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Corporate Information



Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Registrar

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Directors

Mr. Jay CHUN (*Chairman and Managing Director*)
Mr. SHAN Shiyong, alias, SIN Sai Yung
Mr. WANG Xi Gang
Dr. MA Yin Ming*
Mr. Frank HU*

* *Independent Non-executive Directors*

Company Secretary

Mr. YEUNG Kam Lung Patrick, *MFin, FCCA, AHKSA*

Solicitors

Vincent T.K. Cheung, Yap & Co.

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Principal Office

26th Floor, Central Tower
28 Queen's Road Central
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

Hong Kong Share Registrar

Secretaries Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of the Company will be held at 26th Floor, Central Tower, 28 Queen's Road Central, Hong Kong on 26th May, 2003 at 11:00 a.m. for the following purposes:

1. To consider and receive the audited financial statements, the directors' report and the auditors' report for the year ended 31 December 2002.
2. To re-elect the retiring Directors.
3. To authorize the Board of Directors to fix their remuneration.
4. To re-appoint Auditors and to authorize the Board of Directors to fix their remuneration.
5. To consider as special business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of HK\$0.01 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting."

Notice of Annual General Meeting

6. To consider as special business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (a) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to issue, allot and deal with additional shares of the Company, and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which would or might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares of the Company as scrip dividends pursuant to the Bye-laws of the Company from time to time; or (iii) an issue of shares of the Company under any share option scheme or similar arrangement providing for the grant to employees (including executive directors) of the Company and/or any of its subsidiaries of the rights to subscribe for shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution, and the said approval shall be limited accordingly; and
- (d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the Directors to the holders of shares whose names appear on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to

Notice of Annual General Meeting

fractional entitlements or having regard to any restrictions or obligations under the law of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

7. To consider as special business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to the exercise by the Directors of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of this Resolution."

By Order of the Board
Yeung Kam Lung Patrick
Secretary

Hong Kong, 24th April, 2003

Principal Office:
26th Floor, Central Tower
28 Queen's Road Central
Hong Kong

Notes:

- (a) The Register of Members of the Company will be closed from 21st May 2003 to 26th May 2003 (both days inclusive) during which period no share transfer will be registered.
- (b) Any Member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a Member of the Company.
- (c) A form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the Company's share registrar in Hong Kong, Secretaries Limited, at G/F, Bank of East Asia Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude Members from attending and voting in person at the Annual General Meeting or at any adjourned meeting should they so wish.
- (d) A circular containing details regarding Resolutions 5 to 7 above will be sent to shareholders together with the 2002 Annual Report shortly.



“ The Group has made great strides in identifying and anchoring a key focus in commercialization of biotech drug products. We believe that the mix of our expertise and creativity will provide the momentum to drive future success.”

Chairman's Statement

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of the Company and the Group for the year ended 31 December 2002.

BUSINESS REVIEW

The Group reported a turnover of HK\$31,009,000 for the year as compared to HK\$22,318,000 for the previous year which respectively comprise HK\$30,979,000 and HK\$11,327,000 being derived from the operations of the Group's subsidiary, Weihai Sinogen Pharmaceutical Co., Ltd. ("Sinogen"). The remaining turnover was derived from the Group's trading subsidiaries which have been significantly wound down pursuant to the Group's adopted long term strategy. The Group's loss for the year significantly reduced from HK\$57,258,000 or 4.9 cents per share in the previous year to HK\$23,318,000 or 1.5 cents per share in current year. This represents an improvement of 59% in absolute terms and a 69% improvement in terms of loss per share compared to that of the previous year.

Both the Group's gross profit margin and loss for the year continued to show significant improvement. Overall gross profit margin for the year rose from 31% to 77% whereas operating loss for the year lowered from HK\$42,236,000 to HK\$14,599,000, representing an improvement of 65% compared to that of the previous year. The improvement has been due to the step rise in sales of Sinogen in the last quarter as a result of the increase in capacity and stock supply after the completion of the new production facilities. Minority interests reported a debit charge of HK\$5,211,000 and a credit of HK\$5,446,000 respectively representing the minority's share of the profit and the loss of Sinogen for the current and the previous year.

Biopharmaceuticals Division

Year 2002 was an eventful year filled with encouraging developments. In August, the Group completed the construction of the Sinogen's new production plant which significantly increased its capacity from 2 million vials per annum to approximately 20 million vials per annum. The new production volume is expected to be sufficient to meet the anticipated growth in demand in the coming few years. The new plant passed the Good Manufacturing Practice ("GMP") inspection and formally obtained the GMP certificate in October 2002. The GMP status is a strong quality stamp on Wei Jia's product and the organization and management systems of Sinogen. The improved status will strengthen Wei Jia's position in further penetrating the PRC and the overseas markets.

The turnover of the Division for the year of HK\$30,979,000 represents a 2.7 fold increase from the HK\$11,327,000 level in the previous year. The growth is supported by a corresponding 2.3 fold increase in sales volume between the two years. Due to initial teething-in hiccups of the new plant and the interruptions and distractions caused by the GMP certification process, the production output in the last quarter only managed to achieve a sub-optimal level. All major operational issues have now been resolved and the Division is well-positioned for achieving anticipated growth in 2003.

Chairman's Statement



Marketing, Sales and Distribution

Our sales team continued to deliver remarkable performance in penetrating the PRC market. Wei Jia successfully made access to over 500 infectious disease hospitals at the current balance sheet date as compared to around 150 hospitals at the end of the previous year. It is expected that the number of Wei Jia user hospitals will surge to the 1,000 mark by the end of 2003. In order to reduce the level of distribution expenses and increase the direct control over the entire sales operation, Sinogen has decided to adopt the strategy of building its own sales team in regions not yet effectively covered by existing sales agents and gradually phase in the company's own sales team in established regions. In addition to infectious hospitals, the proprietary sales team will also provide strong support for accessing the large number of clinics in the country.

Aggressive marketing activities were initiated in the year to increase the brand awareness of Wei Jia and its recognition in the professional sector. A total of 12 seminars and symposiums were held during the year. Substantial media exposure was also gained through the participation in a number of other exhibitions and trade forums.

For the overseas markets, Sinogen is finalizing arrangements for launching "Wei Jia" in the Vietnam market. Current discussions are also being conducted for licensing Wei Jia to prominent distributors in South Korea. LifeTec will continue to explore the Asian markets as an ongoing strategy.

Price Increase In Wei Jia

As a Category I drug, Wei Jia is entitled to a once only price increase within the first two years of obtaining the drug certificate from the State Drug Administration. Application has been made to the relevant government unit and approved at the provincial level. Nationwide approval from the central government is in process. Management is confident that the price increase application will go through in the near future. The price increase will provide more ammunition for leveraging the support of sales intermediaries and hospitals that will ultimately benefit the bottom line of Sinogen, though improvement will not be realized immediately due to existing constraints in the distribution channels. The price increase will also help to distinguish Wei Jia as a premium biotech drug in the market.

Research and Development

The clinical trials for Wei Jia's application on pediatric hepatitis were successfully completed in the year. The clinical trials were conducted by the Beijing 302 Hospital of the People's Liberation Army and the Children's Hospital, Medical Center of Fudan University. The results indicated that Wei Jia is an efficacious drug for pediatric hepatitis with no major side effects. This has helped to open up sales opportunities for Wei Jia in a new market segment. There are approximately two million chronic hepatitis patients between 1 to 14 years old in the PRC. Very few drugs currently in the market are suitable for the treatment of pediatric hepatitis as most of these drugs have strong side effects on children.

Preparations for extended clinical trials of Wei Jia for treating cirrhosis, fatty liver and alcoholic hepatitis are under way. The trials will be conducted by one of the top cirrhosis experts in the PRC and are expected to take over nine months time. The success in the aforementioned areas of application will provide strong support for Wei Jia to access a vast and important market segment.



