



LifeTec Group Limited

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The background of the cover is a collage of four main images: a close-up of a hand at the top, a DNA double helix on the left, a man smiling and holding a baby in the center, and a row of laboratory test tubes with a pipette on the right. The text 'ANNUAL REPORT' is overlaid on the bottom half of the collage.

ANNUAL REPORT



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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. SHAN Shiyong, alias, SIN Sai Yung (*Chairman*)
Mr. Jay CHUN (*Managing Director*)
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
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong



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



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 2001.

BUSINESS REVIEW

The Group reported a turnover of HK\$22,318,000 for the year as compared to HK\$26,386,000 for the previous year. Of the turnover of HK\$22,318,000 for the year, HK\$11,327,000 was derived from the Group's subsidiary, Weihai Sinogen Pharmaceutical Co., Ltd ("Sinogen"). The remaining turnover was derived from the Group's trading subsidiaries. The Group's loss for the year significantly reduced from HK\$92,621,000 or 10.6 cents per share in the previous year to HK\$57,258,000 or 4.9 cents per share for the year. This represents an improvement of 38.2% in absolute terms and a 53.8% 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 showed significant improvement. Overall gross profit margin for the year rose from 9.3% to 31.2% whereas operating loss for the year lowered from HK\$68,249,000 to HK\$42,236,000, representing an improvement of 38.1% compared to that of the previous year. The improvement has been due to the encouraging pick up of business activities of Sinogen and a winding down of restructuring activities during the year. The Group's share of loss of associated companies also reduced significantly from HK\$12,421,000 in the previous year to HK\$439,000 for the year. This was mainly due to the reclassification of Sinogen's share of loss for the previous year of HK\$7,555,000 before it changed from being an associated company to a subsidiary of the Company and the narrowing of the share of loss of LT3000 Online Limited ("LT3000") from HK\$4,866,000 in the previous year to HK\$439,000 in the current year.

Biopharmaceuticals Division

The year 2001 was a year of restructure and improvement for the Division aiming to lay a solid foundation for future growth. Substantial efforts were devoted in the first half in restructuring the personnel of the marketing

team and focused efforts being devoted in the second half in relocating the sales headquarters from Weihai to Shanghai and the building of a national sales network. The restructuring has brewed positive results when Sinogen first witnessed the completion of a fully operational proprietary national sales network in November 2001. At the current date, Sinogen has a total of 8 regional sales offices and a marketing and sales team of 30 directly employed staff and 50 commissioned based staff stationed at strategic regions of the country. This proprietary sales network lays the infrastructure for the efficient distribution of Wei Jia in the vast and geographically diverse PRC market. The same infrastructure is planned to also support the distribution of new products in the future, thereby economizing the cost of future distribution and reduces the company's reliance on intermediates that feed on the profit margin of its products.

The active sales of Wei Jia started around March 2001. The sales volume has been encouraging and has stayed north throughout the past months. Total sales of around 1,000,000 vials was achieved for the year despite a late start. Market demand up to this date has exceeded the production capacity of Sinogen. The situation is expected to be overcome by the third quarter of this year when the new production line is expected to be completed. The new line has a planned maximum production volume of 20,000,000 vials per annum and will be sufficient to meet the demand in the coming two years. Construction of the new production line is actively under way.

Since Wei Jia is a prescription drug for hospital use, the most effective means of promotion is through experts recommendation and professional seminars. Sinogen devoted the first part of the second half in recruiting liver experts to join its panel and commenced high visibility promotion activities through professional seminars, sponsorship of events and participation in major trade related exhibitions and social activities in the fourth quarter of 2001. The company has since sponsored, co-sponsored and participated in more than 10 seminars and exhibitions in the PRC. A total of not less than 12 sponsored seminars have been planned for 2002. All the seminars sponsored by Sinogen are conducted by the company's appointed panel of leading liver experts in the PRC.

