of approximately HK\$298,211,000 (2000: HK\$447,387,000) and the 6,201,427,000 shares (2000: weighted average of 5,454,463,000 shares) in issue during the year.

No diluted loss per share is presented as the outstanding employee share options are anti-dilutive.

10. INVESTMENT PROPERTIES

	2001	2000
	HK\$'000	HK\$'000
Valuation		
At beginning of year	301,762	662,645
Additions	-	329
Disposals	(23,370)	(240,155)
Revaluation deficit	(183,842)	(121,057)
At balance sheet date	94,550	301,762

The carrying value of investment properties held by the Group at the balance sheet date comprised:

	2001	2000
	HK\$'000	HK\$'000
Land in Hong Kong:		
Long leases	77,280	237,380
Medium-term leases	17,270	64,382
	94,550	301,762

Investment properties were revalued at their open market value at the balance sheet date by RHL Appraisal Ltd., independent professional valuers, on an existing use basis.

NOTES TO THE FINANCIAL STATEMENTS

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11. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and buildings	Machinery and equipment	Motor vehicles and vessels	Leasehold improve- ments, furniture and fixtures	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation					
At beginning of year	48,000	10,227	4,067	1,552	63,846
Acquisition of subsidiaries	-	-	-	1,234	1,234
Additions	-	-	-	342	342
Revaluation deficit	(15,000)	-	-	-	(15,000)
Disposals	-	(1,776)	(2,876)	(1,467)	(6,119)
At balance sheet date	33,000	8,451	1,191	1,661	44,303
Accumulated depreciation					
At beginning of year	-	1,259	585	223	2,067
Acquisition of subsidiaries	-	-	-	115	115
Charge for the year	960	1,655	471	173	3,259
Revaluation deficit	(960)	-	-	-	(960)
Written off on disposals	-	(385)	(582)	(252)	(1,219)
At balance sheet date	-	2,529	474	259	3,262
Net book value					
At balance sheet date	33,000	5,922	717	1,402	41,041
At beginning of year	48,000	8,968	3,482	1,329	61,779
Analysis of cost or valuation of property, plant and equipment at balance sheet date					
At cost	-	8,451	1,191	1,661	11,303
At valuation in 2001	33,000	-	-	-	33,000
Total cost or valuation	33,000	8,451	1,191	1,661	44,303

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Motor vehicles	Furniture and fixtures	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At beginning of year	1,245	406	1,651
Additions	-	29	29
Disposals	(1,000)	(65)	(1,065)
At balance sheet date	245	370	615
Accumulated depreciation			
At beginning of year	243	114	357
Charge for the year	232	72	304
Written off on disposals	(283)	(65)	(348)
At balance sheet date	192	121	313
Net book value			
At balance sheet date	53	249	302
At beginning of year	1,002	292	1,294

- (c) All land and buildings are situated in Hong Kong and are held on long leases and mortgaged as collateral for the Group's banking facilities.

The Group's land and buildings were revalued at open market value at 31 December 2001 by RHL Appraisal Ltd., independent professional valuers, on an existing use basis.

The carrying amount of the Group's land and buildings at the balance sheet date would have been HK\$119,600,000 (2000: HK\$122,200,000) had they been stated at cost less accumulated depreciation.

The Group's property, plant and equipment include gross amount of HK\$9,397,000 (2000: HK\$12,425,000) and accumulated depreciation of HK\$2,812,000 (2000: HK\$1,530,000) in respect of assets held for use under operating leases.

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12. GOODWILL

	Positive goodwill	Negative goodwill	Total
	HK\$'000	HK\$'000	HK\$'000
At beginning of year			
Cost	41,527	-	41,527
Accumulated amortisation and impairment losses	(30,327)	-	(30,327)
Opening carrying amount	11,200	-	11,200
Acquisition of subsidiaries	5,000	(71)	4,929
Set off with guarantee income	(9,652)	-	(9,652)
Amortisation charges/Release to income	(1,000)	71	(929)
Impairment losses	(4,000)	-	(4,000)
Closing carrying amount	1,548	-	1,548
At balance sheet date			
Cost	36,875	(71)	36,804
Accumulated amortisation and impairment losses	(35,327)	71	(35,256)
Closing carrying amount	1,548	-	1,548

NOTES TO THE FINANCIAL STATEMENTS

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13. INVESTMENT SECURITIES

	The Group and the Company	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK128.com Limited	60,000	60,000
Less : Provision for impairment in value	(59,999)	(59,999)
	1	1

In February 2000, the Company acquired 15% equity interests in HK128.com Limited, a company incorporated in the British Virgin Islands by issuance of 300,000,000 ordinary shares of the Company of HK\$0.2 each at par. HK128.com Limited is principally engaged in the operation of a financial information website in Hong Kong. The Directors assessed the recoverability of the investment securities taking into account of its value in use and the net selling price and have written down the carrying value of such investment securities to its recoverable amount.