Chairman's Statement

Other research and trials for formulating the oral delivery of Wei Jia will also follow in the near future. This is part of a medium term development process designed to fully exploit the potential and to improve the competitiveness and reach of Wei Jia.



Joint research of Recombinant DNA version of Wei Jia with local universities

Recombinant DNA Version of Wei Jia

The research for the Recombinant DNA version of Wei Jia in the PRC has been making satisfactory progress. In March 2003, the development for the Recombinant DNA version of Wei Jia received another strong boost with a 50% paired grant of HK\$1.7 million being obtained from the Innovation and Technology Fund ("ITF") of the Hong Kong Government. The City University of Hong Kong is the lead investigator of the project while a leading professor in the field from the University of Hong Kong will participate as co-

investigator. According to the contract signed between the parties, all the intellectual property rights derived from the research project will belong to LifeTec. The research project is scheduled for completion in July 2004.

LifeTec has also been exploring downstream cooperation opportunities with industry participants in the United States to ensure that the successful outcome of the research by the Hong Kong universities could lead on to clinical trials and market development in the North American market.

New Product Pipeline

In December, 2002, the Group entered into an agreement to acquire 100% equity interest in Shanghai Youheng Biotechnology Company Limited ("SY") which owns two new drug projects namely, recombinant human Augmenter for Liver Regeneration ("rhALR"), a revolutionary recombinant DNA liver drug, and Pazufloxacin ("Pazu"), a new generation antibiotic. The total consideration paid by the Company for the 100% interest in SY is Rmb42.5 million in cash of which Rmb24 million is attributable to the rhALR project and Rmb18.5 million is attributable to the Pazu project. The independent professional valuations for rhALR and Pazu are HK\$30.7 million and HK\$20.8 million respectively. Due to the fact that certain governmental formalities had yet to be fulfilled at the year end, the HK\$38,186,000 consideration paid has been recorded as a deposit in the accounts as at the balance sheet date. The consideration for the acquisition was financed by internal resources of the Group.

The acquisition is consistent with LifeTec's strategy to gradually build a multi-product portfolio. The two new drugs possess very promising market potential and together form the new driving force for LifeTec. The rhALR acquisition will enable LifeTec to maintain its focus and leading edge in the liver drug market and to tap into the research talents and resources of its research partner, the Institute of Infectious Diseases of the People's Liberation Army (the "Institute").

Chairman's Statement



Trading and PVC Division

The Group has significantly wound down the business and activities of this Division and will continue to seek suitable opportunities to hive off the investment in this Division. Since full provision has been made for the investment in this Division, the eventual disposal of this subsidiary will result in positive cash flow to the Group.

Medical Technology Division

Due to the sluggishness of the IT industry in general, the associated company, LT3000 Online Limited ("LT3000") shifted its focus to the development of a ERP system tailored for use by companies engaged in drug distribution operations in the PRC. The development of the new ERP system is approaching completion stage and will be launched in the second half of 2003.

Sales of the Division remained to be mediocre during the year resulting in the Group having to absorb HK\$1,444,000 share of loss of the associated company. The Group is seeking suitable opportunities to sell its interest in LT3000 and is hopeful that the successful development of the new ERP system will improve its position in attracting suitable buyers.

The ultimate disposal of interests in the associated company and the PVC subsidiary will draw a conclusion to the Group's non-core business and operations, paving the way for a focused biopharmaceutical business.

Liquidity and Financial Resources

The Company conducted a share placement in May this year for 280,000,000 shares and raised net proceeds of HK\$78.8 million. The net proceeds have been used for the acquisition of new biotech projects as described above and working capital of the Group.

At the balance sheet date, the Group's aggregate bank borrowings and finance leases stood at HK\$13,480,000 of which HK\$4,821,000 was payable within 12 months, HK\$8,489,000 was payable between 2 and 5 years and HK\$170,000 payable after 5 years. Current liabilities of the Group reduced significantly from HK\$51,410,000 to HK\$23,769,000, representing a drop of 54%. As a result, the Group has reversed from a net current liability position of HK\$2,484,000 to a net current asset position of HK\$15,290,000. The Group's liabilities at the balance sheet date totalled HK\$32,428,000 which represents 21% of total assets as at that date. This compares favorably with the 54% at the balance sheet date of the previous year.

At the date of this report, the Company had unutilized credit facilities amounting to HK\$82,000,000 approximately. The Directors consider the Group's financial resources adequate for supporting its ongoing operations.

The Group's operations are primarily based in the PRC and the income derived and expenses incurred are denominated in Renminbi. On the other hand, the expenses of the headquarters and bank borrowings are denominated in Hong Kong dollars and are financed by Hong Kong dollar capital. Due to the relatively matched position in both Hong Kong and the PRC and the stability of the exchange rates between Renminbi and Hong Kong dollars, the directors consider specific hedges for currency fluctuation being not necessary.

Chairman's Statement



Charges on Group Assets

At the current balance sheet date, the assets of the Group which were subjected to charges for securing banking facilities totalled HK\$4,320,000 comprising two properties in Hong Kong.

Organization and Staff

Substantial effort has been devoted by the Group to gear up the number and the quality of staff at the operational and middle management levels to cope with the anticipated growth. The total number of staff at Sinogen has significantly increased from 85 at the end of last year to 177 as at the current year end date. The increase satisfies the staff requirement of the new production line and further strengthens the quality of the middle management at the factory level during the transitional stage bridging the old and the new plant. Certain rationalization is planned as and when the factory operation is stabilized and under control. About 40 new sales and marketing staff have also been recruited after the year end, boosting the sales team to a total of 65 people strong. These additional sales professionals will strengthen our marketing prowess and accelerate the build-up of a proprietary sales and distribution network.

At the holding company level, a senior executive joined force in the first half of the year to provide support in areas of corporate finance, corporate planning and promotion. The management believes that the overall strengthening of the management and operation team will engage the Company and Sinogen along its future track of development.

The terms of employment of the staff, executives and directors conform to normal commercial practice. Share option benefits are granted to and included in the terms of employment of selected senior executives of the Company.

Investor Relations

The Company has set up an investor relations team to promote the understanding of the Group's operations to the investment community. We also aim to increase the proportion of institutional investors in the shareholder base of the Company.

During the year, the Company pursued a number of investor road shows in the United States, England, Japan, Singapore and Hong Kong. These road shows were organized by leading international and local investment banks. LifeTec also participated in various biopharmaceutical investment forums organized by reputable brokerage firms. The Company was exposed to prestigious potential investors in these events through which insightful advice and comments had been received.

Management believes that investor relations activities will complement the achievements of the Company in mustering support from the investment community in the long term.

Prospects

The prospects of LifeTec are improving. We have adequate capacity to produce GMP compliant products to meet market demand in the immediate and medium term. We see the growing recognition of Wei Jia's potential by market participants and technical experts both inside and outside of the PRC. Sales of Wei Jia



Chairman's Statement



will continue to achieve healthy growth in 2003. The restructuring of our distribution network from an agency dependent operation into a proprietary directed system is under way. This will definitely improve the penetration of Wei Jia and any new products to be launched in the PRC market. At the same time, development of overseas markets has made a headstart so far with ensuing benefits to be reaped in the forthcoming eighteen months. The launch of the research and development of the DNA recombinant version of Wei Jia earlier in the year and follow-up downstream development work are paving way for the future expansion of Wei Jia's market into leading regions of the world.

Management will continue to pursue the strategy of growth through mergers and acquisitions. LifeTec is actively exploring the acquisition of approved or ready to be approved new drugs and diagnostic products in order to provide fuel for the Group's growth in the immediate and intermediate future. Management believes that the strategy will provide a safety bridge for the Group as it transitions into a more mature biopharmaceutical company.