The completion of an efficient national sales network and active marketing activities are expected to propel the sales momentum of Wei Jia in 2002. With production constraint being resolved following the completion of the new production line, sales volume is expected to surge significantly in the second half. Management is confident that the sales in 2002 will be a multiple of that in 2001.

Building on the existing findings of Wei Jia, the company is actively engaged in the development of the second generation Wei Jia which will be a recombinant DNA drug with enhanced features. Research work is being conducted by in-house scientists in collaboration with scientists in the PRC and the United States. The research work is expected to generate new patents for registration in the second half.

Active steps have been undertaken to gradually build a project pipeline for the Company. Apart from liver drugs, anti-cancer and paediatric drugs have been identified as being the key areas where new drug projects will be sourced in the future. Current focus will be placed on projects that have gone through or otherwise reached an advanced stage in the clinical trial process.

The Company is also actively seeking to establish strategic alliance with leading research institutions in the PRC and industry participants overseas. Exploratory talks are being undertaken and it is hopeful that some arrangements may be reached in the latter half of 2002.

Trading and PVC Division

Due to tough trading conditions, the Company's trading subsidiaries only achieved a turnover of HK\$10,991,000 in the second half having not been successful in scoring a deal in the first half. In view of the not very encouraging results of the Division so far and the Group's focus being shifted to biopharmaceuticals, management has taken a conservative evaluation of the future prospects of the Division and decided to make full provision for the net assets of the Division which amounted to HK\$10,059,000 as at 31 December 2001. Management of the Company is of the view that the gradual wind down of the operations of the Division should benefit a more focused development in the core business of biopharmaceuticals.

Medical Technology Division

Despite an encouraging start in the first half, LT3000 failed to sustain its momentum in the second half. This was due the prevalence of a cautious attitude in the market for internet related software that had resulted in an unexpectedly low acceptance of the company's products. Increased marketing efforts are being undertaken to stimulate an increased demand for the company's products in 2002. However, the results to date have fallen behind target. In view of the current results and the unexpected future potential of LT3000, management of the Company has adopted the auditors' recommendation for accelerating the amortization of the goodwill arising from the acquisition of LT3000. Accordingly, accelerated amortisation of the remaining goodwill amounting to HK\$11,619,000 has been recorded in the profit and loss account for the year.

Corporate Acquisitions and Financial Resources

The Company conducted one share placement in April this year for 142,000,000 shares and another placement in December 2001 for 200,000,000 shares. The two placements have raised approximately HK\$37,600,000 and HK\$45,600,000 respectively for financing the construction of the new production line and marketing activities of Sinogen, with a small proportion being applied as working capital for the Group.

As at the balance sheet date, the group's aggregate bank borrowings and finance leases stood at HK\$28,108,000 of which HK\$14,570,000 was payable within 12 months, HK\$11,132,000 was payable between 2 and 5 years, HK\$2,406,000 being payable after 5 years. Current liabilities of the Group has reduced significantly from HK\$71,372,000 in the previous year to HK\$51,410,000, representing a drop of 28.0%. On the other hand, current assets have a staggering 6.0 fold rise from HK\$8,203,000 in the previous year to HK\$48,926,000 as at the balance sheet date. As a result, the net current liabilities of the Group sharply improved from HK\$63,169,000 to HK\$2,484,000. The Group's total liabilities at the balance sheet date amounted to HK\$64,948,000 and represents 54.4% of total assets as at that date. This compares favorably with the 76.5% at the balance sheet date of the previous year.

At the date of this report, the Company has unutilized credit facilities amounting to HK\$82,000,000 approximately. The Directors believe that the Group has sufficient financial resources to support its current operations and to pursue its corporate plans.

Management and Staff

At the date of this announcement, the Group and its subsidiary employs a total of about 145 full-time employees including full-time directors and executives. This represents a healthy and logical growth from the previous year's level of 85 full time staff. The employment of staff and executives conform to normal commercial practice. Share option benefits are granted to and included as an employment term of selected senior executives of the Company.

