



Medical China Limited

(Incorporated in Bermuda with limited liability)

Annual Report 2004

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This report, for which the directors of Medical China Limited collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to Medical China Limited. The directors of Medical China Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived or after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



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Corporate Information

BOARD OF DIRECTORS

Executive directors

LI Nga Kuk, James (*Chairman*)
LI Wo Hing (*General Manager*)
LI Tai To, Titus

Non-executive director

CHEN Minshan

Independent non-executive directors

GUO Guoqing
FAN Wan Tat
TAM Wai Leung, Joseph

COMPLIANCE OFFICER

LI Wo Hing, MBA

COMPANY SECRETARY

WONG Hon Sum, Hudson, CPA

BERMUDA ASSISTANT SECRETARY

A.S.&K. Services Limited

QUALIFIED ACCOUNTANT

LAI Tin Yin, Fion, MBA, CPA

AUDIT COMMITTEE

GUO Guoqing
FAN Wan Tat
TAM Wai Leung, Joseph

AUDITORS

KPMG
Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Ltd.
Rooms 1901-5, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

GEM STOCK CODE

8186

WEBSITE ADDRESS

www.medic-china.com



Chairman's Statement

I hereby present to the shareholders the annual report of the Group for the year ended 31 December 2004.

RESULT ANALYSIS

For the year ended 31 December 2004, the Group recorded a turnover of HK\$31,576,000, representing a decrease of 7% over the year of 2003. Profits attributable to shareholders were approximately HK\$3,560,000, compared with a loss of approximately HK\$21,316,000 recorded by the Group for the corresponding period in 2003.

BUSINESS REVIEW

The Group has established its position since it launched RFAS in 2000. The RFAS system takes advantage of high-technology to treat human tumours and is especially useful in the therapeutic operation for lung cancer. Due to its characteristics of being safe with minimum wound, no need for surgery and easy to recover for the patient, RFAS has been widely applied around the world. To some extent, it has replaced surgery in the removal of tumours. As Professor Pan from Surgical Department of Mary Hospital in Hong Kong University has claimed in his article, he has used RFAS in more than 300 cases of lung cancer and achieved the same effect as by medical surgery. Since hospitals and clinical centers in the People's Republic of China (the "PRC") have accepted this viewpoint, cases of medical treatment that apply the technology increase every year.

Due to its remarkable curative effect, the technology was widely adopted by clinical experts. As such, similar products began to appear in the market. Those producers at home and abroad used various names and marketing methods to sell their products, leading to intensified market competition and bringing about adverse effect to the Group. As a result, the Group's revenue has decreased in recent years. In view of this, the Group has increased the development of Chinese and western drugs development and the production and sales of biochemical testing instruments through its subsidiaries, China Best Drugs Research (Nanjing) Limited ("China Best") and Sinnowa Medical Science & Technology Co., Limited ("Sinnowa") to widen its source of revenue. This helps diversify the Group's revenue base in the long term.

BUSINESS OUTLOOK

Expanding hospital network, increasing market share of medical equipment and testing instruments and continued development of anti-cancer and other drugs are still the main strategies of the Group.

Medical equipment, testing instrument and drug development businesses are fast growing. There are keen and tough competitors to attempt to share the market. Innovation and research efforts are the means to keep the Group competitive. Therefore, we are always to keep abreast of up-to-date information on advanced technology for medical equipment, testing instruments and anti-cancer drugs in order to improve our products and services.



Chairman's Statement

On top of these, the Board of Directors (the "Board") will keep on diversifying the Group's business to broaden our client base and revenue sources. Apart from commitment to expanded hospital network, we will take a proactive approach in developing the Group's medical equipment, testing instrument and drug development businesses, which will in turn bring about more revenue sources for the Group's future business.

ACKNOWLEDGEMENT

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

Li Nga Kuk, James
Chairman

23 March 2005



Management Discussion and Analysis

FINANCIAL REVIEW

The Group's annual turnover for the year ended 31 December 2004 was HK\$31,576,000, representing decrease of 7% over the corresponding year in 2003. For the year ended 31 December 2004, the Group's net profit attributable to shareholders amounted to HK\$3,560,000 while loss attributable to shareholders of about HK\$21,316,000 was recorded for the year ended 31 December 2003.

The basic earnings per share was HK0.43 Hong Kong cents, while basic loss per share in the corresponding year in 2003 was HK2.55 cents.

CAPITAL STRUCTURE

As at 31 December 2004, the total number of issued ordinary shares and the issued share capital of the Company were 835,000,000 (2003: 835,000,000) and HK\$8,350,000 (2003: HK\$8,350,000) respectively.

FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY

As at 31 December 2004, the Group had total assets of HK\$189,747,000 (2003: HK\$179,614,000) which were financed by current liabilities of HK\$69,255,000 (2003: HK\$62,709,000) and shareholders' equity of HK\$116,708,000 (2003: HK\$112,843,000).

The current assets of the Group amounted to approximately HK\$114,017,000 (2003: HK\$101,516,000) of which approximately HK\$100,282,000 (2003: HK\$87,899,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK\$69,255,000 (2003: HK\$62,709,000) of which approximately HK\$65,561,000 (2003: HK\$48,771,000) were trade and other payables and HK\$1,880,000 (2003: Nil) was short term loan. The Group obtained the said short term loan from a PRC Authorised Credit Union with pledge and security in June 2004.

The Group generally finances its operations with internally generated resources. The Group's policy is to place surplus fund with banks on deposits with maturity within one year. A leasehold land at value of HK\$1,089,000 (2003: Nil) is charged and secure the Group's short term loan. As at 31 December 2004, the gearing ratio of the Group, calculated on the basis of total short term loan over total assets, was 0.99% (2003: Nil).

The net asset per share as at 31 December 2004 was HK\$0.14 (2003: HK\$0.14).



Management Discussion and Analysis

CAPITAL COMMITMENT, SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

On 17 September 2004, a wholly-owned subsidiary named as China Best Pharmaceutical (Nanjiang) Co., Ltd. (“南京神州佳美製藥有限公司”) with registered capital of US\$4,000,000 was incorporated and it was principally planned to manufacture the Chinese and western drugs and medicines developed from the Group or other parties.

On 20 December 2004, Tat Lung Medical Treatment Technology Ltd (“Tat Lung HK”), which is the wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Ms Wang You Ling pursuant to which Tat Lung HK agreed to sell the Equity Interest in Tat Lung Medical Treatment Technology (Shenzhen) Limited (“Tat Lung Shenzhen”), a wholly-owned subsidiary of Tat Lung HK to Ms Wang.

Pursuant to the Equity Transfer Agreement, the consideration of the disposal was in the sum of HK\$5,000,000. The transfer of the Equity Interest was completed on 30 December 2004, Tat Lung Shenzhen is now wholly-owned by Ms Wang and has ceased to be a wholly-owned subsidiary of Tat Lung HK and an indirect wholly-owned subsidiary of the Company. Details of the Agreement were set out in the circular of “Discloseable Transaction”, dated 14 January 2005.