Appreciation

On behalf of the Board of Directors of the Company, I would like to thank our shareholders, bankers, professional parties and customers for their support. I would also like to thank our executives and staff for their dedication and innovative contributions. I foresee a bright future for the Group as it evolves to become one of the leaders in its chosen field.

By Order of the Board
Jay Chun
Chairman

Hong Kong, 24 April 2003



Profile of Directors and Senior Management

Executive Directors



Mr. Jay Chun, aged 38, Chairman and Managing Director of the Company, is a talented entrepreneur and manager. He has a solid background in information technology and marketing and over 14 years of management and investment experience. He holds a bachelor degree in computer science from the Shanghai University of Science and Technology. Mr. Chun was appointed as Managing Director of the Company in January 1999 and subsequently appointed as Chairman of the Board in July 2002.

Mr. Shan Shiyong, aged 39, executive director and former Chairman of the Company, is an entrepreneur with strong business vision. After completing his studies in economics at the University of Agriculture, Shandong, he started his own business in manufacturing and export and subsequently diversified to trading, property development and venture capital investment in China. He has over 17 years of dedicated business, investment and management experience at the owner level. Mr. Shan was appointed as an executive director in October 1998 and became Chairman of the Company in May 1999, resigned from Chairmanship in July 2002.

Mr. Wang Xi Gang, aged 33, is an executive director of the Company responsible for overseeing the Group's PVC manufacturing operations in Shandong province. He holds a bachelor degree in English from the University of Petroleum in China and has more than 10 years of solid experience in operations management and international trade. Mr. Wang was appointed in December 1998.

Independent Non-executive Directors

Mr. Frank Hu, aged 40, is a seasoned banker and businessman with over 17 years of experience. He holds a bachelor degree in politics from New York University and is currently the Chief Executive Officer of a major private group in Hong Kong.

Dr. Ma Yin Ming, aged 36, holds a doctoral degree in accounting as well as a bachelor and a master degree in economics from the Central South University. He is an accounting and financial expert and has been appointed as a member of the Auditing Standards Drafting Committee of the China Institute of Certified Public Accountants and as the leader of the Chinese Expert Advisory Group on accounting issues in connection with Asian Development Bank sponsored projects in China. He has also held senior financial positions in the commercial field and is currently the Chief Executive Officer of a listed company in Shanghai.



Profile of Directors and Senior Management

Senior Management

Mr. Yeung Kam Lung Patrick, aged 49, the Chief Operating Officer and Company Secretary of the Company, is a seasoned executive with extensive financial, operational and management experience at the top level. Before joining the Group, he has held board level positions with listed groups and subsidiaries of listed groups in Hong Kong. Before that, he had devoted a substantial period of his career with a leading international accounting firm. He holds a master degree in finance and is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. Mr. Yeung joined the Group in March 2000.

Dr. Kenneth Lee, aged 58, was appointed as the Chief Scientific Officer of the Group in March 2001. He has over 22 years of experience in biotechnology and clinical research and had devoted the early part of his career working for leading pharmaceutical companies and institutions in Europe and North America. Before joining the Group, he was a prominent biotechnology consultant and a well-known medical science columnist in Hong Kong. Dr. Lee obtained his first doctoral degree in biochemistry from Lyon University, France specializing in solid-phase enzymatic methods and his second doctoral degree in biochemistry from McGill University specializing in protein characterization. He is also a member of New York Academy of Sciences. Dr. Kenneth has resigned from the position in August 2002.

Mr. Philip Poon, aged 33, joined the Company as Vice President of Corporate Development and Investor Relationship. Mr. Poon devoted his last ten years to major listed companies, prominent broking and private equity firms in Hong Kong. Mr. Poon holds a bachelor of commerce degree and is also a Chartered Financial Analyst and a Certified Public Accountant of Australia.

Mr. William Wang, aged 34, was appointed as the Head of Marketing and Sales in June 2001. Mr. Wang holds a bachelor degree in engineering and a master of business administration degree from Wuhan University, China. He has over 14 years of pharmaceutical marketing and sales experience in China. Before joining the Group, he was the Marketing Director of a leading PRC biopharmaceutical group and a US pharmaceutical group in China.

Directors' Report



The directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the research, development, manufacturing and sale of biopharmaceutical products.

RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 24.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

INVESTMENT PROPERTY

The investment property of the Group was revalued on an open market value basis as at 31 December 2002 as set out in note 14 to the financial statements. There was no surplus or deficit arising on the revaluation as at 31 December 2002.

SHARE CAPITAL

Details of changes in the Company's share capital during the year are set out in note 26 to the financial statements.

SHARE OPTIONS

On 15 July 2002, the Company terminated the share option scheme of the Company adopted on 3 January 1997 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") as a result of the changes in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to share option scheme.



Particulars of the Old Share Option Scheme and the New Share Option Scheme are set out in note 27 to the financial statements.



Directors' Report

Details of specific categories of options granted under the Old Share Option Scheme are as follows:

Date of grant	Exercisable period	Exercise price per share HK\$
19 April 2000	19 April 2000 to 18 April 2003	0.24000
2 June 2000	2 June 2000 to 1 June 2003	0.06848
5 June 2001	5 June 2001 to 4 June 2004	0.19600
7 May 2002	7 May 2002 to 6 May 2005	0.14460
8 May 2002	8 May 2002 to 7 May 2005	0.14580

A summary of the movements in share options granted under the Old Share Option Scheme during the year is as follows:

	Date of grant	Number of share options			Outstanding at end of the year
		Outstanding at beginning of the year	Granted during the year	Exercise during the year	
Category: Directors					
Mr. Shan Shiyong	2 June 2000	21,800,000	-	-	21,800,000
Mr. Jay Chun	2 June 2000	21,800,000	-	(21,800,000)	-
Mr. Wang Xi Gang	2 June 2000	21,800,000	-	-	21,800,000
Total Directors		65,400,000	-	(21,800,000)	43,600,000
Category: Employees					
	19 April 2000	1,500,000	-	-	1,500,000
	5 June 2001	2,500,000	-	-	2,500,000
	7 May 2002	-	5,000,000	-	5,000,000
	8 May 2002	-	2,500,000	-	2,500,000
Total Employees		4,000,000	7,500,000	-	11,500,000
Total all categories		69,400,000	7,500,000	(21,800,000)	55,100,000

Directors' Report

The fair value of the options granted on 7 May 2002 and 8 May 2002 measured on the same date amounted to approximately HK\$388,500 and HK\$301,500 respectively. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

	7 May 2002	8 May 2002
1) Expected volatility based on historical volatility of share prices	36.39%	57.12%
2) Expected annual dividend yield, based on historical dividends	–	–
3) Expected life of options	3 years	3 years
4) Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant	4.31%	4.31%

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

The closing price of the Company's shares immediately before 7 May 2002 and 8 May 2002, the dates on which options were granted during the year, were HK\$0.183 and 0.189 per share respectively.

The closing price of the Company's shares immediately before the date on which the 21,800,000 share options were exercised was HK\$0.355 per share.

No charge is recognised in the consolidated income statement in respect of the value of options granted during the year.

At the date of the directors' report, the total number of shares available for issue under the Old Share Option Scheme and the New Share Option Scheme are as follows:

	Total number of shares available for issue	Percentage to the shares of the Company at the date of directors' report
Old Share Option Scheme	55,100,000	3.2%
New Share Option Scheme	171,774,594	10.0%

Directors' Report



RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 28 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Mr. Jay Chun, Chairman and Managing Director (alternate director to Mr. Shan Shiyong and Mr. Wang Xi Gang)

Mr. Shan Shiyong (alias, Mr. Sin Sai Yung)

Mr. Wang Xi Gang

Independent non-executive directors:

Mr. Frank Hu

Dr. Ma Yin Ming

In accordance with Clause 86 of the Company's Bye-laws, Mr. Frank Hu retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

The directors being proposed for re-election at the forthcoming annual general meeting does not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.