Future Prospects

The Group will continue to focus its development in the biopharmaceutical field and will use China as the technology development platform for leveraging expansion into other regions of Asia. The Group is currently studying new drug projects with near and medium term strategic value to add to its product pipeline. The Group targets to have at least two additions in the year 2002.

With an efficient national sales network firmly in place, the Group is well positioned to integrate with its production facilities and its new product pipeline. It is expected that the completion of the new production line by Sinogen will propel a surge in turnover for the subsidiary in the second half of 2002 and will resolve the problem of shortage in supply for at least two years. The active efforts being undertaken by the Group in the sourcing of new products will certainly add scale economy and efficiency to the distribution system in the future. The proprietary distribution structure promises the future control and competitiveness of Sinogen in the PRC market amidst the Government effort to rationalize the distribution chain.

Active exploratory work is being undertaken with a view to export Wei Jia to countries in South-East Asia. The opening of overseas markets has important strategic implications for Wei Jia and other products developed by the Group in the future.

Appreciation

On behalf of the Board of Directors of the Company, I would like to thank our shareholders, bankers, professional parties with whom the Group work with and customers for their support and our executives and staff members for their creativity and dedication. With their support, I am confident that the Group will stride towards success and will bring returns to all parties concerned.

SHAN SHIYONG

Chairman

Hong Kong, 24 April 2002

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 24th May, 2002 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 2001.
2. To re-elect the retiring Directors.
3. To authorise the Board of Directors to fix their remuneration.
4. To re-appoint Auditors and to authorise 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.”

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 authorise 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 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, 2002

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, 2002 to 24th May, 2002 (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 5th Floor, Wing On Centre, 111 Connaught Road Central, 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 Annual Report 2001 shortly.

EXECUTIVE DIRECTORS

Mr. Shan Shiyong, aged 38, the Chairman of the Company, is an outstanding entrepreneur with extraordinary 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 16 years of dedicated business, investment and management experience at the owner level. Mr. Shan was appointed as Chairman of the Company in May 1999.

Mr. Jay Chun, aged 37, the Managing Director of the Company, is a talented entrepreneur and manager. He has a solid background in information technology and marketing and over 13 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.

Mr. Wang Xi Gang, aged 32, 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 9 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 39, is a seasoned banker and businessman with over 16 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 35, holds a doctoral degree in accounting as well as a bachelor and a master degree in economics from the Central South University. He is a seasoned 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.

SENIOR MANAGEMENT

Mr. Yeung Kam Lung Patrick, aged 48, 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 from RMIT University 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 57, was appointed as the Chief Scientific Officer of the Group in March 2001. He has over 21 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. Zhu Wen Zhou, aged 39, was appointed as the Head of Research and Production in June 2001. He has over 18 years of experience in medical research, production management and quality control. Before joining the Group, he held Production Research Director and Chief Engineer positions with two prominent biopharmaceutical companies in China. Dr. Zhu holds a bachelor degree in organic chemistry from Tsingtao Chemical Engineering Institute and a doctoral degree in biochemistry from Hua Dong Technology University. He was a DuPont scholarship grantee and holder of the 1997 Shanghai Scientific Invention Award.

Mr. William Wang, aged 33, 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 13 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.

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 2001.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 21.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company recognised impairment losses on leasehold land and building amounting to approximately HK\$7,513,000 and on plant and machinery amounting to approximately HK\$2,546,000.

Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

During the year, the Group disposed of an investment property located in Hong Kong for a consideration of HK\$10,600,000 which was equal to the carrying value of this property at the date of disposal. The remaining investment property of the Group was revalued on an open market value basis as at 31 December 2001. There was no surplus or deficit arising on the revaluation as at 31 December 2001.

Details of the movements in investment properties during the year are set out in note 15 to the financial statements.