On 25 December 2004, Tat Lung HK entered into a Agreement with 宜春黃埔戒煙製品廠 for the disposal of 49% interest of total registered and issued share capital of Jiang Xi J&P Biological Products Limited at a consideration of HK\$145,000.

Apart from the aforesaid investments in subsidiary and disposals of subsidiary and associate company, the Company had no other significant investment and there was no other material acquisition and disposals of subsidiaries and affiliated companies in the course of the year.

As at 31 December 2004, the Group had outstanding capital commitment of approximately HK\$28,860,000 (2003: HK\$11,700,000).

FOREIGN EXCHANGE EXPOSURE AND HEDGING INSTRUMENTS

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

As at 31 December 2004, the Group did not have outstanding hedging instruments (2003: Nil).



Management Discussion and Analysis

EMPLOYEES' INFORMATION AND BENEFIT SCHEME FOR THE EMPLOYEES

As at 31 December 2004, the Group has 146 (2003: 134) employees. The total of employee remuneration, including that of the Directors, for the year ended 31 December 2004 and the year ended 31 December 2003 amounted to HK\$4,007,000 and HK\$3,976,000 respectively.

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

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

CONTINGENT LIABILITIES

As at 31 December 2003 and 2004, the Group and the Company did not have any outstanding contingent liabilities.

BUSINESS REVIEW

During the year under review, the Group's operating profits were derived from the provision of RFAS tumour equipment and the relevant auxiliary services to various hospitals in the PRC; manufacture and sales of medical testing equipment and provision of research and development of Chinese and western drugs and medicines services.

Although the turnover from manufacture and sales of biochemical testing instruments increased during the year, due to fierce market competition, income derived from provision of RFAS tumour equipment and the relevant auxiliary services to various hospitals decreased, leading to a decrease in the Group's overall turnover by 7% as compared with the same period of last year.

Below is a summary of the Group's developments during the year:

Development of the market and application of RFAS in the PRC

As at 31 December 2004, RFAS tumour therapeutic centers established by the Group with hospitals in the PRC remained at 56 (2003: 65).



Management Discussion and Analysis

Manufacture and sales of medical testing equipment

The batch production of D-series (automatic biochemical equipment) designed by Sinnowa is going to complete, and the goal of 95% parts purchased locally has achieved. Three models of BS-series (semi-automatic biochemical equipment) have also obtained registration certificates and started batch production. Meanwhile, there are over 20 types of biochemical reagents under development, among which 8 have passed registration tests by National Medical Equipment Testing Institute.

For the 8 patents Sinnowa has applied, 2 have obtained patents in China. In order to strengthen sales business, Sinnowa has set up 6 sales offices respectively in Chongqing, Changchun, Guangzhou, Beijing, Wuhan and Shi Jiazhuang.

Research, development and sales of drugs

China Best has proceeded with the research and development of Chinese and western drugs and medicines as planned. Apart from four drugs (3 Chinese drugs and 1 western drug) which have obtained approval documents for clinical trial, there are four Chinese drugs undergoing toxin tests, one Chinese drug pending approval for clinical trial, and one western drug ready for production approval.

Research and development of 3-dimensional laparoscopes

The software part of 3-dimensional laparoscope developed by Tat Lung Medical Treatment (Shenzhen) Limited ("Tat Lung Treatment") has been completed. Registration procedures will accelerate upon the completion of hardware improvement.

OUTLOOK

RFAS treatment

Since the effect of the existing multi-bullet radio-frequency treatment on liver cancer with tumour of over 5 centimeters in diameter is not prominent enough, the Group has obtained from the relevant producers in the United States the agency of "Multi-bullet, Multi-hole Drug Injection System", which features simple structure, user-friendly, prominent effect and needless to arm with other special equipment. Currently the Group is working with the producer in proceeding with clinical application and promotion. DR.SUBIATI, world-known Italian authority, is extremely satisfied with the effect after adopting this technology in treatment case of liver cancer with tumour in diameter of 5-8 centimeters. The message has great significance to the Chinese medical industry, as there are over 70% liver cancer sufferers who, when identified during medical examination, are too late to receive treatment by ablation operation or where tumours are in a location not suitable for operation, regardless of whether they are over or less than 5 centimeters in diameter. The treatment with the new drug injection system, on the other hand, is



Management Discussion and Analysis

able to achieve success. As there is no need for additional machines or equipment, this technology can be applied in hospitals with only basic equipment. This technology will become popular. Not only can it help a great population of cancer patients cure their diseases, it will also facilitate greater business development of the Group.

Due to increasing competition among “RFAS Treatment Systems”, the Group has proceeded with the self development, research and production of its own radio frequency treatment systems and radio frequency needles. The new radio frequency needles, with multi-functions feature, will be applied in the treatment of comparatively large sized liver cancer. The program has currently been initiated, and is expected to be completed in 2005 and go through registration procedures of state governing authority in 2006.

Production and sales of medical testing instruments

To increase domestic and overseas sales volume, Sinnowa planned to implement the following during the year of 2005:

- enlarge the production capacities of biochemical analyzers D series (including D280, D180 and D360) to an annual production capacity of 160 machines.
- complete the clinical trial and production licence of automatic immune analyzers.
- participate in more than 20 national and international medical instrument exhibitions, and strengthen its efforts in sales promotion.
- increase effort to secure OEM manufacturing contracts with 1 to 2 foreign companies.
- complete 3 patents applications and registration procedure of the two trademarks of “SINNOWA” and “SINNOV”.
- further enhance production efficiency and guarantee the quality of existing products.

Research and development of new drugs

China Best will actively achieve the research and development of various new drugs and their application procedures for approval. Meanwhile, riding on the existing development technology, it will strive to provide customers with research and development service to increase the Group’s revenues.



Directors and Senior Executives

DIRECTORS

Executive Directors

Dr. Li Nga Kuk, James, aged 59, is an Executive Director, Chairman of the Company responsible for the strategic development of the Group. He graduated from 中國上海第二醫學院 in 1970. He was granted medical doctor's licenses in Hong Kong and doctor qualification in US in 1981 and 1987 respectively and worked as a medical doctor in the PRC and Hong Kong during 1975 to 1985. Dr. Li was appointed on 7 September 2001.

Mr. Li Wo Hing, MBA, aged 58, is an Executive Director and the General Manager of the Company responsible for the daily management of the Group. He has more than 10 years' experience in the trading of medical products and investment in the PRC. Mr. Li was appointed on 7 September 2001.

Mr. Li Tai To, Titus, aged 65, is an Executive Director and Vice General Manager of the Company responsible for promoting the RFA technology in the PRC. He graduated from 中國上海第一醫學院 and has obtained a medical diploma in Taiwan. He was a surgeon in 浙江嘉興第二醫學院 (Zhenjian Jiaying No. 2 Hospital). Mr. Li is elder brother of Dr. Li Nga Kuk, James, the Chairman of the Company. Mr. Li was appointed on 7 September 2001.

Non-executive Director

Dr. Chen Minshan, aged 40, is a non-executive Director. Dr. Chen is a medical doctor and an associate professor, Hepatobiliary Department, Tumor Hospital, Zhong Shan Medical University. Dr. Chen was appointed on 10 December 2001.