Directors' Report

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares held	
	Personal interests	Corporate interests
Mr. Jay Chun	29,092,000	205,660,000 (note 1)
Mr. Shan Shiyong	–	235,460,000 (note 2)

Notes:

1. These shares are owned by August Profit Investments Limited, a company which is wholly owned by Mr. Jay Chun.
2. These shares are owned by Best Top Offshore Limited, a company which is wholly owned by Mr. Shan Shiyong.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors of the Company in trust for the Group, at 31 December 2002, none of the directors or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes disclosed under the heading "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' Interests in Shares" above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no other person as having an interest representing 10% or more of the issued share capital of the Company as at 31 December 2002.

Directors' Report



MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 49% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 28% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 51% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 25% of the Group's total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest customers or suppliers.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share option schemes disclosed under the heading "Share Options" above, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2002 and there has been no exercise of any convertible securities, options, warrants or similar rights during the year.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.



Directors' Report

AUDITORS



A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Jay Chun

Chairman

Hong Kong, 24 April 2003



Auditors' Report



德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF LIFETEC GROUP LIMITED

生命科技集團有限公司

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standard issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows.



Auditors' Report

Basis of opinion *(continued)*



Included in creditors and accrued charges of the Group as at 31 December 2001 was an amount of approximately HK\$11,700,000 relating to several independent parties. However, we were unable to obtain either confirmations from these parties or other supporting evidence to satisfy ourselves as to the nature of the recorded balances due to these independent parties and whether the recorded balances were fairly stated as at 31 December 2001. Accordingly, we were unable to satisfy ourselves as to the appropriateness of the release of such amount to the consolidated income statement during the year as set out in note 6 to the financial statements. Any adjustments found to be necessary to the figure above would affect the loss of the Group for the year ended 31 December 2002.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualification opinion arising from limitation of audit scope

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002. Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the write back of other payables during the year, in our opinion the financial statements give a true and fair view of the loss and cash flows of the Group for the year ended 31 December 2002 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the write back of other payables:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 24 April 2003



Consolidated Income Statement

For the year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	4	31,009	22,318
Cost of sales		(7,049)	(15,348)
Gross profit		23,960	6,970
Other operating income	5	943	1,761
Marketing, selling and distribution costs		(13,501)	(6,511)
Administrative expenses		(34,587)	(32,853)
Write back of other payables	6	11,700	–
Allowance for doubtful debts	7	(3,114)	(1,544)
Impairment losses recognised in respect of property, plant and equipment		–	(10,059)
Loss from operations	8	(14,599)	(42,236)
Finance costs	10	(2,096)	(3,416)
Gain on disposal of subsidiaries	29	32	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 loss of an associate		(1,444)	(439)
Loss before taxation		(18,107)	(62,704)
Taxation	11	–	–
Loss before minority interests		(18,107)	(62,704)
Minority interests		(5,211)	5,446
Loss for the year		(23,318)	(57,258)
Loss per share (cents) – basic	12	(1.5)	(4.9)

Consolidated Balance Sheet

At 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Property, plant and equipment	13	53,463	56,811
Investment property	14	3,200	3,200
Goodwill	15	1,775	–
Patent	16	1,886	3,529
Interest in an associate	17	6,726	6,950
Payments for investments	18	45,186	–
		112,236	70,490
Current assets			
Inventories	20	465	605
Debtors and prepayments	21	20,738	11,020
Investments in securities	22	–	6,100
Bank balances and cash		17,856	31,201
		39,059	48,926
Current liabilities			
Creditors and accrued charges	23	18,230	34,182
Amounts due to directors		718	2,658
Bank borrowings – due within one year	24	4,481	14,275
Obligations under finance leases – due within one year	25	340	295
		23,769	51,410
Net current assets (liabilities)		15,290	(2,484)
Total assets less current liabilities		127,526	68,006

Consolidated Balance Sheet

At 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current liabilities			
Bank borrowings – due after one year	24	8,615	13,154
Obligations under finance leases – due after one year	25	44	384
		8,659	13,538
Minority interests			
		19,374	11,944
Net assets			
		99,493	42,524
Capital and reserves			
Share capital	26	17,177	14,159
Reserves	28	82,316	28,365
		99,493	42,524

The financial statements on pages 24 to 69 were approved and authorised for issue by the Board of Directors on 24 April 2003 and are signed on its behalf by:

Jay Chun
Director

Frank Hu
Director

Balance Sheet

At 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
Non-current asset			
Interests in subsidiaries	19	134,104	73,993
Current assets			
Debtors and prepayments		733	274
Investments in securities	22	-	6,100
Bank balances and cash		7	4,081
		740	10,455
Current liability			
Creditors and accrued charges		1,395	3,446
Net current (liabilities) assets			
		(655)	7,009
Net assets			
		133,449	81,002
Capital and reserves			
Share capital	26	17,177	14,159
Reserves	28	116,272	66,843
		133,449	81,002

Jay Chun
Director

Frank Hu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital	Share premium	Special reserve	Goodwill reserve	Translation reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2001	10,739	83,772	88,643	(40,061)	461	(128,689)	14,865
Exchange differences arising on translation of financial statements of operations outside Hong Kong and gain not recognised in the consolidated income statement	-	-	-	-	266	-	266
Issue of shares	3,420	82,630	-	-	-	-	86,050
Expenses incurred in connection with the issue of shares	-	(2,919)	-	-	-	-	(2,919)
Goodwill adjustment	-	-	-	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	14,159	163,483	88,643	(38,478)	664	(185,947)	42,524
Exchange differences arising on translation of financial statements of operations outside Hong Kong and loss not recognised in the consolidated income statement	-	-	-	-	(27)	-	(27)
Issue of shares	3,018	79,675	-	-	-	-	82,693
Expenses incurred in connection with the issue of shares	-	(2,379)	-	-	-	-	(2,379)
Loss for the year	-	-	-	-	-	(23,318)	(23,318)
At 31 December 2002	<u>17,177</u>	<u>240,779</u>	<u>88,643</u>	<u>(38,478)</u>	<u>637</u>	<u>(209,265)</u>	<u>99,493</u>

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Operating activities			
Loss from operations		(14,599)	(42,236)
Adjustments for:			
Amortisation of goodwill		444	–
Amortisation of patent		1,643	708
Unrealised loss on revaluation of investments in securities		–	900
Impairment losses recognised in respect of property, plant and equipment		–	10,059
Interest income		(206)	(73)
Write back of other payables		(11,700)	–
Depreciation and amortisation of property, plant and equipment		6,130	7,074
Loss on disposal of property, plant and equipment		25	1,196
Loss on disposal of an investment property		–	142
Gain on disposals of investments in securities		(16)	–
Allowance for doubtful debts		3,810	1,544
Allowance for inventories		626	95
Exchange difference		(27)	(539)
		<hr/>	<hr/>
Operating cash flows before movements in working capital		(13,870)	(21,130)
(Increase) decrease in inventories		(486)	980
Increase in debtors and prepayments		(11,228)	(6,880)
(Decrease) increase in creditors and accrued charges		(505)	2,514
Decrease in amounts due to directors		(1,940)	(2,049)
		<hr/>	<hr/>
Cash used in operations		(28,029)	(26,565)
Interest on bank borrowings paid		(1,890)	(3,684)
Interest on other loan paid		(130)	(388)
Finance charges on finance leases paid		(76)	(116)
		<hr/>	<hr/>
Net cash used in operating activities		(30,125)	(30,753)

Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Investing activities			
Proceeds from disposal of an investment property		-	10,458
Proceeds from disposal of property, plant and equipment		12	14
Proceeds from disposal of investments in securities		31,890	-
Purchase of investments in securities		(25,774)	(7,000)
Purchase of property, plant and equipment		(17,228)	(1,349)
Amount paid for the acquisition of rights to a drug under development		(7,000)	-
Payment on behalf of an associate		(2,220)	(1,338)
Deposits paid for the acquisition of a subsidiary		(38,186)	-
Disposal of subsidiaries	29	100	(10)
Interest received		206	73
Net cash (used in) from investing activities		(58,200)	848
Financing activities			
Proceeds from issue of shares, net of expenses		80,314	83,131
New bank and other borrowings raised		-	15,172
Repayment of bank and other borrowings		(4,558)	(38,086)
Repayment of obligations under finance leases		(295)	(255)
Net cash from financing activities		75,461	59,962
Net (decrease) increase in cash and cash equivalents		(12,864)	30,057
Cash and cash equivalents at the beginning of the year		30,720	658
Effect of foreign exchange rate changes		-	5
Cash and cash equivalents at the end of the year		17,856	30,720
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		17,856	31,201
Bank overdraft		-	(481)
		17,856	30,720

Notes to the Financial Statements

For the year ended 31 December 2002

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 "Stock Exchange").

The Company is an investment holding company. The activities of its subsidiaries and an associate are set out in notes 36 and 37 respectively.

2. 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 3. In addition, the adoption of these SSAPs has resulted in a change in the format of presentation of cash flow statement and the inclusion of the statement of changes in equity. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies, but has had no significant impact on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements denominated in currencies other than Hong Kong dollars at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid, interest received and dividends paid, which were previously presented under a separate heading, are classified as operating, investing and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2002

3. 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 less impairment losses. 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.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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.

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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.

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.

Interest in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of the associate 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.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned 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.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 assets and liabilities of the Group's operations outside Hong Kong are translated into Hong Kong dollars at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. All exchange differences arising on consolidation are classified as equity and transferred to translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits scheme

The retirement benefit costs charged in the consolidated income statement represent the contribution payable in respect of the current year to the Group's retirement benefits schemes.

Notes to the Financial Statements

For the year ended 31 December 2002

4. SEGMENT INFORMATION

Business segments

The Group's business activities are currently conducted through two operating divisions - Biopharmaceuticals Division and Trading Division. These divisions are the basis on 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 2002

	Biopharmaceuticals Division	Trading Division	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Revenue			
External sales	<u>30,979</u>	<u>30</u>	<u>31,009</u>
Result			
Segment result	<u>(682)</u>	<u>(1,921)</u>	(2,603)
Other operating income			943
Loss on disposal of property, plant and equipment			(25)
Write back of other payables			11,700
Unallocated corporate expenses			<u>(24,614)</u>
Loss from operations			(14,599)
Finance costs			(2,096)
Gain on disposal of subsidiaries			32
Share of loss of an associate			<u>(1,444)</u>
Loss before taxation			(18,107)
Taxation			<u>–</u>
Loss before minority interests			(18,107)
Minority interests			<u>(5,211)</u>
Loss for the year			<u><u>(23,318)</u></u>

Notes to the Financial Statements

For the year ended 31 December 2002

4. SEGMENT INFORMATION (continued)

Business segments (continued)

At 31 December 2002

Balance sheet

	Biopharmaceuticals Division	Trading Division	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Assets			
Segment assets	98,682	1,158	99,840
Interest in an associate			6,726
Unallocated corporate assets			44,729
Consolidated total assets			151,295
Liabilities			
Segment liabilities	12,937	687	13,624
Unallocated corporate liabilities			18,804
Consolidated total liabilities			32,428

For the year ended 31 December 2002

Other information

	Biopharmaceuticals Division	Trading Division	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	17,201	15	12	17,228
Goodwill	2,219	–	–	2,219
Depreciation and amortisation of property, plant and equipment	5,054	134	942	6,130
Amortisation of goodwill	444	–	–	444
Amortisation of patent	1,643	–	–	1,643
Allowance for doubtful debts	–	–	3,810	3,810
Allowance for inventories	148	478	–	626

Notes to the Financial Statements

For the year ended 31 December 2002

4. SEGMENT INFORMATION (continued)

Business segments (continued)

For the year ended 31 December 2001

	Biopharmaceuticals Division	Trading Division	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Revenue			
External sales	<u>11,327</u>	<u>10,991</u>	<u>22,318</u>
Result			
Segment result	<u>(8,111)</u>	<u>(2,180)</u>	(10,291)
Other operating income			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			<u>(21,409)</u>
Loss from operations			(42,236)
Finance costs			(3,416)
Gain on disposal of a subsidiary			625
Amortisation of premium on acquisition of an associate			(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 loss of an associate			<u>(439)</u>
Loss before taxation			(62,704)
Taxation			<u>–</u>
Loss before minority interests			(62,704)
Minority interests			<u>5,446</u>
Loss for the year			<u>(57,258)</u>

Notes to the Financial Statements

For the year ended 31 December 2002

4. SEGMENT INFORMATION (continued)

Business segments (continued)

At 31 December 2001

Balance sheet

	Biopharmaceuticals Division	Trading Division	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Assets			
Segment assets	53,243	13,994	67,237
Interest in an associate			6,950
Unallocated corporate assets			45,229
Consolidated total assets			119,416
Liabilities			
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 Division	Trading Division	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	869	–	480	1,349
Depreciation and amortisation of property, plant and equipment	5,141	764	1,169	7,074
Amortisation of patent	708	–	–	708
Allowance for doubtful debts	1,544	–	–	1,544
Allowance for inventories	–	95	–	95

Notes to the Financial Statements

For the year ended 31 December 2002

4. SEGMENT INFORMATION (continued)

Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China (the "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	
	Year ended 31.12.2002 HK\$'000	Year ended 31.12.2001 HK\$'000
PRC	30,994	11,427
Hong Kong	15	10,891
	31,009	22,318

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		Additions to goodwill	
	At 31.12.2002 HK\$'000	At 31.12.2001 HK\$'000	Year ended 31.12.2002 HK\$'000	Year ended 31.12.2001 HK\$'000	Year ended 31.12.2002 HK\$'000	Year ended 31.12.2001 HK\$'000
PRC	119,952	69,116	17,216	869	2,219	-
Hong Kong	31,343	50,300	12	480	-	-
	151,295	119,416	17,228	1,349	2,219	-

Notes to the Financial Statements

For the year ended 31 December 2002

5. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Compensation receivable from The Government of the Hong Kong Special Administrative Region for resuming occupation of industrial properties	-	1,364
Gain on disposals of investments in securities	16	-
Interest income	206	73
Management fee income	261	240
Rental income	30	30
Sundry	430	54
	<hr/>	<hr/>
	943	1,761
	<hr/> <hr/>	<hr/> <hr/>

6. WRITE BACK OF OTHER PAYABLES

Included in creditors and accrued charges of the Group as at 31 December 2001 was an aggregate amount of approximately HK\$11,700,000 recorded by a subsidiary of the Company established in the PRC. This amount was payable to several independent parties and had been brought forward since the acquisition of the subsidiary by the Group during the year ended 31 December 2000. The Group has been unable to contact these parties to clarify the nature of the payables and, on the other hand, these parties had not demanded repayment of the amount by whatever means for more than two years. Pursuant to a legal opinion obtained by the directors from a firm of PRC lawyers, these independent parties have lost the civil right under PRC law to claim against the subsidiary for the aggregate amount and, accordingly, the amount of HK\$11,700,000 was written back to the consolidated income statement during the year.