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

The Company's share option scheme was adopted at a special general meeting of the Company held on 3 January 1997 (the "Share Option Scheme") for the primary purpose of providing incentives to the employees of the Group. Under the Share Option Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher. The Share Option Scheme will expire on 2 January 2007.

SHARE OPTIONS (cont'd)

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Share Option Scheme. Each eligible employee has a choice to accept the share options granted within 21 days from date of grant and no consideration is payable upon acceptance of the share options.

Details of specific categories of options granted under the 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

A summary of the movements in share options during the year is as follows:

	Date of grant	Number of share options		
		Outstanding at beginning of the year	Granted during the year	Outstanding at end of 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	–	65,400,000
Category: Employees				
	19 April 2000	1,500,000	–	1,500,000
	5 June 2001	–	2,500,000	2,500,000
Total Employees		1,500,000	2,500,000	4,000,000
Total all categories		66,900,000	2,500,000	69,400,000

There were no options exercised, cancelled or lapsed during the year.

SHARE OPTIONS (cont'd)

The fair value of the options granted on 5 June 2001 measured on the same date amounted to approximately HK\$399,500. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

- 1) an expected volatility of 37.85%, based on historical volatility;
- 2) no annual dividends, based on historical dividends; and
- 3) the estimated expected life of the options granted during the year is three years. The corresponding three-year Hong Kong Exchange Fund Notes rate at the date of the options were granted was 4.97% and based on the estimated expected life indicated.

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 5 June 2001, the date of grant, was HK\$0.31 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 Share Option Scheme is 72,194,594, representing 5.10% of the shares of the Company in issue at that date.

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. Shan Shiyong, Chairman

(alias, Mr. Sin Sai Yung)

Mr. Jay Chun, Managing Director

(alternate director to Mr. Shan Shiyong and
Mr. Wang Xi Gang)

Mr. Wang Xi Gang

Mr. Cai Ming Xi

(resigned on 26 September 2001)

Independent non-executive directors:

Mr. Frank Hu

Dr. Ma Yin Ming

(appointed on 7 September 2001)

Mr. Chow Man Chung

(resigned on 7 September 2001)

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

The director 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.

DIRECTOR'S INTERESTS IN SHARES

At 31 December 2001, the interests of a director 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. Shan Shiyong	Nil	226,804,000 (note)

DIRECTOR'S INTERESTS IN SHARES (cont'd)

Note:

The balance represents 2,844,000 shares and 223,960,000 shares owned by Great Smart Limited and Best Top Offshore Limited respectively. The issued share capital of Great Smart Limited is owned as to 50% by Mr. Shan Shiyong whereas Best Top Offshore Limited 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 2001, 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 Scheme 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 "Director's Interests in Shares" above and Metro Worldwide Inc. which held 149,835,946 shares representing 10.58% of the issued share capital of the Company, 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 2001.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 69% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 49% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 97% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 95% 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 Scheme disclosed under the heading "Share Options" above, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2001 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 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

SHAN SHIYONG

Chairman

Hong Kong, 24 April 2002

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 21 to 63 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.

BASIS OF OPINION (cont'd)

Included in creditors and accrued charges of the Group as at 31 December 2000 and 31 December 2001 is an amount of approximately HK\$11,700,000 relating to several independent parties. However, we were unable either to obtain 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 2000 and 31 December 2001. Any adjustments found to be necessary to the figures above would affect the net assets of the Group as at 31 December 2001 and the loss of the Group for the year then ended.