Independent non-executive Directors

Mr. Fan Wan Tat, aged 60, is an independent non-executive Director. Mr. Fan is a medical doctor in Hong Kong. Mr. Fan was appointed on 10 December 2001.

Mr. Guo Guoqing, aged 42, is an independent non-executive Director. Mr. Guo is the president of Commercial College, Zhongguo Renmin University. Mr. Guo was appointed on 10 December 2001.

Mr. Tam Wai Leung, Joseph, aged 39, is an independent non-executive Director. Mr. Tam is the President to the Executive Committee of the Hong Kong Institute of Business Management Limited. He holds a Doctor of philosophy degree from Preston University, USA. Mr. Tam was appointed on 30 September 2004.



Directors and Senior Executives

SENIOR MANAGEMENT

Ms. Guo Ping, aged 45, is the general manager of China Best Drug, a subsidiary of the Company. Ms. Guo is a recognized research analyst of medicine in the PRC.

Consultants

Dr. Chen Min Shan, aged 40, is a consultant of the Company. Dr. Chen is medical doctor at the Tumor Hospital, Zhongshan University, Guangzhou, the PRC. Dr. Chen joined the Group in July 2001.

Mr. Tian Fu Zhou, aged 61, is a consultant of the Company. Mr. Tian is a professor of the Military Hospital of Chengdu, the PRC. He joined the Group in July 2001.

Mr. Wang Guang Tian, aged 68, is a consultant of the Company. Mr. Wang is a professor of the Affiliate Hospital of Henan medical University, the PRC. He joined the Group in July 2001.



Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements of Medical China Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the provision of medical equipment services and related accessories, the provision of medical research and development services and the sales of medical accessories and testing equipment in the People’s Republic of China (the “PRC”). The principal activities and other particulars of its subsidiaries are set out in note 14 to the financial statements.

The analysis of the principal activities and geographical locations of the Company and its subsidiaries during the financial year are set out in note 10 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	3%	
Five largest customers in aggregate	13.7%	
The largest supplier		31.4%
Five largest suppliers in aggregate		46.1%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company’s share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2004 and the state of the Company’s and the Group’s affairs as at that date are set out in the financial statements on pages 20 to 62.



Report of the Directors

DIVIDENDS AND RESERVES

The Directors do not recommend the payment of any dividend for the year ended 31 December 2004.

Details of the movements in reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

CHARITABLE DONATIONS

No donation was made by the Group during the year (2003: Nil).

FIXED ASSETS

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2004 are set out in note 22 to the financial statements.

DIRECTORS

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

Executive Directors

Dr. Li, Nga Kuk James, *Chairman*

Mr. Ng, Kwai Sang (resigned on 15 September 2004)

Mr. Li, Wo Hing

Mr. Chan, Shut Li William (resigned on 8 June 2004)

Mr. Chan, Siu Sun (resigned on 15 September 2004)

Mr. Li, Tai To Titus

Non-executive Director

Dr. Chen Minshan



Report of the Directors

Independent Non-executive Directors

Mr. Guo Guoqing

Mr. Fan Wan Tat

Mr. Han K. Huang

(resigned on 8 June 2004)

Mr. Tam Wai Leung, Joseph

(appointed on 30 September 2004)

Pursuant to the By-Laws of the Company, Messrs. Tam Wai Leung, Joseph, Chen Minshan, Fan Wan Tat and Guo Guoqing will retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The biographical details of the Directors are set out on pages 10 to 11.

DIRECTORS' SERVICE CONTRACTS

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

The non-executive Directors have entered into a service contract with the Company. Messrs Guo Guoqing, Fan Wan Tat and Chen Minshen have entered into a service contract with the Company for a term of two years commencing on 1 December 2003. The service contract of Mr. Tam Wai Leung, Joseph is for a term of one year commencing on 30 September 2004.

Save as aforesaid, no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation, of any director proposed for re-election at the forthcoming Annual General Meeting).



Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December, 2004, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures ordinance ("SFO")) which as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of GEM Listing Rules were as follows:

Interests in the Company's shares:

Name	Number of ordinary shares of HK\$0.01 each (the "Shares") in the share capital of the Company held	Nature of interests	Percentage of interest
Dr. Li Nga Kuk, James	32,800,000	Personal	3.93%
Mr. Li Wo Hing	32,800,000	Personal	3.93%
	212,320,000	Corporate (Note 1)	25.43%
	245,120,000		29.36%
Mr. Li Tai To, Titus	16,400,000	Personal	1.96%

Note:

1. By a letter of undertaking dated 14 December 2001, Mr. Ng Kwai Sang undertook to grant a right of first refusal to Mr. Li Wo Hing regarding his 5% shareholding in the share capital of People Market Management Limited ("PMM"), which is in turn owned as to 28.57% by Mr. Li Wo Hing. Therefore, Mr. Li Wo Hing is deemed to be interested in 212,320,000 shares held directly by PMM. Details of the interest of PMM in these Shares are also set out in the paragraph headed "Interest Disclosable Under the SFO and Substantial Shareholders" below.

Save as disclosed above, as at 31 December 2004, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to rule 5.46 of the GEM Listing Rules relating to minimum standards of dealing by Directors, to be notified to the Company and the Stock Exchange.



Report of the Directors

SHARE OPTION SCHEME

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

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

During the year, no option was granted by the Company under the Share Option Scheme. As at 31 December 2004, there was no share option outstanding.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 14 December 2001, the Company had conditionally approved and adopted the Share Option Scheme pursuant to which any employees and Directors of the Company and its subsidiaries may be granted options to subscribe for Shares of the Company under the Share Option Scheme.

As at 31 December 2004, none of the Directors or chief executive or their associates had any interest or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO Ordinance.

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

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2004, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Substantial Shareholder	No of Shares held	Capacity	Percentage of interests
1. PMM (Note)	212,320,000	Beneficial owner	25.43%
2. China Equity Associates L.P.	85,200,000	Beneficial owner	10.20%



Report of the Directors

Note: As at 31 December 2004, PMM owned 212,320,000 Shares, representing approximately 25.43% of the issued share capital of the Company. The issued share capital of PMM is owned as to 28.57% by Mr. Li Wo Hing, as to 17.86% by Dr. Li Nga Kuk, James, as to 8.93%, by Mr. Li Tai To, Titus and as to 8.93% by Mr. Li Yue Erth. Mr. Li Wo Hing's indirect interests in these 212,320,000 Shares through PMM are also disclosed in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 31 December 2004, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

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

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

PENSION SCHEMES

Details of the Group's pension scheme for the year ended 31 December 2004 are set out in note 30 to the financial statements.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

During the year ended 31 December 2004, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.



Report of the Directors

AUDIT COMMITTEE

As required by the Rule 5.28 of the GEM Listing Rules, the Company has established an audit committee ("Committee") with written terms of reference which deal with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Directors.