7. ALLOWANCE FOR DOUBTFUL DEBTS

	2002 HK\$'000	2001 HK\$'000
Allowance for doubtful debts are analysed as follows:		
Allowance for amount due from an associate	1,000	-
Allowance for trade debtors	-	1,544
Allowance for other debtors	2,810	-
	<hr/>	<hr/>
	3,810	1,544
Recovery from trade debtors	(696)	-
	<hr/>	<hr/>
	3,114	1,544
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2002

8. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:		
Amortisation of patent (included in administrative expenses)	1,643	708
Amortisation of goodwill (included in administrative expenses)	444	–
Auditors' remuneration	806	789
Depreciation and amortisation		
– owned assets	5,871	6,815
– assets held under finance leases	259	259
Loss on disposal of property, plant and equipment	25	1,196
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 (note)	2,376	2,140
Research and development expenditure	409	495
Staff cost		
– Directors' remuneration (note 9)	6,396	6,340
– Other staff		
– Salaries and allowances	7,814	5,577
– Retirement benefit scheme contribution	584	330
	14,794	12,247

Note: The amount excludes the accommodation benefits provided to a director amounting to HK\$624,000 (2001: HK\$572,000) as set out in note 9.

Notes to the Financial Statements

For the year ended 31 December 2002

9. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Directors' remuneration

The directors' remuneration are analysed as follows:

	2002 HK\$'000	2001 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	5,520	5,519
Accommodation benefits	624	572
Retirement benefit scheme contribution	12	9
	6,156	6,100
Total directors' remuneration	6,396	6,340

The remuneration of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	2	2

Notes to the Financial Statements

For the year ended 31 December 2002

9. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES (continued)

Highest paid employees

The five highest paid employees of the Group included three directors (2001: four directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid employees of the Group, other than directors, were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	1,915	1,200
Retirement benefit scheme contributions	24	12
	<hr/> 1,939 <hr/>	<hr/> 1,212 <hr/>

Their emoluments were within the following bands:

	2002 Number of employees	2001 Number of employees
Nil to HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	1	1
	<hr/> 1 <hr/>	<hr/> 1 <hr/>

Notes to the Financial Statements

For the year ended 31 December 2002

10. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank and other borrowings:		
– wholly repayable within five years	1,857	2,236
– not wholly repayable within five years	33	728
Interest on other loan	130	336
Finance charges on finance leases	76	116
	<hr/> 2,096 <hr/> <hr/>	<hr/> 3,416 <hr/> <hr/>

11. 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.

12. LOSS PER SHARE

The calculation of loss per share is based on the loss for the year of HK\$23,318,000 (2001: HK\$57,258,000) and on the weighted average number of 1,606,102,658 (2001: 1,177,200,740) 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.

Notes to the Financial Statements

For the year ended 31 December 2002

13. 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 2002	34,511	13,875	24,102	2,932	1,721	77,141
Additions	9,635	–	6,581	283	729	17,228
Disposals	–	–	(88)	–	–	(88)
Disposal of subsidiaries	(16,500)	–	–	–	–	(16,500)
Transfer on completion	13,875	(13,875)	–	–	–	–
At 31 December 2002	<u>41,521</u>	<u>–</u>	<u>30,595</u>	<u>3,215</u>	<u>2,450</u>	<u>77,781</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES						
At 1 January 2002	10,169	–	8,610	851	700	20,330
Provided for the year	487	–	4,810	463	370	6,130
Eliminated on disposals	–	–	(51)	–	–	(51)
Eliminated on disposal of subsidiaries	(2,091)	–	–	–	–	(2,091)
At 31 December 2002	<u>8,565</u>	<u>–</u>	<u>13,369</u>	<u>1,314</u>	<u>1,070</u>	<u>24,318</u>
NET BOOK VALUES						
At 31 December 2002	<u><u>32,956</u></u>	<u><u>–</u></u>	<u><u>17,226</u></u>	<u><u>1,901</u></u>	<u><u>1,380</u></u>	<u><u>53,463</u></u>
At 31 December 2001	<u><u>24,342</u></u>	<u><u>13,875</u></u>	<u><u>15,492</u></u>	<u><u>2,081</u></u>	<u><u>1,021</u></u>	<u><u>56,811</u></u>

Notes to the Financial Statements

For the year ended 31 December 2002

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	2002 HK\$'000	2001 HK\$'000
The net book value of the Group's leasehold land and buildings comprise:		
Properties situated in Hong Kong held under long lease	1,120	1,249
Properties situated outside Hong Kong held under medium term leases	31,836	23,093
	<u>32,956</u>	<u>24,342</u>
Net book value of property, plant and equipment held under finance leases	<u>497</u>	<u>756</u>

Included in the properties situated outside Hong Kong held under medium term leases is an amount of HK\$30,089,000 relating to buildings of which the Group is still in the process of obtaining legal titles.

14. INVESTMENT PROPERTY

	THE GROUP HK\$'000
VALUATION	
At beginning of the year and at end of the year	<u>3,200</u>

The investment property, which is rented out for rental income, was revalued as at 31 December 2002 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 2002.

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

Notes to the Financial Statements

For the year ended 31 December 2002

15. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition of additional interest in a subsidiary during the year and balance at 31 December 2002	2,219
AMORTISATION	
Provided for the year and balance at 31 December 2002	<u>(444)</u>
NET BOOK VALUE	
At 31 December 2002	<u><u>1,775</u></u>

The amortisation period adopted for goodwill is 5 years.

16. PATENT

	THE GROUP HK\$'000
COST	
At 1 January 2002 and at 31 December 2002	<u>4,705</u>
AMORTISATION	
At 1 January 2002	1,176
Provided for the year	<u>1,643</u>
At 31 December 2002	<u>2,819</u>
NET BOOK VALUES	
At 31 December 2002	<u><u>1,886</u></u>
At 31 December 2001	<u><u>3,529</u></u>

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 rights assigned to the Group of four years.

Notes to the Financial Statements

For the year ended 31 December 2002

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Share of net assets	1,433	2,877
Amount due from an associate	5,293	4,073
	6,726	6,950

Particulars of the Group's associate as at 31 December 2002 are set out in note 37.

18. PAYMENTS FOR INVESTMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Deposits paid for the acquisition of a subsidiary (Note a)	38,186	–
Amount paid for the acquisition of rights to a drug under development (Note b)	7,000	–
	45,186	–

Notes:

- (a) The Company through its wholly owned subsidiaries, LifeTec (Holdings) Limited ("LifeTec Holdings") and 威海基安生物工程有限公司 Weihai Genen Biotech Limited ("Weihai Genen"), entered into a conditional sale and purchase agreement with independent parties on 19 December 2002 for the acquisition by LifeTec Holdings and Weihai Genen of a 81% and a 19% interest, respectively, in the registered capital of 上海友恒生物科技有限公司 Shanghai Youheng Biotechnology Limited ("Shanghai Youheng") for a consideration of HK\$40,072,000. Shanghai Youheng is a limited company established in the PRC and holds the rights to two new drug projects.

In the opinion of the directors, the Group has not yet obtained the control over Shanghai Youheng as at 31 December 2002 and, accordingly, the amounts paid by the Group amounting to HK\$38,186,000 at 31 December 2002 are classified as deposits paid for the acquisition of a subsidiary.

Notes to the Financial Statements

For the year ended 31 December 2002

18. PAYMENTS FOR INVESTMENTS (continued)

Notes: (continued)

- (b) On 26 July 2002, LifeTec Holdings entered into an agreement with an independent party to acquire the rights to a drug development project for a cash consideration of HK\$7,609,000. The amount paid by the Group amounting to HK\$7,000,000 at 31 December 2002 represents the partial consideration paid under the agreement.