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

Except for any adjustments that might have been found necessary had we been able to obtain sufficient evidence concerning creditors and accrued charges, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the loss and cash flow of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the creditors and accrued charges:

- 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 2002

Consolidated Income Statement

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For the year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
Turnover	5	22,318	26,386
Cost of sales		(15,348)	(23,927)
Gross profit		6,970	2,459
Other revenue	6	1,761	3,250
Distribution costs		(6,511)	(1,970)
Administrative expenses		(32,853)	(30,133)
Allowance for doubtful debts	7	(1,544)	(26,555)
Deficit on revaluation of investment properties		–	(15,300)
Impairment losses recognised in respect of property, plant and equipment	8	(10,059)	–
Loss from operations	9	(42,236)	(68,249)
Finance costs	11	(3,416)	(6,076)
Gain on disposal of a subsidiary		625	–
Amortisation of premium on acquisition of associates		(7,000)	(6,480)
Gain on dilution of interest in an associate		1,381	–
Impairment loss recognised in respect of premium on acquisition of an associate	8	(11,619)	–
Share of losses of associates		(439)	(12,421)
Loss before taxation		(62,704)	(93,226)
Taxation	12	–	–
Loss before minority interests		(62,704)	(93,226)
Minority interests		5,446	605
Loss for the year		(57,258)	(92,621)
Loss per share (cents) – basic	13	(4.9)	(10.6)

Consolidated Balance Sheet

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At 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
Non-current assets			
Property, plant and equipment	14	56,811	75,312
Investment properties	15	3,200	13,800
Patent	16	3,529	11,088
Interest in an associate	17	6,950	23,289
		70,490	123,489
Current assets			
Inventories	19	605	1,843
Debtors and prepayments	20	11,020	5,702
Investments in securities	21	6,100	–
Bank balances and cash		31,201	658
		48,926	8,203
Current liabilities			
Creditors and accrued charges	22	34,182	45,291
Amounts due to directors		2,658	4,707
Other loan	23	–	3,900
Bank borrowings – due within one year	24	14,275	17,219
Obligations under finance leases – due within one year	25	295	255
		51,410	71,372
Net current liabilities		(2,484)	(63,169)
Total assets less current liabilities		68,006	60,320
Non-current liabilities			
Bank borrowings – due after one year	24	13,154	28,743
Obligations under finance leases – due after one year	25	384	679
		13,538	29,422
Minority interests		11,944	16,033
Net assets		42,524	14,865

At 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
Capital and reserves			
Share capital	26	14,159	10,739
Reserves	28	28,365	4,126
		42,524	14,865

The financial statements on pages 21 to 63 were approved and authorised for issue by the Board of Directors on 24 April 2002 and are signed on its behalf by:

SHAN SHIYONG
Chairman

JAY CHUN
Managing Director

At 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
Non-current asset			
Interests in subsidiaries	18	73,993	60,592
Current assets			
Debtors and prepayments		274	274
Investments in securities	21	6,100	–
Bank balances and cash		4,081	11
		10,455	285
Current liabilities			
Creditors and accrued charges		3,446	5,951
Net current assets (liabilities)			
		7,009	(5,666)
Net assets			
		81,002	54,926
Capital and reserves			
Share capital	26	14,159	10,739
Reserves	28	66,843	44,187
		81,002	54,926

SHAN SHIYONG
Chairman

JAY CHUN
Managing Director

For the year ended 31 December 2001

	2001	2000
	HK\$'000	HK\$'000
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	266	467
Share of exchange reserve of an associate	(63)	(6)
Net gains not recognised in the consolidated income statement	203	461
Loss for the year	(57,258)	(92,621)
Total recognised losses	(57,055)	(92,160)
Goodwill adjustment (note 16)	1,583	–
Goodwill arising on acquisition of subsidiaries eliminated against reserve	–	(40,154)
	(55,472)	(132,314)