On 8 June 2004, Mr. Han K. Huang resigned as independent non-executive Director and a member of the Company's audit committee. On 30 September 2004, Mr. Tam Wai Leung, Joseph was appointed as independent non-executive Director and a member of the Company's audit committee. Subsequent to Mr. Tam's appointment, the Committee comprises three independent non-executive Directors, namely Messrs. Guo Guoqing, Fan Wan Tai and Tam Wai Leung, Joseph. The committee held four meetings during the year.

The Audit Committee Members have reviewed the annual report for the year ended 31 December 2004.

AUDITORS

The financial statements for the year were audited by KPMG, Certified Public Accountants. KPMG will retire at the conclusion of the forthcoming Annual General Meeting, and being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There was no change in auditors in any of the preceding 3 years.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 23 March 2005



Auditors' Report



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

We have audited the financial statements on pages 20 to 62 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, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

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 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 23 March 2005



Consolidated Income Statement

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
Turnover	2 & 10	31,576	33,937
Cost of services/sales		(15,768)	(15,309)
Gross profit		15,808	18,628
Other revenue	3	4,521	4,441
Other net income	3	384	772
Selling and distribution expenses		(3,315)	(3,961)
Administrative expenses		(8,121)	(10,940)
Impairment loss on intangible assets	13	—	(27,625)
Other operating expenses		(3,132)	(51)
Profit/(loss) from operations		6,145	(18,736)
Finance costs	4(a)	(73)	(136)
Share of loss of an associate		(290)	(12)
Profit/(loss) from ordinary activities before taxation	4	5,782	(18,884)
Income tax	5(a)	(2,507)	(2,445)
Profit/(loss) from ordinary activities after taxation		3,275	(21,329)
Loss shared by minority interests		285	13
Profit/(loss) attributable to shareholders	8	3,560	(21,316)
Earnings/(loss) per share (in Hong Kong cents)			
Basic	9	0.43	(2.55)

The notes on pages 27 to 62 form part of these financial statements.



Consolidated Balance Sheet

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004		2003	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets					
— Property, plant and equipment	11(a)		20,582		24,243
Construction in progress	12		—		825
Intangible assets	13		58,237		58,537
Interest in an associate	15		—		435
Negative goodwill	16		(3,089)		(5,942)
			75,730		78,098
Current assets					
Inventories	17	7,098		4,685	
Trade and other receivables	18	6,637		8,857	
Amount due from a related company	20	—		75	
Deposits with banks	21	91,191		79,760	
Cash and cash equivalents		9,091		8,139	
		114,017		101,516	
Current liabilities					
Bank loan	22	1,880		—	
Trade and other payables	23	65,561		48,771	
Amounts due to related companies	24	1,790		1,278	
Current taxation	25	24		12,660	
		69,255		62,709	
Net current assets			44,762		38,807
Total assets less current liabilities			120,492		116,905
Minority interests		(3,784)		(4,062)	
NET ASSETS			116,708		112,843



Consolidated Balance Sheet

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004		2003	
		\$'000	\$'000	\$'000	\$'000
CAPITAL AND RESERVES					
Share capital	26		8,350		8,350
Reserves	27(a)		108,358		104,493
			116,708		112,843

Approved and authorized for issue by the board of directors on 23 March 2005.

Li Nga Kuk, James
Chairman

Li Wo Hing
Director

The notes on pages 27 to 62 form part of these financial statements.



Balance Sheet

At 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004		2003	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets	11(b)		406		570
Investments in subsidiaries	14		17,748		15,413
			18,154		15,983
Current assets					
Trade and other receivables	18	13		13	
Amounts due from subsidiaries	19	84,519		75,096	
Cash and cash equivalents		692		1,312	
		85,224		76,421	
Current liabilities					
Trade and other payables	23	2,235		2,980	
Amounts due to subsidiaries	19	31,364		16,275	
		33,599		19,255	
Net current assets			51,625		57,166
NET ASSETS			69,779		73,149
CAPITAL AND RESERVES					
Share capital	26	8,350		8,350	
Reserves	27(b)	61,429		64,799	
			69,779		73,149

Approved and authorized for issue by the board of directors on 23 March 2005.

Li Nga Kuk, James
Chairman

Li Wo Hing
Director

The notes on pages 27 to 62 form part of these financial statements.



Consolidated Statement of Changes in Equity

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	<i>Note</i>	2004 \$'000	2003 \$'000
Shareholders' equity at 1 January		112,843	134,552
Net gains/(losses) not recognized in the income statement			
— Exchange differences on translation of the financial statements of entities outside Hong Kong	27(a)	278	(393)
Net profit/(loss) for the year		3,560	(21,316)
Reserve realized upon disposal of a subsidiary	27(a)	27	—
Shareholders' equity at 31 December		116,708	112,843

The notes on pages 27 to 62 form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004		2003	
		\$'000	\$'000	\$'000	\$'000
Operating activities					
Profit/(loss) before taxation		5,782		(18,884)	
Adjustments for:					
Depreciation		5,670		5,214	
Impairment loss on intangible assets		–		27,625	
Amortization of negative goodwill		(2,853)		(2,882)	
Amortization of intangible assets		308		58	
Net loss/(gain) on sale of fixed assets		123		(772)	
Interest income		(1,570)		(1,493)	
Finance cost		73		136	
Share of losses of an associate		290		12	
Net gain on disposal of a subsidiary	28(a)	(643)		–	
Foreign exchange loss		–		72	
Operating profit before changes in working capital					
		7,180		9,086	
Increase in inventories		(2,413)		(2,478)	
Increase in trade and other receivables		(16,102)		(1,303)	
Decrease in amount due from a related company		75		333	
Increase in trade and other payables		17,212		10,311	
Increase in amounts due to related companies		512		381	
Decrease in amount due to a director		–		(1,560)	
Net cash from operating activities			6,464		14,770



Consolidated Cash Flow Statement

For the year ended 31 December 2004
(Expressed in Hong Kong dollars)

	Note	2004		2003	
		\$'000	\$'000	\$'000	\$'000
Investing activities					
Capital expenditure					
– Fixed assets		(703)		(1,143)	
– Construction in progress		(826)		(3,805)	
(Increase)/decrease in placement of time deposits with banks		(11,281)		13,324	
Expenditure on intangible assets		—		(32,103)	
Interest received		1,570		1,493	
Proceeds from sales of fixed assets		260		821	
Proceeds from disposal of an associate		104		—	
Net inflow from disposal of a subsidiary	28(b)	3,544		—	
Net cash used in investing activities			(7,332)		(21,413)
Financing activities					
Interest paid		(73)		(136)	
Capital injection of minority interests		—		1,210	
Proceeds from new bank loan		1,880		9,398	
Repayment of bank loan		—		(9,398)	
Net cash generated from financing activities			1,807		1,074
Net increase/(decrease) in cash and cash equivalents			939		(5,569)
Cash and cash equivalents at 1 January			8,139		13,730
Effect of foreign exchange rates changes			13		(22)
Cash and cash equivalents at 31 December			9,091		8,139

The notes on pages 27 to 62 form part of these financial statements.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities of the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

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

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Medical China Limited and all of its subsidiaries made up to 31 December each year, together with the Group’s share of the results for the year and the relevant share of the post acquisition results of its associate.