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	48,726	48,726
Impairment loss	(48,726)	(48,726)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Amounts due from subsidiaries less allowance	134,104	73,993
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	134,104	73,993
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

The cost 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 2002 are set out in note 36.

Notes to the Financial Statements

For the year ended 31 December 2002

20. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials and consumables	323	529
Work in progress	140	20
Finished goods	2	56
	465	605
At cost	2	76
At net realisable value	463	529
	465	605

21. DEBTORS AND PREPAYMENTS

The Group allows credit periods to its trade debtors on a case by case basis. The aging analysis of trade debtors is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within 30 days	9,838	1,636
31 – 60 days	1,061	374
61 – 90 days	1,353	902
More than 90 days	2,691	288
	14,943	3,200
Other debtors and prepayments	5,795	7,820
	20,738	11,020

Included in other debtors and prepayments at 31 December 2002 is an amount of HK\$1,300,000, representing the balance of consideration receivable resulting from the disposal of certain subsidiaries during the year (note 29). The amount is unsecured, interest free and will be repayable one month after the date of disposal of a property situated in the PRC held by one of the disposed subsidiaries.

Notes to the Financial Statements

For the year ended 31 December 2002

22. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY	
	2002	2001
	HK\$'000	HK\$'000
Other investments:		
Equity securities listed in Hong Kong, at market value	<u>-</u>	<u>6,100</u>

23. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
The aging analysis of trade creditors is as follows:		
Within 30 days	118	239
31 – 60 days	64	-
61 – 90 days	-	9
More than 90 days	231	311
	<u>413</u>	<u>559</u>
Other creditors and accrued charges	17,817	33,623
	<u>18,230</u>	<u>34,182</u>

Notes to the Financial Statements

For the year ended 31 December 2002

24. BANK BORROWINGS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Mortgage loans	534	9,936
Bank loans	12,562	17,012
Bank overdraft	-	481
	13,096	27,429
Of which:		
Secured	2,836	14,337
Unsecured	10,260	13,092
	13,096	27,429
The terms of repayment of the bank borrowings are analysed as follows:		
Within one year or on demand	4,481	14,275
More than one year, but not exceeding two years	2,561	4,615
More than two years, but not exceeding five years	5,884	6,133
After five years	170	2,406
	13,096	27,429
Less: Amount due within one year shown under current liabilities	(4,481)	(14,275)
Amount due after one year	8,615	13,154

Notes to the Financial Statements

For the year ended 31 December 2002

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	371	371	340	295
More than one year, but not exceeding two years	46	371	44	340
More than two years, but not exceeding five years	-	46	-	44
	417	788		
Less: Future finance charges	(33)	(109)		
Present value of lease obligations	384	679	384	679
Less: Amount due within one year shown under current liabilities			(340)	(295)
Amount due after one year			44	384

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

Notes to the Financial Statements

For the year ended 31 December 2002

26. SHARE CAPITAL

	2002 Number of shares	2001 Number of shares	2002 HK\$'000	2001 HK\$'000
Shares of HK\$0.01 each				
Authorised:				
At beginning and at end of the year	<u>10,000,000,000</u>	<u>10,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:				
At beginning of the year	1,415,945,946	1,073,945,946	14,159	10,739
Placement of new shares (note a and note b)	280,000,000	342,000,000	2,800	3,420
Issue of shares upon exercise of share options (note 27)	21,800,000	–	218	–
At end of the year	<u>1,717,745,946</u>	<u>1,415,945,946</u>	<u>17,177</u>	<u>14,159</u>

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

- (a) On 14 May 2002, 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 235,000,000 existing shares of HK\$0.01 each in the Company held by Best Top at HK\$0.29 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\$0.29 per share. The allotment of new shares was completed on 23 May 2002. The allotted shares rank pari passu with the then existing shares in the Company in all respect.
- (b) On 14 May 2002, the Company entered into a placing and underwriting agreement with a placing agent for the placement of 45,000,000 new shares of HK\$0.01 each in the Company at HK\$0.29 per share through the placing agent to independent third parties. The allotment of new shares was completed on 23 May 2002. The allotted shares rank pari passu with the then existing shares in the Company in all respect.

The net proceeds from the above placements amounting to approximately HK\$78,821,000 were applied for the acquisition of new biotechnology drug projects, for the increase in investment in existing biopharmaceutical operations and for general working capital of the Group.

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE OPTIONS

On 15 July 2002, the Company terminated the share option scheme of the Company adopted on 3 January 1997 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") as a result of the changes in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to share option scheme.

Old Share Option Scheme

The purpose of the Old Share Option Scheme is to provide incentives to the directors and employees of the Group. As the Old Share Option Scheme has been terminated, no more option can be issued pursuant to the Old Share Option Scheme but in all other respects the provisions of the Old Share Option Scheme shall remain in force. The maximum entitlement of each participant shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Old Share Option Scheme. The period within which the shares must be taken up under an option shall not be later than 3 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. Each eligible employee has a choice to accept the share options granted within 21 days from the date of grant and no consideration is payable on acceptance of an option. The subscription price is the higher of the (i) the nominal value of a share and (ii) a price not less than 80% of the average of the closing prices of the share quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options.

New Share Option Scheme

The purpose of the New Share Option Scheme is to provide incentives to the directors and employees of the Group. The period within which the shares must be taken up under an option of the New Share Option Scheme shall not be more than 5 years from the date of the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK\$1 is payable on acceptance of an option within 21 days from the date of grant.

The total number of shares in respect of which options may be granted under the New Share Option Scheme must not in aggregate exceed 10% of the share in issue as at 15 July 2002, being the date of adoption of the New Share Option Scheme, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted to each individual in any twelve-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the five anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than (i) the higher of the closing price of the Company's shares on the date of grant and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the shares on the offer date.

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE OPTIONS (continued)

The total number of shares may be issued upon exercise of all outstanding options granted and yet to be exercised under the Old Share Option Scheme and the New Share Option Scheme must not exceed 30% of the shares in issue from time to time.

No share options have been granted under the New Share Option Scheme since its adoption.

Details of the movements in share options granted under the Old Share Option Scheme during each of the two years ended 31 December 2002 are set out as follows:

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
			Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Outstanding at 31.12.2002
Category: Directors						
2 June 2000	2 June 2000 to 1 June 2003	0.06848	65,400,000	-	(21,800,000)	43,600,000
Category: Employees						
19 April 2000	19 April 2000 to 18 April 2003	0.24000	1,500,000	-	-	1,500,000
5 June 2001	5 June 2001 to 4 June 2004	0.19600	2,500,000	-	-	2,500,000
7 May 2002	7 May 2002 to 6 May 2005	0.14460	-	5,000,000	-	5,000,000
8 May 2002	8 May 2002 to 7 May 2005	0.14580	-	2,500,000	-	2,500,000
			4,000,000	7,500,000	-	11,500,000
Total all categories			69,400,000	7,500,000	(21,800,000)	55,100,000

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE OPTIONS (continued)

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
			Outstanding at 1.1.2001	Granted during the year	Exercised during the year	Outstanding at 31.12.2001
Category: Directors						
2 June 2000	2 June 2000 to 1 June 2003	0.06848	65,400,000	-	-	65,400,000
Category: Employees						
19 April 2000	19 April 2000 to 18 April 2003	0.24000	1,500,000	-	-	1,500,000
5 June 2001	5 June 2001 to 4 June 2004	0.19600	-	2,500,000	-	2,500,000
			1,500,000	2,500,000	-	4,000,000
Total all categories			66,900,000	2,500,000	-	69,400,000

No consideration was received during the year from employees for accepting the options granted (2001: Nil).