14. INTERESTS IN SUBSIDIARIES

	2001		2000	
	<i>HK\$'000</i>		<i>HK\$'000</i>	
Unlisted shares, at cost	89,522	83,528		
Loan to subsidiaries	789,115	826,436		
	878,637	909,964		
Less: Provisions	(870,672)	(764,620)		
	7,965	145,344		

Loans to subsidiaries of approximately HK\$44,545,000 (2000: HK\$61,000,000) were unsecured and bore interest at 7.2% per annum (2000: 7.2% per annum). Other loans to subsidiaries were unsecured and non-interest bearing. The Company has agreed not to demand repayment from the subsidiaries before 1 January 2003.

Other outstanding balances with subsidiaries were unsecured, non-interest bearing and had no pre-determined repayment terms.

The underlying value of investment in subsidiaries was, in the opinion of the Directors, not less than the Company's carrying value as at 31 December 2001.

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14. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid capital	Percentage of capital held by the Company	Principal activities
Better Express Limited*	Hong Kong	HK\$2	100%	Property investment
Brilliant Team Investment Limited	Hong Kong	HK\$2	100%	Investment holding
China Bio-medical Company Limited	Hong Kong	HK\$2	100%	Investment holding
China Forum Investments Limited	Hong Kong	HK\$2	100%	Property investment
Deluxe Gold International Limited	Hong Kong	HK\$2	100%	Investment holding
Excelink Industries Limited*	Hong Kong	HK\$2	100%	Property investment
GenePro Medical Biotechnology Limited	Hong Kong	HK\$1,000,000	100%	DNA testing services
Global Link Shipping Limited*	Hong Kong	HK\$100,000	70%	Leasing of vessel and vehicles
Goldeagle Investments Limited*	Hong Kong	HK\$2	100%	Property investment
Golden Head Limited	Hong Kong	HK\$2	100%	Property investment
Golden Pacific Engineering Limited	Hong Kong	HK\$2	100%	Trading of sea sand
Goodfaith Finance Limited	Hong Kong	HK\$10,000,000	100%	Financial services
Grace Concord Investment Limited	Hong Kong	HK\$2	100%	Property investment
Grand Inn Limited*	Hong Kong	HK\$2	100%	Property investment
Infinity Properties Limited*	Hong Kong	HK\$2	100%	Property investment
Jet Quarter Limited*	Hong Kong	HK\$2	100%	Property investment

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14. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid capital	Percentage of capital held by the Company	Principal activities
Jumbo Gold International Limited	Hong Kong	HK\$2	100%	Investment holding
Kimpo Investment Limited	Hong Kong	HK\$2	100%	Investment holding
King Regent Investments Limited	Hong Kong	HK\$2	100%	Property investment
New Quarter Limited*	Hong Kong	HK\$2	100%	Property investment
Nicehome Limited*	Hong Kong	HK\$2	100%	Property investment
Nice Palace Limited*	Hong Kong	HK\$2	100%	Property investment
Ontex Investment Limited	Hong Kong	HK\$2	100%	Investment holding
Pacific Engineering Limited	Hong Kong	HK\$10,000	100%	Trading of sea sand
Propland Limited*	Hong Kong	HK\$2	100%	Property investment
Right Talent Investment Limited	Hong Kong	HK\$2	100%	Property investment
Sky Rich Investment Limited	Hong Kong	HK\$2	100%	Property investment
Silver Luck Investment Limited	Hong Kong	HK\$2	100%	Property investment
Stand Company Limited*	Hong Kong	HK\$2	100%	Property investment
Talent Power Technology Limited	Hong Kong	HK\$2	100%	Investment holding
T & A Investments Limited*	Hong Kong	HK\$2	100%	Property investment
U & F Company Limited*	Hong Kong	HK\$2	100%	Property investment
V & O Company Limited*	Hong Kong	HK\$2	100%	Property investment

* These subsidiaries are indirectly owned by the Company.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

14. INTERESTS IN SUBSIDIARIES (Continued)

The above summary lists only those subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net worth of the Group. To give details for other subsidiaries would, in the opinion of the Company's directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2001.

15. INTEREST IN AN ASSOCIATE

	2001	2000
	HK\$'000	HK\$'000
Unlisted investment, at cost	24,500	24,500
Less: Pre-operating expenses written off	(1,426)	-
	23,074	24,500

This amount represents the Group's contribution as 49% registered capital of a Sino-foreign equity enterprise, Beijing Radiant Bio-Tech Limited (北京科瑞源病毒生物技术有限公司), which is to engage in the development of bio-medical products and incorporated in the PRC.

On 19 October 2001, application was made to the PRC governmental bodies to change the legal status of the Sino-foreign equity enterprise to a wholly owned foreign equity enterprise as the PRC partner proposed to dispose of its equity holdings to another foreign investor before it injected any capital into the enterprise. On 5 April 2002, such legal status and the business license were successfully obtained.