(d) Negative goodwill

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



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investments in subsidiaries

A subsidiary is an enterprise in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements.

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(j)).

(f) Interest in associate

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of the associate for the year. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Interest in associate (Continued)

Unrealized profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the income statement.

(g) Fixed assets and depreciation

- (i) Fixed assets, other than construction in progress, are stated in the balance sheets at cost less accumulated depreciation (see note 1(g)(iii)) and impairment losses (see note 1(j)).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing assets, will flow to the Group. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.
- (iii) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over the estimated useful lives as follows:

Land use rights	Over the remaining term of the lease
Medical equipment	Shorter of 6 years and the remaining terms of the agreements with hospitals
Buildings	Shorter of 50 years and the remaining terms of the lease
Office, computer and other equipment	5 years
Motor vehicles	5 years

- (iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in the income statement on the date of retirement or disposal.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Construction in progress

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment. Capitalization of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities.

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified in note 1(g)(iii) above.

(i) Intangible assets and amortization

- (i) Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Company has sufficient resources and the intention to complete development. Research and development costs comprise costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.
- (ii) Medical research projects and other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization (see note 1(i)(iv)) and impairment losses (see note 1(j)).
- (iii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Intangible assets and amortization (Continued)

(iv) Amortization of intangible assets is charged to the income statement on a straight-line basis over the assets' estimated useful lives as follows:

Medical research projects	5 to 10 years
Other intangibles	5 to 10 years

(j) Impairment of assets

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

- fixed assets;
- construction in progress;
- intangible assets; and
- investments in subsidiaries and associate.

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

(i) Calculation of recoverable amount

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



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Impairment of assets *(Continued)*

(ii) *Reversals of impairment losses*

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

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

(k) Inventories

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

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

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

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

(l) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from negative goodwill treated as deferred income and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

(iii) *(Continued)*

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent it is no longer probable that sufficient taxable profit will be available, to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intent to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provisions and contingent liabilities

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

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

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the income statement as follows:

(i) Medical service fee

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

(ii) Sales of goods

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



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) *Research and development service income*

Revenue is recognised when the outcome of a research and development contract can be measured reliably. Revenue from a fixed price research and development contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a research and development contract cannot be estimate reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) *Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(p) **Operating leases**

Rentals payable under the operating leases are accounted for in the income statement on a straight line basis over the period of the respective leases.

(q) **Employee benefits**

- (i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Group's contributions to retirement benefit schemes are charged to the income statement as and when incurred. Further information is set out in note 30.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Translation of foreign currencies

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

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

(s) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily take a substantial period of time to get ready for its intended use or sale.

(t) Related parties

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

(u) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographically segment informational as the secondary reporting format for the purposes of these financial statements.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segment reporting *(Continued)*

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

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

Unallocated items mainly comprise financial and corporate assets, corporate and financing expenses and minority interests.

2. TURNOVER

Turnover represents service fees arising from the provision of medical equipment services and related accessories, net of respective taxes; the sales value of testing equipment, net of value added tax, and service fees arising from the provision of medical research and development services, net of business tax.

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



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2. TURNOVER (Continued)

Turnover recognized during the year may be analyzed as follows:

	2004 \$'000	2003 \$'000
Medical service fees and sales of related accessories	20,351	25,754
Sales of testing equipment	10,036	6,831
Research and development services	1,189	1,352
	31,576	33,937

3. OTHER REVENUE AND NET INCOME

	2004 \$'000	2003 \$'000
Other revenue		
Interest income	1,570	1,493
Amortization of negative goodwill	2,853	2,882
Others	98	66
	4,521	4,441
Other net income		
Net (loss)/gain on sale of fixed assets	(123)	772
Net gain on disposal of a subsidiary (Note)	643	—
Foreign exchange loss	(140)	—
Others	4	—
	384	772

Note: On 30 December 2004, the Group sold a subsidiary, Tat Lung Medical Treatment Technology (Shenzhen) Limited, to an independent third party at a consideration of HK\$5 million (Note 28).



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	2004	2003
	\$'000	\$'000
(a) Finance cost:		
Interest expense on bank borrowings	73	136
(b) Staff costs:		
Staff costs (including directors' remuneration in Note 6)		
— wages and salaries	3,987	3,851
— staff retirement benefits	20	125
	4,007	3,976
Average number of employees during the year	146	134
(c) Other items:		
Cost of inventories	10,089	10,603
Depreciation	5,670	5,214
Auditors' remuneration		
— audit services	800	870
— other services	207	200
Operating lease charges in respect of office premises	490	1,159
Amortization of negative goodwill	(2,853)	(2,882)
Amortization of intangible assets	308	58
Research and development costs	3,283	131



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

5. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2004	2003
	\$'000	\$'000
Current tax — PRC		
Tax for the year	2,507	2,445

- (i) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during both years.
- (ii) Income tax for subsidiaries established and operating in the People's Republic of China other than Hong Kong (the "PRC") is calculated based on the applicable rates of income tax ruling in the relevant provinces or economic zones in the PRC.

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2004	2003
	\$'000	\$'000
Profit/(loss) before tax	5,782	(18,884)
Notional tax on profit/(loss) before tax, calculated at the rates applicable to profits in the countries concerned	463	(3,842)
Tax effect of non-deductible expenses	743	6,501
Tax effect of non-taxable revenue	(9)	(548)
Tax effect of concession period (Note)	1,310	334
Actual tax expense	2,507	2,445

The tax rate for Hong Kong Profits Tax is calculated at 17.5% (2003:17.5%). The tax rate for PRC income tax is calculated at 33% (2003: 33%) except for certain subsidiaries which are located in the Shenzhen Special Economic Zone in the PRC for which it is calculated at 15% (2003: 15%). These tax rates are taken into account in the preparation of the Group's tax reconciliation.

Note: Certain subsidiaries in the PRC are subject to tax laws applicable to foreign investment enterprises in the PRC. According to the tax regulations in the PRC, the subsidiaries are entitled to the exemption for the first two years of profitable operations and a tax relief of 50% in the next three years of operations and subject to a tax rate of 33% on the annual assessable profits thereafter.