No charge is recognised in the income statement in respect of the value of options granted in the year (2001: Nil).

The closing price of the Company's share at the date of the exercise of the 21,800,000 share options was HK\$0.345 per share.

Notes to the Financial Statements

For the year ended 31 December 2002

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 2001	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 issue of shares	(2,919)	-	-	-	-	-	(2,919)
Goodwill adjustment	-	-	-	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
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	-	(27)	-	(27)
Issue of shares	79,675	-	-	-	-	-	79,675
Expenses incurred in connection with the issue of shares	(2,379)	-	-	-	-	-	(2,379)
Loss for the year	-	-	-	-	-	(23,318)	(23,318)
At 31 December 2002	240,779	88,643	-	(38,478)	637	(209,265)	82,316

Notes to the Financial Statements

For the year ended 31 December 2002

28. RESERVES (continued)

	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 2001	83,772	-	110,223	-	-	(149,808)	44,187
Issue of shares	82,630	-	-	-	-	-	82,630
Expenses incurred in connection with the issue of shares	(2,919)	-	-	-	-	-	(2,919)
Loss for the year	-	-	-	-	-	(57,055)	(57,055)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	163,483	-	110,223	-	-	(206,863)	66,843
Issue of shares	79,675	-	-	-	-	-	79,675
Expenses incurred in connection with the issue of shares	(2,379)	-	-	-	-	-	(2,379)
Loss for the year	-	-	-	-	-	(27,867)	(27,867)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	<u>240,779</u>	<u>-</u>	<u>110,223</u>	<u>-</u>	<u>-</u>	<u>(234,730)</u>	<u>116,272</u>

The deficit of the Group included deficit of HK\$8,137,000 (2001: HK\$6,693,000) 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.

Notes to the Financial Statements

For the year ended 31 December 2002

28. RESERVES (continued)

Notes: (continued)

- (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 2001 and 31 December 2002.

- (3) Goodwill reserve at the balance sheet date comprises HK\$38,571,000 (2001: HK\$38,571,000) and HK\$93,000 (2001: HK\$93,000) in respect of goodwill and negative goodwill respectively.

Notes to the Financial Statements

For the year ended 31 December 2002

29. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its entire equity interest in Bestful International Ltd. and its subsidiaries to an independent party for a consideration of HK\$1,400,000. Details of the net assets disposed of were as follows:

	2002 HK\$'000	2001 HK\$'000
Net assets (liabilities) disposed of:		
Property, plant and equipment	14,409	18
Inventories	-	163
Debtors and prepayments	-	18
Bank balances and cash	-	10
Creditors and accrued charges	(3,747)	(834)
Mortgage loan	(9,294)	-
	<hr/>	<hr/>
Net assets (liabilities) disposed of	1,368	(625)
Gain on disposal of subsidiaries	32	625
	<hr/>	<hr/>
Total consideration	1,400	-
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	100	-
Balance of consideration receivable included in debtors and prepayments (note 21)	1,300	-
	<hr/>	<hr/>
	1,400	-
	<hr/> <hr/>	<hr/> <hr/>
Net cash inflow (outflow) from disposal of subsidiaries:		
Cash consideration received	100	-
Bank balances and cash disposed of	-	(10)
	<hr/>	<hr/>
	100	(10)
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the Financial Statements

For the year ended 31 December 2002

30. PLEDGE OF ASSETS

At 31 December 2002, the Group's bank borrowings were secured by charges over properties of the Group with aggregate net book value of approximately HK\$4,320,000 (2001: HK\$19,087,000).

31. CONTINGENT LIABILITIES

The Company has given 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 2002 amounted to approximately HK\$12,562,000 (2001: HK\$17,012,000).

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 has 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.

32. 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	
	2002	2001
	HK\$'000	HK\$'000
Within one year	1,256	3,009
In the second to fifth year inclusive	630	722
	<hr/>	<hr/>
	1,886	3,731
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the Financial Statements

For the year ended 31 December 2002

33. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Property, plant and equipment	-	12,714
Acquisition of a subsidiary	1,886	-
Acquisition of the rights to drug under development	609	-
	<hr/>	<hr/>
	2,495	12,714
	<hr/> <hr/>	<hr/> <hr/>

34. RETIREMENT BENEFIT SCHEME

Hong Kong

The Group has joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for its employees in Hong Kong. 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 rules 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 to MPF Scheme is to make the required contributions under the MPF Scheme.

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

The Group's contribution under the MPF Scheme for the year amounted to HK\$150,000 (2001:HK\$128,000).

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\$446,000 (2001: HK\$211,000).

Notes to the Financial Statements

For the year ended 31 December 2002

35. RELATED PARTY TRANSACTIONS

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

	2002	2001
	HK\$'000	HK\$'000
Management fee income (note a)	240	240
Maintenance expenses paid (note a)	120	120
Purchase of computer hardware and software (note b)	-	522
	5,293	4,073
Amount due from an associate (note c)		

Notes:

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

36. SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2002 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
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

Notes to the Financial Statements

For the year ended 31 December 2002

36. SUBSIDIARIES (continued)

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
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. (Note b)	PRC	US\$3,100,000	68%	Manufacture and sale of PVC products
Sunny Link Trading Limited	Hong Kong	HK\$2	100%	General trading
威海基安生物工程有限有限公司 Weihai Genen Biotech Limited (Note c)	PRC	US\$2,000,000	100%	Research and development of biopharmaceutical products
威海賽洛金藥業有限公司 Weihai Sinogen Pharmaceutical Co., Ltd. (Note b)	PRC	RMB66,631,670	65.7%	Research, development, manufacturing and sales 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 subsidiaries are incorporated in the PRC as cooperative joint ventures.
- (c) The subsidiary is incorporated in the PRC as wholly-owned foreign enterprise.

Notes to the Financial Statements

For the year ended 31 December 2002

36. SUBSIDIARIES (continued)

Apart from 龍口旭達仿皮有限公司 Longkou Sunny Link Leathering Co., Ltd., 威海基安生物工程有限
公司 Weihai Genen Biotech Limited and 威海賽洛金藥業有限公司 Weihai Sinogen Pharmaceutical
Co., Ltd. which carry out their principal activities in the PRC, the principal activities of the remaining
subsidiaries are carried out in Hong Kong.

None of the subsidiaries had any debt securities subsisting at 31 December 2002 or at any time
during the year.

37. ASSOCIATE

Particulars of the Group's associate as at 31 December 2002 are as follows:

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

Financial Summary

RESULTS

	Year ended 31 December				2002 HK\$'000
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	
Turnover	<u>170,423</u>	<u>29,842</u>	<u>26,386</u>	<u>22,318</u>	<u>31,009</u>
Loss before taxation	(46,856)	(59,534)	(93,226)	(62,704)	(18,107)
Taxation	<u>(82)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss before minority interests	(46,938)	(59,534)	(93,226)	(62,704)	(18,107)
Minority interests	<u>2,922</u>	<u>5</u>	<u>605</u>	<u>5,446</u>	<u>(5,211)</u>
Loss for the year	<u>(44,016)</u>	<u>(59,529)</u>	<u>(92,621)</u>	<u>(57,258)</u>	<u>(23,318)</u>

ASSETS AND LIABILITIES

	At 31 December				2002 HK\$'000
	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	
Total assets	152,922	141,781	131,692	119,416	151,295
Total liabilities and minority interests	<u>(108,988)</u>	<u>(82,793)</u>	<u>(116,827)</u>	<u>(76,892)</u>	<u>(51,802)</u>
Shareholders' funds	<u>43,934</u>	<u>58,988</u>	<u>14,865</u>	<u>42,524</u>	<u>99,493</u>