At the balance sheet date, the enterprise had not commenced business as the statutory procedures of changing the legal status were still in progress. Some pre-operating expenses were incurred during the course of the legal status change and, by mutual agreement with the new foreign investor, the amount was wholly borne by the Group and would be written off before the new foreign partner injects the capital into the enterprise. In the opinion of the directors, the carrying value of the investment in the associate is not less than the amount injected less any pre-operating expenses written off.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

16. INTANGIBLE ASSETS

	<i>HK\$'000</i>
At beginning of year	
Cost	54,000
Accumulated amortisation and impairment losses	(26,000)
<hr/>	
Opening carrying amount	28,000
Impairment losses	(28,000)
<hr/>	
Closing carrying amount	-
<hr/>	
At balance sheet date	
Cost	54,000
Accumulated amortisation and impairment losses	(54,000)
<hr/>	
Closing carrying amount	-

The intangible asset represents the technical knowhow to operate a voice-over-internet system in Hong Kong. In view of the fierce competition in the long distance call market and the restructuring of the Group's businesses, the Group does not intend to pursue this line of business and accordingly has made full provision against the carrying amount of the technical knowhow.

17. OTHER INVESTMENTS

	The Group and the Company	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
At fair value:		
Equity securities listed in Hong Kong		
- Singapore Hong Kong Properties Investment Limited	4,327	11,779
- Others	133	141
<hr/>		
	4,460	11,920
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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

18. TRADE AND OTHER RECEIVABLES

	Note	The Group		The Company	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	18(a)	3,055	7,999	-	-
Loan receivables	18(b)	-	22,478	-	-
		3,055	30,477	-	-
Other receivables					
Deposits, prepayment and other debtors		2,827	8,486	645	1,072
Due from subsidiaries		-	-	-	60,685
Due from a related company	18(c)	254	-	400	-
Due from a former director	18(d)	-	6,966	-	6,966
Due from Singapore Hong Kong Properties Investment Limited		24,000	-	24,000	-
		27,081	15,452	25,045	68,723
		30,136	45,929	25,045	68,723

18(a) TRADE RECEIVABLES

The Group provides term credit to customers in accordance with the Group's established credit policies of 30 days (2000: ranging from 30 to 180 days). The ageing analysis of trade receivables is as follows:

	2001	2000
	HK\$'000	HK\$'000
Within 1 month	646	6,985
1 - 2 months	279	3,408
2 - 3 months	383	787
3 - 6 months	2,162	622
6 - 12 months	5,435	583
Over 1 year	2,686	1,834
	11,591	14,219
Less: Provision for doubtful trade receivables	(8,536)	(6,220)
	3,055	7,999

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

18(b) LOAN RECEIVABLES

Loan receivables were unsecured, interest-bearing at 9.6% per annum (2000: 9.6% per annum) and were repayable within one year.

18(c) DUE FROM A RELATED COMPANY

It represented amount due from GenePro Laboratory Limited, a company in which Dr. Wan Kwong Kee is a director and shareholder. The amount due is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the year is HK\$1,478,000 (2000: Nil).

18(d) DUE FROM A FORMER DIRECTOR

The amount is due from Mr. Wong Wai Chi, David and is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the year was HK\$6,966,000. At the balance sheet date, full provision had been made for non-repayment of the advance. Subsequent to the balance sheet date, the Company successfully obtained a judgement from the court against Mr. Wong Wai Chi, David.

19. BANK OVERDRAFTS AND SHORT-TERM BORROWINGS

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts	100,217	101,942	54,571	54,064
Trust receipts bank loans	26,406	27,041	-	-
Current portion of long-term bank borrowings (note 22)	189,849	79,825	-	-
Other borrowings	6,392	6,952	6,392	6,952
	322,864	215,760	60,963	61,016

Short-term bank borrowings are bearing interest at rates ranging from the Hong Kong prime lending rate plus 1% to 6% per annum (2000: Hong Kong prime lending rate plus 0.25% to 3.5% per annum). Refer to note 32 for details of the Group's banking facilities.

Included in other borrowings was an amount of HK\$1,392,000 (2000: HK\$6,952,000) which were advances from securities brokers, bore interest at rates ranging from 14% to 21% per annum (2000: 21% to 24% per annum) and were secured by the Group's other investments with a net book value of HK\$4,253,000 (2000: HK\$11,672,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

20. TRADE AND OTHER PAYABLES

	Note	The Group		The Company	
		2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	20(a)	8,909	14,282	-	-
Other payables					
Accrued charges and other creditors		12,790	13,216	6,009	5,539
Accrued bank interest expenses		42,159	17,876	4,464	-
Convertible notes deposit received	20(b)	7,200	-	7,200	-
Due to subsidiaries	20(c)	-	-	6,999	123,490
Due to directors		1,654	-	1,654	-
Due to a related company	20(d)	1,546	1,546	1,546	1,546
Due to a subsidiary of Singapore Hong Kong Properties Investment Limited		19,702	22,445	-	-
		85,051	55,083	27,872	130,575
		93,960	69,365	27,872	130,575

20(a) TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Within 1 month	398	2,312
1 - 2 months	285	740
2 - 3 months	378	440
3 - 6 months	821	3,868
6 - 12 months	1,141	3,584
Over 1 year	5,886	3,338
	8,909	14,282

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

20(b) CONVERTIBLE NOTES DEPOSIT RECEIVED

On 15 May 2001, the Company entered into an agreement ("the Agreement") with an independent third party ("the Purchaser") under which the Company would issue convertible notes of HK\$80,000,000 to the Purchaser on or before 30 June 2001. Such convertible note was unsecured, bore interest at 3% per annum and convertible (at the discretion of the Company) into ordinary shares of the Company at conversion price of HK\$0.22 per share.