(c) No provision has been made for deferred taxation as the Group does not have any material deductible or taxable temporary differences.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6. DIRECTORS' REMUNERATION

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

	2004 \$'000	2003 \$'000
Executive directors		
Fees	—	—
Salaries and other emoluments	990	990
Retirement benefit scheme contributions	9	33
Bonus	—	83
	999	1,106
Non-executive directors		
Fees	300	240

The remuneration of the directors is within the following bands:

	2004 <i>Number of directors</i>	2003 <i>Number of directors</i>
Nil — \$1,000,000	11	10

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

The executive Directors entered into service contracts with the Company for an initial period of three years commencing on 1 December 2001, and will continue thereafter unless and until, after the expiry of the first year of service, terminated by either party by serving not less than three months' prior written notice or by payment of three months' salary in lieu of such notice. Two Directors waived or agreed to waive all of their remuneration and two Directors waived or agreed to waive half of their remuneration in 2003 and 2004. In addition, certain Directors agreed to waive the outstanding remuneration payable in respect of the year 2003 amounting to \$810,000.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2003: four) are Directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the remaining one (2003: one) individual is as follows:

	2004	2003
	\$'000	\$'000
Basic salaries, allowances and other benefits	180	180
Discretionary bonuses	—	—
Retirement benefit scheme contributions	9	9
	189	189

The emoluments of the remaining one (2003: one) individual with the highest emoluments are within the following band:

	2004	2003
	Number of	Number of
	individuals	individuals
Nil — \$1,000,000	1	1

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

8. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit/(loss) attributable to shareholders includes a loss of \$3,370,000 (2003: \$5,683,000) which has been dealt with in the financial statements of the Company.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

9. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the profit attributable to shareholders of \$3,560,000 (2003: loss of \$21,316,000) divided by the weighted average number of 835,000,000 (2003: 835,000,000) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

The diluted earnings/(loss) per share is not presented as there are no dilutive potential ordinary shares as at 31 December 2003 and 2004.

10. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. No segment information by geographical segments is presented as the Group operates in one single market, the PRC.

Business segments

The Group comprises the following main business segments:

Medical services: provision of medical equipment for the treatment of cancer.

Sales of medical equipment: manufacture and sale of medical equipment.

Research and development: development of drugs.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

10. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Medical services		Sales of medical equipment		Research & development		Unallocated		Consolidated	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from external customers	20,351	25,754	10,036	6,831	1,189	1,352	—	—	31,576	33,937
Segment result	11,478	15,437	(623)	(1,085)	(3,418)	(28,682)	—	—	7,437	(14,330)
Unallocated operating income and expenses									(1,292)	(4,406)
Profit/(loss) from operations									6,145	(18,736)
Finance costs									(73)	(136)
Share of loss of an associate									(290)	(12)
Income tax									(2,507)	(2,445)
Loss shared by minority interests									285	13
Profit/(loss) attributable to shareholders									3,560	(21,316)
Depreciation for the year	4,906	4,709	449	224	135	102	180	179	5,670	5,214
Impairment loss for the year	—	—	—	—	—	(27,625)	—	—	—	(27,625)
Amortization for the year										
— negative goodwill	(2,853)	(2,882)	—	—	—	—	—	—	(2,853)	(2,882)
— intangible assets	—	—	308	58	—	—	—	—	308	58
Segment assets	11,679	15,738	18,268	15,543	59,057	59,857	—	—	89,004	91,138
Unallocated assets									100,743	88,476
Total assets									189,747	179,614
Segment liabilities	(17,109)	(18,109)	(8,419)	(4,482)	(20,993)	(21,284)	—	—	(46,521)	(43,875)
Unallocated liabilities									(22,734)	(18,834)
Total liabilities									(69,255)	(62,709)
Capital expenditure incurred during the year	177	—	1,099	7,904	237	84,967	16	20	1,529	92,891



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

11. FIXED ASSETS

(a) The Group

	Land and buildings \$'000	Medical equipment \$'000	Motor vehicles \$'000	Plant, machinery and other fixed assets \$'000	Total \$'000
Cost:					
At 1 January 2004	6,292	30,057	1,723	1,462	39,534
Additions	—	172	235	296	703
Transfer in from construction in progress (<i>Note 12</i>)	1,618	—	34	—	1,652
Disposals	—	(734)	—	—	(734)
Exchange adjustment	11	27	2	2	42
At 31 December 2004	7,921	29,522	1,994	1,760	41,197
Aggregate depreciation:					
At 1 January 2004	49	14,531	406	305	15,291
Charge for the year	267	4,804	362	237	5,670
Written back on disposal	—	(351)	—	—	(351)
Exchange adjustment	—	5	—	—	5
At 31 December 2004	316	18,989	768	542	20,615
Net book value:					
At 31 December 2004	7,605	10,533	1,226	1,218	20,582
At 31 December 2003	6,243	15,526	1,317	1,157	24,243



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

11. FIXED ASSETS (Continued)

(b) The Company

	Other fixed assets \$'000	Motor vehicles \$'000	Total \$'000
Cost:			
At 1 January 2004	90	803	893
Additions	16	—	16
At 31 December 2004	106	803	909
Aggregate depreciation:			
At 1 January 2004	28	295	323
Charge for the year	20	160	180
At 31 December 2004	48	455	503
Net book value:			
At 31 December 2004	58	348	406
At 31 December 2003	62	508	570

- (c) The land and buildings held by the Group at 31 December 2003 and 2004 are under medium term leases outside Hong Kong.
- (d) At 31 December 2004, the net book value of land pledged as security for bank loan amounted to \$1,089,000 (2003: \$Nil).



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

12. CONSTRUCTION IN PROGRESS

	The Group	
	2004 \$'000	2003 \$'000
Balance at 1 January	825	1,547
Exchange adjustments	1	(7)
Additions	826	3,812
Transfer to fixed assets (<i>Note 11(a)</i>)	(1,652)	(4,527)
Balance at 31 December	—	825

13. INTANGIBLE ASSETS

	Medical research projects \$'000	Others \$'000	Total \$'000
Cost:			
At 1 January 2004	83,893	2,327	86,220
Exchange adjustments	4	4	8
At 31 December 2004	83,897	2,331	86,228
Accumulated amortisation:			
At 1 January 2004	27,625	58	27,683
Charge for the year	—	308	308
At 31 December 2004	27,625	366	27,991
Net book value:			
At 31 December 2004	56,272	1,965	58,237
At 31 December 2003	56,268	2,269	58,537



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

13. INTANGIBLE ASSETS (Continued)

Impairment loss

In 2003, the Group acquired certain in-process medical research projects. The acquisition cost was allocated to each individual medical research project based on its estimated fair value at the acquisition date, after having taking into account an independent valuation of these medical research projects.

At 31 December 2004, the directors of the Company reviewed the carrying value of these medical research projects individually, taking into account an updated independent valuation report, the future development resources required, the stage of completion and the risks surrounding the successful development and commercialization of the projects. Whilst there is inherent uncertainty over the outcome of these projects, based on their assessment, the Directors consider that there are no indications that the carrying value of the projects may be impaired as at 31 December 2004 (2003: impairment loss of \$27,625,000).