Consolidated Cash Flow Statement

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For the year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
Net cash outflow from operating activities	29	(26,565)	(6,664)
Returns on investments and servicing of finance			
Interest on bank borrowings paid		(3,684)	(5,882)
Other loan interest paid		(388)	–
Finance charges on finance leases paid		(116)	(142)
Interest received		73	254
Net cash outflow from returns on investments and servicing of finance		(4,115)	(5,770)
Investing activities			
Proceeds from disposal of an investment property		10,458	–
Proceeds from disposal of property, plant and equipment		14	8,334
Purchase of investments in securities		(7,000)	–
Purchase of property, plant and equipment		(1,349)	(6,626)
Payment on behalf of an associate		(1,338)	(6,484)
Net cash outflow from disposal of a subsidiary	30	(10)	–
Acquisition of an associate		–	(395)
Net cash inflow from acquisition of subsidiaries (net of cash and cash equivalents acquired)	31	–	28
Net cash inflow (outflow) from investing activities		775	(5,143)
Net cash outflow before financing		(29,905)	(17,577)
Financing	32		
Proceeds from issue of shares, net of expenses		83,131	17,191
New bank and other borrowings raised		15,172	45,620
Repayment of bank and other borrowings		(38,086)	(44,438)
Repayment of obligations under finance leases		(255)	(229)
Net cash inflow from financing		59,962	18,144
Increase in cash and cash equivalents		30,057	567
Cash and cash equivalents at beginning of the year		658	91
Effect of foreign exchange rate changes		5	–
Cash and cash equivalents at end of the year		30,720	658
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		31,201	658
Bank overdraft		(481)	–
		30,720	658

For the year ended 31 December 2001

1. GENERAL

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

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

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

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

Segment reporting

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

Leases

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

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Goodwill

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

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

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

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

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

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Negative goodwill

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

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

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

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

Turnover

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

Revenue recognition

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

Service income is recognised when services are rendered.

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

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

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

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

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

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

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

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

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

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

Investment properties

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

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

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment properties (cont'd)

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

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

Patents

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

Investments in subsidiaries

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

Interests in associates

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

Inventories

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

Investments in securities

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

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

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

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

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment

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

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

Leases

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

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

Research and development expenditure

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

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

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

For the year ended 31 December 2001

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation

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

Foreign currencies

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

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

5. SEGMENT INFORMATION

Business segments

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

Principal activities are as follows:

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

Trading Division – trading of general goods

Segment information about these businesses is presented below:

For the year ended 31 December 2001

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

For the year ended 31 December 2001

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

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

For the year ended 31 December 2001

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

At 31 December 2001

Balance sheet

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

For the year ended 31 December 2001

Other information

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

For the year ended 31 December 2001

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

For the year ended 31 December 2000

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

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

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

For the year ended 31 December 2001

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

At 31 December 2000

Balance sheet

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

Other information

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

For the year ended 31 December 2001

5. SEGMENT INFORMATION (cont'd)

Geographical segments

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

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

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

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

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

For the year ended 31 December 2001

6. OTHER REVENUE

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

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

7. ALLOWANCE FOR DOUBTFUL DEBTS

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

8. IMPAIRMENT LOSSES

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

For the year ended 31 December 2001

9. LOSS FROM OPERATIONS

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

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

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

The directors' remuneration are analysed as follows:

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

For the year ended 31 December 2001

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

Directors' remuneration (cont'd)

The remuneration of the directors were within the following bands:

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

Highest paid employees

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

11. FINANCE COSTS

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

12. TAXATION

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

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

For the year ended 31 December 2001

13. LOSS PER SHARE

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

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

14. PROPERTY, PLANT AND EQUIPMENT

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

For the year ended 31 December 2001

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

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

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

15. INVESTMENT PROPERTIES

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

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

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

For the year ended 31 December 2001

16. PATENT

	THE GROUP HK\$'000
<hr/>	
COST	
At 1 January 2001	11,550
Exchange realignment	160
Adjustment on purchase consideration (<i>note</i>)	(7,005)
<hr/>	
At 31 December 2001	4,705
<hr/>	
AMORTISATION	
At 1 January 2001	462
Exchange realignment	6
Provided for the year	708
<hr/>	
At 31 December 2001	1,176
<hr/>	
NET BOOK VALUE	
At 31 December 2001	3,529
<hr/>	
At 31 December 2000	11,088
<hr/>	