The completion date of the agreement was subsequently extended to 31 July 2001 and later to 18 September 2001 by mutual agreement. On 18 September 2001, the Company and the Purchaser entered into an Supplemental Agreement which amend certain terms of the convertible notes. The principal amount of the convertible notes was increased from HK\$80,000,000 to HK\$100,000,000 and would be issued in three tranches. Deposits totalling HK\$7,200,000 were received during the year. Assuming the first tranche to be converted at HK\$0.22 per share and the second and third tranches to be converted at HK\$0.20 per share, the Company will be required to issue 486,362,636 shares to the Purchaser. On 31 December 2001, the Purchaser informed the Company in writing that it would not proceed with the completion of the Supplemental Agreement in relation to the issue of the convertible notes on the ground that the event stated on note 30(d) would have triggered an event of default. The Directors are of the view that the Purchaser's reason for not completing the Supplemental Agreement is without merit and are seeking legal advice on the appropriate course of action.

20(c) DUE TO SUBSIDIARIES

The amounts due are unsecured, interest-free and have no fixed repayment terms.

20(d) DUE TO A RELATED COMPANY

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

21. PROVISIONS

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision under corporate guarantees	30,500	-	30,500	-
Other provisions	23,433	4,000	13,000	4,000
	53,933	4,000	43,500	4,000

Details of the provision made under corporate guarantees provided to banks are provided in note 30(d).

Other provisions comprise provisions in respect of legal claims. The directors consider that disclosure of further details of these claims would seriously prejudice the Company's negotiating position and accordingly further information on the nature of the obligations has not been provided.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

22. LONG-TERM BANK BORROWINGS

	The Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured loans	177,938	240,812
Unsecured loans	11,911	-
	189,849	240,812
Current portion:		
Amount payable within one year included under current liabilities (<i>note 19</i>)	-	39,505
Amount included under current liabilities as a result of default in payment during the year (<i>note 19</i>)	189,849	40,320
Non-current portion	-	160,987
	189,849	240,812

The maturity of the above borrowings is as follows:

	The Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not exceeding one year	189,849	79,825
More than one year but not exceeding two years	-	19,300
More than two years but not exceeding five years	-	58,006
More than five years	-	83,681
	189,849	240,812

Long-term bank borrowings bear interest ranging from the Hong Kong prime lending rate plus 1% to 3.5% per annum.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

22. LONG-TERM BANK BORROWINGS (Continued)

Owing to the liquidity situation as described in note 2, the Group was unable to repay principal of the bank borrowings totalling approximately HK\$189,849,000 when they fell due. As a result, the relevant banks are entitled to immediate repayments of the entire amount of relevant borrowings, which have been classified as current liabilities in the financial statements. Meanwhile, the banks charged daily overdue interest at 0.125% to 6% per annum over the original rates. After the year end date, the Group has commenced discussion with the banks for restructuring the repayment of the borrowings. A preliminary proposal has been submitted to the banks and the result is subject to the outcome of the discussion.

Please refer to note 32 for details of the Group's banking facilities.

23. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation liabilities provided were as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	806	1,334
Tax losses carried forward	-	-
	806	1,334

Deferred tax assets totalling approximately HK\$43,848,000 (2000: HK\$29,562,000) in respect of tax losses of the Group were not recognised as the tax benefits are not expected to crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

24. ISSUED CAPITAL

	2001		2000	
	No. of shares '000	Nominal value HK\$'000	No. of shares '000	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$0.2 each	10,000,000	2,000,000	10,000,000	2,000,000
Issued and fully paid:				
At beginning of year	6,201,427	1,240,285	4,396,827	879,365
Issued under private placements	-	-	1,300,000	260,000
Issued for acquisition of long-term investment securities	-	-	300,000	60,000
Issued upon exercise of employee share options	-	-	204,600	40,920
At balance sheet date	6,201,427	1,240,285	6,201,427	1,240,285

25. RESERVES

	Share premium	Capital reserve	General reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group					
At 1 January 2000	475,827	3,478	200	(1,239,727)	(760,222)
Premium arising from issue of shares upon					
- private placements	4,500	-	-	-	4,500
- exercise of employee share options	1,800	-	-	-	1,800
Expenditure on share placements	(6,619)	-	-	-	(6,619)
Realised upon disposal of subsidiaries	-	93	-	-	93
Loss for the year	-	-	-	(447,387)	(447,387)
At 31 December 2000	475,508	3,571	200	(1,687,114)	(1,207,835)
Loss for the year	-	-	-	(298,211)	(298,211)
At 31 December 2001	475,508	3,571	200	(1,985,325)	(1,506,046)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