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004 \$'000	2003 \$'000
Unlisted shares, at cost	17,748	15,413

Details of the subsidiaries at 31 December 2004 are as follows. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 1(e) and have been consolidated into the consolidated financial statements.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

14. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Percentage of equity			Issued capital	Registered capital	Principal activities	Note
		Group's effective holding	held by the Company	held by subsidiary				
Future Asia Management Ltd.	British Virgin Islands ("B.V.I.")	100%	100%	—	US\$20,000	US\$50,000	Investment holding	
Tat Lung Medical Treatment Technology Ltd.	Hong Kong	100%	—	100%	\$142,900	\$142,900	Investment holding	
Tat Lung Medical Treatment (Shenzhen) Ltd.	PRC	100%	100%	—	US\$300,000	US\$300,000	Development of software for medical equipment	(i)
China Best Drugs Research (Nanjing) Ltd.	PRC	75%	—	100%	US\$3,000,000	US\$3,000,000	Research and development of medicine and drugs	(ii)
Sinnowa Medical Science & Technology Co., Ltd. (Formerly known as Sino-Innova Medical Science & Technology Co., Ltd.)	PRC	65%	65%	—	US\$1,500,000	US\$1,500,000	Manufacturing and sale of medical equipment	(iii)
Medical China Technology Ltd.	B.V.I.	75%	75%	—	US\$100	US\$50,000	Investment holding	
China Best Pharmaceutical (Nanjing) Company Limited	PRC	100%	100%	—	US\$300,000	US\$4,000,000	Manufacturing and sales of medicine and drugs	(iv)

Notes:

- (i) The subsidiary is a wholly foreign owned enterprise set up to provide medical equipment, medical equipment software and related services.
- (ii) The subsidiary is a wholly foreign owned enterprise established in Nanjing, the PRC and set up to establish a research center for medicine and drugs. During the year, the Company contributed US\$1,500,000 as the capital contribution. Jiangsu Tianhuadapeng Certified Public Accountants Co. Ltd have verified the above capital contribution, and issued capital verification reports on 14 June 2004 and 20 July 2004.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

14. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

Pursuant to a research projects acquisition and reorganization agreement with Miss Guo Ping dated 6 December 2002, the subsidiary acquired certain medical research projects from Miss Guo. Upon the completion of reorganization, the Group retains 75% shareholding in the subsidiary while the remaining 25% shareholding is held by Miss Guo.

- (iii) The subsidiary is a sino-foreign enterprise set up to establish a medical equipment production line in Nanjing, the PRC. As at 31 December 2003 and 2004, the Company's total investment in this subsidiary amounted to US\$975,000.
- (iv) The subsidiary is a wholly foreign owned enterprise established in Nanjing, the PRC. During the year, the Company contributed US\$300,000 as capital contribution. Nanjing Jing Shi Cheng Certified Public Accountants Co. Ltd. have verified the above capital contribution and issued a capital verification report on 17 December 2004.

As at 31 December 2004, the Company's total investment in this subsidiary amounted to US\$300,000.

15. INTEREST IN AN ASSOCIATE

The associate of the Group, Jiang Xi J&P Biological Products Limited, has been disposed of during the year at a consideration of \$145,000. No gain or loss resulted from the disposal of this associate as the consideration represents the share of net assets of the associate as at the date of disposal.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

16. NEGATIVE GOODWILL

	The Group
	<i>\$'000</i>
Cost:	
At 1 January 2004 and 31 December 2004	(16,029)
Accumulated amortization:	
At 1 January 2004	10,087
Amortization for the year	2,853
At 31 December 2004	12,940
Carrying amount:	
At 31 December 2004	(3,089)
At 31 December 2003	(5,942)

The balance represents the negative goodwill arising from the Group's acquisition of the medical equipment business together with the relevant assets from Guangxi Wuzhou Tat Lung Medical Equipment Company Limited ("Wuzhou Tat Lung"). It is recognized as income on a straight-line basis over five years. The amortization of negative goodwill for the year is included in "other revenue" in the consolidated income statement.

17. INVENTORIES

	The Group	
	2004	2003
	<i>\$'000</i>	<i>\$'000</i>
Raw materials	2,772	1,143
Work in progress	795	1,094
Finished goods	3,531	2,448
	7,098	4,685

Included in finished goods are inventories of \$790,000 (2003: Nil), stated net of a general provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Trade debtors	1,746	5,442	—	—
Other receivables, deposits and prepayments	4,891	3,415	13	13
	6,637	8,857	13	13

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

Included in trade and other receivables are trade debtors (net of specific allowances for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2004 \$'000	2003 \$'000
Within 3 months of the date of billing	1,274	5,208
3 to 6 months of the date of billing	353	83
6 to 12 months of the date of billing	119	151
	1,746	5,442

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

19. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

20. AMOUNT DUE FROM A RELATED COMPANY

	The Group	
	2004 \$'000	2003 \$'000
Wuzhou Tat Lung	—	75

The wife of Mr. Li Tai To, Titus was a major shareholder of Wuzhou Tat Lung and Mr. Li is a shareholder and Director of the Company and Director of Tat Lung Medical Treatment Technology Limited.

The amounts due from these related companies are unsecured, interest free, and have no fixed terms of repayment.

21. DEPOSITS WITH BANKS

All deposits with banks are denominated in Renminbi ("RMB") and kept in the PRC.

The conversion of the RMB balances into foreign currencies and the transfer of these balances out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

22. BANK LOAN

At 31 December 2004, the bank loan was repayable as follows:

	The Group	
	2004 \$'000	2003 \$'000
Within one year or on demand	1,880	—

The above bank loan was secured by a charge on the land of the Group with an aggregate carrying value of \$1,089,000 (2003: \$Nil) at 31 December 2004.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Trade payables	3,191	9,379	—	—
Other payables and accrued liabilities	62,370	39,392	2,235	2,980
	65,561	48,771	2,235	2,980

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

An ageing analysis of trade payables is as follows:

	The Group	
	2004 \$'000	2003 \$'000
Due within 3 months or on demand	3,191	9,379

24. AMOUNTS DUE TO RELATED COMPANIES

	The Group	
	2004 \$'000	2003 \$'000
Everblooming Enterprises Company ("Everblooming")	895	893
Nanjing Innova Technology Limited ("Innova")	895	385
	1,790	1,278

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



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

25. INCOME TAX IN THE BALANCE SHEET

Current taxation in the consolidated balance sheet represents:

	The Group	
	2004 \$'000	2003 \$'000
Provision for PRC tax	24	12,660

26. SHARE CAPITAL

	2004		2003	
	No. of shares '000	Amount \$'000	No. of shares '000	Amount \$'000
Authorized:				
Ordinary shares of \$0.01 each	2,000,000	20,000	2,000,000	20,000
Issued and fully paid:				
At 1 January and at 31 December	835,000	8,350	835,000	8,350



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

27. RESERVES

(a) The Group

	General reserve \$'000	Share premium \$'000	Contributed surplus \$'000	Retained profits \$'000	Exchange reserve \$'000	Total \$'000
At 1 January 2003	5,783	70,733	5,265	44,433	(12)	126,202
Loss for the year	—	—	—	(21,316)	—	(21,316)
Exchange difference	—	—	—	—	(393)	(393)
At 31 December 2003	5,783	70,733	5,265	23,117	(405)	104,493
At 1 January 2004	5,783	70,733	5,265	23,117	(405)	104,493
Profit for the year	—	—	—	3,560	—	3,560
Exchange difference	—	—	—	—	278	278
Reserves realised upon disposal of a subsidiary	(5,783)	—	—	5,783	27	27
At 31 December 2004	—	70,733	5,265	32,460	(100)	108,358

(b) The Company

	Share premium \$'000	Contributed surplus \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2003	70,733	5,265	(5,516)	70,482
Loss for the year	—	—	(5,683)	(5,683)
At 31 December 2003	70,733	5,265	(11,199)	64,799
At 1 January 2004	70,733	5,265	(11,199)	64,799
Loss for the year	—	—	(3,370)	(3,370)
At 31 December 2004	70,733	5,265	(14,569)	61,429



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

27. RESERVES (Continued)

- (c) According to the relevant rules and regulations in the PRC, Tat Lung Medical Treatment Technology (Shenzhen) Limited ("Tat Lung Shenzhen") is required to appropriate 10% of after-tax profit (after offsetting prior year losses), based on the PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a general reserve fund until the balance of the fund reaches 50% of Tat Lung Shenzhen's registered capital. Thereafter, any further appropriation can be made at the directors' discretion.