Note: The amount represents the adjustment to reduce the cost of patent acquired in 1998 by a subsidiary, which was acquired by the Group during the year ended 31 December 2000 (note 31). As a result of the adjustment, the carrying value of the patent has been reduced by HK\$7,005,000 and the amount payable for the acquisition of patent has been reduced by HK\$9,777,000, resulting in an increase in the net assets of the subsidiary at the date of acquisition by the Group amounting to HK\$2,772,000, representing the accumulated amortisation of the original cost of patent at the date when the subsidiary was acquired by the Group. Of this increase in net assets, HK\$1,583,000 is attributable to the Group (note 28) and HK\$1,189,000 is attributable to the minority shareholders of this subsidiary.

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

For the year ended 31 December 2001

17. INTEREST IN AN ASSOCIATE

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

Note:

Details of the movements in premium on acquisition of associates

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

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

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

Pursuant to a resolution passed in an extraordinary general meeting held on 30 July 2001 by the shareholders of LT3000, 943,138 new shares in LT3000 were issued to an existing shareholder of LT3000, diluting the Group's interest from 49% to 47.47% as a result of the issue of the new shares.

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

For the year ended 31 December 2001

18. INTERESTS IN SUBSIDIARIES

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

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

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

19. INVENTORIES

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

For the year ended 31 December 2001

20. DEBTORS AND PREPAYMENTS

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

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

21. INVESTMENTS IN SECURITIES

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

22. CREDITORS AND ACCRUED CHARGES

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

For the year ended 31 December 2001

23. OTHER LOAN**THE GROUP**

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

24. BANK BORROWINGS

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

For the year ended 31 December 2001

25. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

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26. SHARE CAPITAL

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

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

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

For the year ended 31 December 2001

27. SHARE OPTIONS

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

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

28. RESERVES

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

For the year ended 31 December 2001

28. RESERVES (cont'd)

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

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

Notes:

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

For the year ended 31 December 2001

28. RESERVES (cont'd)

Notes: (cont'd)

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

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

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

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

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

For the year ended 31 December 2001

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

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

For the year ended 31 December 2001

30. DISPOSAL OF A SUBSIDIARY

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

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

For the year ended 31 December 2001

31. ACQUISITION OF SUBSIDIARIES

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

For the year ended 31 December 2001

32. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

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

* Major non-cash transactions

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33. PLEDGE OF ASSETS

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

34. CONTINGENT LIABILITIES

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

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

35. OPERATING LEASE COMMITMENTS

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

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

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

For the year ended 31 December 2001

36. CAPITAL COMMITMENTS

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

37. RETIREMENT BENEFIT SCHEME**Hong Kong**

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

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

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

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

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

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37. RETIREMENT BENEFIT SCHEME

PRC

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

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

38. RELATED PARTY TRANSACTIONS

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

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

Notes:

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

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39. SUBSIDIARIES

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

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

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39. SUBSIDIARIES (cont'd)

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

Notes:

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

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

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

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40. ASSOCIATE

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

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

RESULTS

	Year ended 31 December				2001 HK\$'000
	1997 HK\$'000	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	
Turnover	162,869	170,423	29,842	26,386	22,318
Loss before taxation	(23,529)	(46,856)	(59,534)	(93,226)	(62,704)
Taxation	(42)	(82)	–	–	–
Loss before minority interests	(23,571)	(46,938)	(59,534)	(93,226)	(62,704)
Minority interests	3,773	2,922	5	605	5,446
Loss for the year	(19,798)	(44,016)	(59,529)	(92,621)	(57,258)

ASSETS AND LIABILITIES

	At 31 December				2001 HK\$'000
	1997 HK\$'000	1998 HK\$'000	1999 HK\$'000	2000 HK\$'000	
Total assets	190,536	152,922	141,781	131,692	119,416
Total liabilities and minority interests	(117,770)	(108,988)	(82,793)	(116,827)	(76,892)
Shareholders' funds	72,766	43,934	58,988	14,865	42,524