25. RESERVES (Continued)

	Share premium	General reserve	Accumu- lated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Company				
At 1 January 2000	475,827	200	(1,234,549)	(758,522)
Premium arising from issue of shares upon				
– private placements	4,500	–	–	4,500
– exercise of employee share options	1,800	–	–	1,800
Expenditure on share placements	(6,619)	–	–	(6,619)
Loss for the year	–	–	(449,444)	(449,444)
At 31 December 2000	475,508	200	(1,683,993)	(1,208,285)
Loss for the year	–	–	(120,679)	(120,679)
At 31 December 2001	475,508	200	(1,804,672)	(1,328,964)

The Company had no reserves available for distribution to shareholders at 31 December 2001 (2000: Nil).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

26. EMPLOYEE SHARE OPTIONS

The Company operates a share option scheme, under which it may grant options to executive directors and other employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price is determined by the Company's board of directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of granting of the options.

Movements in employee share options were as follows:

Name of grantee	Date of grant	Exercise period	Exercise price	Number of employee share options outstanding		
				At beginning of the year	Lapsed during the year	At balance sheet date
			HK\$	'000	'000	'000
Directors						
Chan Peng Kuan	5 October 2000	5 October 2000 to 4 October 2003	0.206	10,000	-	10,000
Wan Kwong Kee	5 October 2000	5 October 2000 to 4 October 2003	0.206	10,000	-	10,000
Other employees	5 October 2000	5 October 2000 to 4 October 2003	0.206	21,000	9,000	12,000

(a) The employees resigned during the year and the options granted to them became lapse.

(b) None of the options granted was exercised during the year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash outflow from operating activities:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	(303,249)	(447,892)
Interest income	(5,013)	(12,222)
Interest expense	37,518	64,117
Depreciation and amortisation	4,188	8,046
Loss on disposal of property, plant and equipment	1,788	471
Holding losses on other investments	1,952	26,302
Profit on disposal of other investments	(627)	-
Impairment in value of investment securities	-	59,999
Net (gain) loss on disposal of subsidiaries	(43)	64,872
Profit on disposal of discontinued operations	(4,340)	-
Recovery of loss on disposal of subsidiaries	65,211	-
Impairment in value of goodwill	4,000	25,433
Impairment in value of intangible asset	28,000	26,000
Pre-operating expenses incurred by an associate	1,426	-
Net deficit on revaluation of investment properties	183,842	121,057
Deficit on revaluation of land and buildings	14,040	14,348
Net provision for doubtful trade and loan receivables	32,307	5,269
Provisions	49,933	-
Changes in working capital:		
Trade and other receivables	(101,828)	33,209
Trade and other payables	(19,797)	(24,697)
Net cash outflow from operating activities	(10,692)	(35,688)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

Details of the assets and liabilities of the subsidiaries disposed at the date of disposal were as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	182	-
Investment properties	-	239,250
Properties under development	-	70,210
Trade and other receivables	23,027	1,610
Bank balances and cash	15	57
Trade and other payables	(4,661)	(3,739)
Bank overdrafts	-	(91,759)
Taxation payable	-	(66)
Long-term bank borrowings	(19,529)	(14,791)
	(966)	200,772
Less: Minority interests	(4)	-
	(970)	200,772
Net profit (loss) on disposal of subsidiaries	4,383	(64,872)
	3,413	135,900
Satisfied by:		
Cash consideration	3,413	135,900

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash received	3,413	135,900
Bank balances and cash disposed	(15)	(57)
Bank overdrafts disposed	-	91,759
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	3,398	227,602

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of subsidiaries

Details of the assets and liabilities of the subsidiaries acquired at the date of acquisition were as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	1,119	13,735
Trade and other receivables	24,720	29,763
Bank balances and cash	2	2,326
Trade and other payables	(24,770)	(23,323)
Taxation payable	-	(491)
Deferred taxation	-	(1,334)
	1,071	20,676
Less: Minority interests	-	(6,203)
The Group's share of net assets	1,071	14,473
Goodwill	4,929	41,527
	6,000	56,000
Satisfied by:		
Cash consideration	1,000	56,000
Deposit paid in 2000	5,000	-
	6,000	56,000

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	1,000	56,000
Bank balances and cash acquired	(2)	(2,326)
Net outflow of cash and cash equivalents in respect of acquisition of subsidiaries	998	53,674

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Analysis of changes in financing was as follows:

	Issued capital and share premium	Bank borrowings	Other borrowings	Minority interests
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2000	1,355,192	375,744	21,427	-
Issue for acquisition of investment securities	60,000	-	-	-
Proceeds from share issuance	307,220	-	-	-
Share issuance expenditure	(6,619)	-	-	-
Net cash outflow from financing	-	(93,100)	(14,475)	-
Attributable to disposal of subsidiaries (<i>note 27(b)</i>)	-	(14,791)	-	-
Share of loss	-	-	-	(505)
Loans from a minority shareholder of a subsidiary	-	-	-	2,499
Attributable to acquisition of a subsidiary (<i>note 27(c)</i>)	-	-	-	6,203
At 31 December 2000	1,715,793	267,853	6,952	8,197
Net cash outflow from financing	-	(32,069)	(560)	(3,745)
Attributable to disposal of subsidiaries	-	(19,529)	-	(4)
Share of loss	-	-	-	(4,267)
At 31 December 2001	1,715,793	216,255	6,392	181

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

28. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH SINGAPORE HONG KONG PROPERTIES INVESTMENT LIMITED ("SHKP")

- (a) In 2000, the Group disposed of nine subsidiaries (all being property holding companies) to SHKP (*note (i)*). Under the sale and purchase agreement, the total consideration amounted to approximately HK\$92,400,000 and as a result, the Group recognised a loss on disposal of approximately HK\$65,211,000 therein.

The Group's bank loans amounting to approximately HK\$65,211,000 as at the date of disposal of the properties were secured by mortgages over the properties held by five out of the nine subsidiaries. These bank loans had not been transferred to SHKP pursuant to the disposal.

On 15 June 2001, the Group and SHKP signed a Deed of Confirmation whereby SHKP agreed to assume the aforementioned loans from the Group. On 1 August 2001, approximately HK\$22,811,000 of the aforementioned loans were formally transferred to SHKP through disposal at net book value of Sheen Win Investment Limited, the subsidiary carrying such loans, to SHKP. On the basis of the above mentioned developments, the Group has recorded the amount of loans that SHKP has agreed to assume as income for the current year.

- (b) On 18 June 2001, the Group disposed of Digital Future Limited, which holds 60% equity interest in Global Link Digital Electronic Company Limited ("GLDE"), to Ventures Forever Limited ("VFL"). Ms. Ng Siu Ying, a director of GLDE, is also a director of VFL. Under the sale and purchase agreement, the total consideration amounted to approximately HK\$3,413,000 and as a result, the Group recognised a gain on disposal of approximately HK\$4,340,000.
- (c) On 28 December 2001, the Group acquired 100% of the equity interest in GenePro Medical Biotechnology Limited at total consideration of HK\$1,000,000 from GenePro Laboratory Limited (*note (ii)*).
- (d) In 2000, the Group acquired 70% interests in Global Link Shipping Limited ("GLSL") at a consideration of approximately HK\$56,000,000, from Mr. Fu Chi Kuang, who is also the director and shareholder of GLSL. Under the sale and purchase agreement, Mr. Fu guarantees to undertake the Group 70% of the shortfall when the profit after taxation is less than HK\$8,000,000 per year. This guarantee is last for 2 years.

At the balance sheet date, the Group has taken up the guarantee income in sum of HK\$9,652,000. Such guarantee income is set off against the goodwill on acquiring GLSL.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

28. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH SINGAPORE HONG KONG PROPERTIES INVESTMENT LIMITED ("SHKP") (Continued)

(e) Particulars of balances and transactions with related parties and SHKP are as follows:

	2001 HK\$'000	2000 HK\$'000	Maximum balance outstanding HK\$'000
Due from/(to) related companies:			
GenePro Laboratory Limited (note (ii))	400	-	1,478
GenePro Medical Biotechnology Limited (note (ii))	(146)	-	-
	254	-	1,478
Due from a former director Mr. Wong Wai Chi, David	-	6,966	6,966
Amount due from SHKP (note (i))	24,000	-	46,835
Amounts due to:			
Wisehall Star Limited (note (iii))	19,702	19,694	
Day Success Company Limited (note (iii))	-	1,093	
Marson Development Limited (note (iii))	-	1,100	
SHKP	-	558	
David Resources Company Limited (note (iv))	1,546	1,546	
	21,248	23,991	
Due to directors:			
Mr. Chan Peng Kuan	1,334	-	
Dr. Wan Kwong Kee	320	-	
	1,654	-	

All outstanding balances with related companies, SHKP, the directors and a former director are unsecured, non-interest bearing and without pre-determined repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

28. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH SINGAPORE HONG KONG PROPERTIES INVESTMENT LIMITED ("SHKP") (Continued)

- (f) As at 31 December 2001, the Group's banking facilities of approximately HK\$46,018,000 (2000: HK\$65,752,000) were secured by, among others, mortgages over certain properties owned by Marson Development Limited, Day Success Company Limited, Solar Regent Investments Limited, Fairshen Limited and Bright Wick Limited (see (note (iii))).
- (g) As at 31 December 2001, the Company has provided guarantees of approximately HK\$176,538,000 (2000: HK\$155,432,000) to banks in respect of banking facilities extended to Wellstech International Limited, Wholesome Investments Limited, Kong Tai Properties Development Company Limited, Pak Fook Company Limited and Sheen Win Investment Limited. (see (note (iii))).

Notes:

- (i) SHKP is a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. Mr. Lui Ming and Mr. Wong Wai Chi, David, were directors of the Company until 18 and 23 April 2001 respectively, were also directors of SHKP during the year.
- (ii) GenePro Laboratory Limited ("GPL") and GenePro Medical Biotechnology Limited, a subsidiary of GPL, are companies incorporated in Hong Kong. Dr. Wan Kwong Kee, a director of the Company, is also a director of GPL and has 26.8% equity interest in GPL.
- (iii) These companies are subsidiaries of SHKP.
- (iv) David Resources Company Limited is a company in which Mr. Wong Wai Chi, David has beneficial interests.

29. COMMITMENTS

- (a) Operating lease commitments payable

At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases, which are payable as follows:

	2001	2000
	HK\$'000	HK\$'000
Within one year	92	1,908
In the second to fifth years inclusive	-	2,053
	92	3,961

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

29. COMMITMENTS (Continued)

(b) Operating lease rental receivable

The Group leases out most of its investment properties under operating leases with average lease terms of 1-5 years. The future aggregate minimum rental receivable under non-cancellable operating leases are as follows:

	2001	2000
	HK\$'000	HK\$'000
Within one year	6,652	9,968
In the second to fifth years inclusive	15,544	9,385
	22,196	19,353

(c) Commitment to issue convertible notes

On 16 March 2001, the Company entered into an agreement ("the Agreement") with an independent third party ("the Purchaser") under which the Purchaser agreed to purchase from the Company up to US\$30,000,000 convertible notes during the period from 27 April 2001 to 26 October 2002. The issue and conversion of such convertible notes are dependent on, among others, the volume weighted average market price of the Company's shares being not less than HK\$0.22 per share. However, no share has been issued from this convertible notes during the year. In accordance with the agreement, the Company is required to pay a fee upto US\$750,000 for the unissued convertible notes at the Agreements expiry date.

Assuming full exercise and conversion of the US\$30,000,000 convertible notes, the Company will be required to issue 1,162,640,100 shares, representing approximately 15.79% of the enlarged share capital to the Purchaser.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

30. CONTINGENT LIABILITIES

As at 31 December 2001, the Group had the following contingent liabilities:

- (a) On 5 February 1999, the Company issued a writ against Core Pacific-Yamaichi International (H.K.) Limited ("Core Pacific") for (i) damages for breaches of a loan facility agreement dated 7 August 1998 of approximately HK\$120,000,000 (the "Facility"); (ii) damages for breaches of fiduciary duties as arranger and joint financial advisor under an agreement dated 6 August 1998; and (iii) an indemnity against all loss in relation to a purported supplemental deed dated 13 November 1998 (the "Supplemental Deed"). On 23 March 1999, Core Pacific issued a writ against the Company for an interest of approximately HK\$4,000,000 and overdue interest together with other administrative expenses for approximately HK\$1,000,000 under the Facility and the Supplemental Deed. Of the HK\$5,000,000 claim, the Directors consider that the HK\$1,000,000 claim is without merit. The remaining HK\$4,000,000 is still in dispute and has been provided for in the financial statements as at 31 December 2001.
- (b) Pursuant to the terms of disposal of a former subsidiary to SHKP in 1998, the Company undertook to assume all unprovided tax liabilities of the former subsidiary relating to the period prior to the date of disposal. Potential Hong Kong profits tax liabilities of approximately HK\$3,200,000 relating to certain capital profits claim of the former subsidiary for the years of assessment from 1994/95 to 1996/97 have not been provided. SHKP subsequently disposed of this former subsidiary to another party during the year. As no claim had been made by SHKP before disposal, in the opinion of the Directors, the Company is no longer liable for any potential tax liability thereon.
- (c) In August 2001, Mr. Fung Chim Shan trading as Man Cheong Industrial Company issued a writ against the Group for the claim on the balance of the price of building materials sold and delivered. The total claim involved is approximately HK\$1,900,000. The claim has been fully provided in the financial statements.
- (d) At 31 December 2001, there were corporate guarantees given by the Company to banks in respect of banking facilities extended to certain subsidiaries of SHKP amounting to HK\$176,538,000 (2000: HK\$155,432,000). These banking facilities were secured by certain investment properties owned by the subsidiaries of SHKP (see *note 28(g)*).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

30. CONTINGENT LIABILITIES (Continued)

In August 2001, one of the banks filed a writ against a subsidiary of SHKP and named the Company as the second defendant, demanding repayment of the bank loans of approximately HK\$45,000,000. Judgement in favour of the bank was granted on 11 December 2001. After the balance sheet date, the Company successfully obtained a judgement from the court against SHKP for any damages arising from the claim from the bank.

For prudence sake, the Company has made a provision of HK\$30,500,000, which represented the shortfall in the open market value of the secured investment properties as determined by RHL Appraisal Limited, independent professional valuers in the financial statements.

31. PENSION SCHEME

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund in Hong Kong since 1 December 2000. Monthly contributions are made to the scheme base on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to HK\$12,000 per annum. During the year ended 31 December 2001 the Group's (employer's) contributions amounted to approximately HK\$416,000 (2000: HK\$17,000).

32. BANKING FACILITIES AND PLEDGE OF ASSETS

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

- (a) The Group's investment properties and land and buildings with a net book value of approximately HK\$127,550,000; and
- (b) Investment properties owned by certain subsidiaries of SHKP.

Due to the liquidity situation as described in note 2, the Group was unable to repay principal and interest of certain bank borrowings totalling approximately HK\$358,631,000 when they fell due. As at the date of approval of these financial statements, the Group is still in discussion with the banks to restructure the repayment terms of the existing borrowings and to continue providing credit facilities to the Group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

33. SEGMENT INFORMATION

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

(a) By business segments

The Group comprises the following main business segments:

	Property investment HK\$'000	Trading of sea sand HK\$'000	Transportation services HK\$'000	Pharmaceutical and biopharmaceutical HK\$'000	Others HK\$'000	Consolidated HK\$'000
Year ended 31 December 2000						
Sales from external customers	9,233	6,608	23,826	-	2,831	42,498
Segment result	(117,010)	(1,562)	(32,047)	-	2,497	(148,122)
Unallocated operating income and expenses						(235,653)
Loss from operations						(383,775)
Finance costs						(64,117)
Loss before taxation						(447,892)
Taxation						-
Loss after taxation						(447,892)
Minority interests						505
Loss from ordinary activities for the year						(447,387)
OTHER INFORMATION						
Capital expenditures	-	207	-	29,500	115,491	145,198
Depreciation and amortisation	-	5	6,582	-	1,459	8,046
Impairment losses	-	-	25,435	-	85,999	111,434
Other non-cash expenses other than depreciation and amortisation	135,405	772	4,447	-	91,567	232,191

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

33. SEGMENT INFORMATION (Continued)

(a) By business segments (Continued)

	Property investment HK\$'000	Trading of sea sand HK\$'000	Transportation services HK\$'000	Pharmaceutical and biopharmaceutical HK\$'000	Others HK\$'000	Consolidated HK\$'000
Year ended 31 December 2001						
Sales from external customers	11,111	9,169	4,364	2	569	25,215
Segment result	(177,924)	(4,881)	(14,622)	(1,033)	(250)	(198,710)
Unallocated operating income and expenses						(67,021)
Loss from operations						(265,731)
Finance costs						(37,518)
Loss before taxation						(303,249)
Taxation						771
Loss after taxation						(302,478)
Minority interests						4,267
Loss from ordinary activities for the year						(298,211)
OTHER INFORMATION						
Capital expenditure	-	311	-	-	31	342
Depreciation and amortisation	-	88	1,886	929	1,285	4,188
Impairment losses	-	-	-	5,426	28,000	33,426
Other non-cash expenses other than depreciation and amortisation	183,870	13,031	4,711	-	85,685	287,297

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

33. SEGMENT INFORMATION (Continued)

(a) By business segments (Continued)

	Property investment HK\$'000	Trading of sea sand HK\$'000	Transportation services HK\$'000	Pharmaceutical and biopharmaceutical HK\$'000	Others HK\$'000	Consolidated HK\$'000
As at 31 December 2000						
Assets						
Segment assets	305,626	5,804	30,833	29,500	50,489	422,252
Unallocated assets						70,332
Total assets						492,584
Liabilities						
Segment liabilities	(261,215)	(7,774)	(18,023)	-	-	(287,012)
Unallocated liabilities						(173,122)
Total liabilities						(460,134)
As at 31 December 2001						
Assets						
Segment assets	98,908	1,353	12,447	24,275	8	136,991
Unallocated assets						68,992
Total assets						205,983
Liabilities						
Segment liabilities	(223,395)	(16,793)	(2,938)	(57)	-	(243,183)
Unallocated liabilities						(228,561)
Total liabilities						(471,744)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2001

33. SEGMENT INFORMATION *(Continued)*

(b) By geographic segment

No analysis of the Group's geographical segment information on sales revenue is presented as all sales revenue generated from the business activities are derived from Hong Kong for both of the year ended 31 December 2000 and 2001.

Other than the investment in the associate is in PRC, all the segment assets of the Group for both of the years 2000 and 2001 are located in Hong Kong.

34. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Group disposed of certain investment properties for total consideration of approximately HK\$38,572,000 to independent third parties.

35. COMPARATIVE FIGURES

The financial statements as at and for the year ended 31 December 2000 were audited and reported on by Certified Public Accountants other than Messrs. Moores Rowland whose report dated 30 May 2001 expressed an unqualified opinion on those statements.

Certain comparative figures have been reclassified to conform with the current year's presentation as the directors consider that the current year's presentation is more appropriate to reflect the Group's operating results and financial positions.

Following the adoption of revised Statement of Standard Accounting Practice 14 "Leases" and 28 "Provisions, Contingent Liabilities and Contingent Assets", issued by the Hong Kong Society of Accountants, the comparative information regarding the Group's commitment under operating lease and the Group's and the Company's provisions have been restated to conform to the current year's presentation.