Pursuant to a board resolution dated 1 December 2004, the general reserve of Tat Lung Shenzhen was realised as appropriation to Tat Lung Medical Treatment Technology Limited, its holding company, prior to the disposal of Tat Lung Shenzhen.

- (d) The application of the share premium account is governed by Bye-Law 140(A) of the Company's Bye-Laws and the Companies Act 1981 of Bermuda ("Companies Act").
- (e) Pursuant to a group reorganization in 2001, the Company became the holding company of the Group. The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganization in 2001 was transferred to contributed surplus. Contributed surplus is available for distribution to shareholders subject to the provisions of section 54 of the Companies Act.
- (f) The exchange reserve has been set up and will be dealt with in accordance with the accounting policy adopted for foreign currency translation.
- (g) Included in the retained profits is an amount of \$317,000 (2003: \$27,000), being the accumulated losses attributable to an associate.
- (h) At 31 December 2003 and 2004, the Company had no reserve available for distribution to shareholders.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net assets of a subsidiary disposed of

	2004 \$'000
Trade and other receivables	18,370
Cash at bank and in hand	1,456
Trade and other payables	(353)
Current taxation	(15,143)
	4,330
Release of exchange reserve	27
Net assets disposed of	4,357
Cash consideration	(5,000)
Net gain on disposal of a subsidiary	643

(b) Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary

	2004 \$'000
Cash consideration	5,000
Cash at bank and in hand	(1,456)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	3,544



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

29. COMMITMENTS

(a) Capital commitments

Capital commitments in respect of capital contribution to the subsidiaries outstanding at 31 December 2004 not provided for in the financial statements were as follows:

	The Group	
	2004 \$'000	2003 \$'000
Contracted for	28,860	11,700

(b) Operating lease commitments

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	The Group	
	2004 \$'000	2003 \$'000
Within 1 year	579	665

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease when all terms are renegotiated. The leases do not include contingent rentals.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

30. RETIREMENT BENEFIT SCHEMES

Hong Kong

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

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

The PRC

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organized by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they became payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

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

The aggregate amount of employer contributions by the Group in respect of retirement benefit schemes dealt with in the income statement of the Group is disclosed in note 4(b) of the financial statements.

31. SHARE OPTION SCHEME

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

During the year, no options were granted under the share option scheme.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

32. MATERIAL RELATED PARTY TRANSACTIONS

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

	Note	2004 \$'000	2003 \$'000
Advance from Innova	(i)	895	385
Amount due to Everblooming Innova	(ii)	895	893
— Sale of medical equipment and accessories	(iii)	757	519
— Purchase of medical equipment and accessories		73	323
Li Hoi Yin	(iv)	—	169
Advance to Wuzhou Tat Lung	(v)	—	75

Notes:

- (i) During the year, the Group borrowed from Innova, an amount of \$895,000 (2003: 385,000). The borrowing is interest free, unsecured and has no fixed repayment terms.
- (ii) The amount due to Everblooming at 31 December 2003 and 2004 is unsecured, interest free and have no fixed terms of repayment.
- (iii) Innova is a minority shareholder of Sinnowa Medical Science & Technology Company Limited ("Sinnowa"). During the year ended 31 December 2004, Sinnowa sold certain medical equipment and accessories totalling \$757,000 (2003: \$519,000) to and purchased certain medical equipment and accessories totalling \$73,000 (2003: \$323,000) from Innova.
- (iv) During the year ended 31 December 2003, the Group leased an office premise from Ms Li Hoi Yin, who is the wife of Mr Xu Xin. Mr Xu is the General Manager of Sinnowa.
- (v) During the year ended 31 December 2003, the Group advanced to Wuzhou Tat Lung an amount of \$75,000. The advance is interest free, unsecured and has no fixed repayment terms.

The Directors of the Company are of the opinion that the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business.

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



Five Years Summary

(Expressed in Hong Kong dollars)

	2000	2001	2002	2003	2004
	\$'000	\$'000	\$'000	\$'000	\$'000
Results					
Turnover	11,017	38,523	49,850	33,937	31,576
Profit/(loss) from operations	5,966	26,936	27,987	(18,736)	6,145
Finance costs	(137)	(316)	—	(136)	(73)
Share of loss of an associate	—	—	(15)	(12)	(290)
Profit/(loss) from ordinary activities before taxation	5,829	26,620	27,972	(18,884)	5,782
Income tax	(995)	(4,217)	(4,993)	(2,445)	(2,507)
Profit/(loss) from ordinary activities after taxation	4,834	22,403	22,979	(21,329)	3,275
Loss shared by minority interests	—	—	—	13	285
Profit/(loss) attributable to shareholders	4,834	22,403	22,979	(21,316)	3,560
Assets and liabilities					
Fixed assets	19,053	22,420	22,608	24,243	20,582
Construction in progress	—	—	1,547	825	—
Intangible assets	—	—	—	58,537	58,237
Negative goodwill	(14,588)	(11,706)	(8,824)	(5,943)	(3,089)
Interest in an associate	—	—	447	435	—
Net current assets	5,841	81,629	118,774	38,808	44,762
Non-current liabilities	(5,455)	—	—	—	—
Minority interests	—	—	—	(4,062)	(3,784)
Net Assets	4,851	92,343	134,552	112,843	116,708
Share capital	10	8,000	8,350	8,350	8,350
Reserves	4,841	84,343	126,202	104,493	108,358
	4,851	92,343	134,552	112,843	116,708
Earnings/(loss) per share (in Hong Kong cents)					
Basic	1.05	4.34	2.82	(2.55)	0.43
Diluted	0.95	3.45	N/A	N/A	N/A



Five Years Summary

(Expressed in Hong Kong dollars)

The Company was incorporated in Bermuda on 15 August 2001 as an exempted company with limited liability under the Bermuda Companies Act 1981. The Company became the holding company of the Group on 10 December 2001 through a reorganisation (the "Reorganisation"). The Company and its subsidiaries (the "Group") resulting from the Reorganisation has been regarded as a continuing group. Accordingly the consolidated results have been prepared on the basis of merger accounting, under which the Company was the holding company of the Group for the years ended 31 December 2000 and 2001, rather than from 10 December 2001. Furthermore, the results of the Group for the period from 26 April 2000 to 31 December 2000 and for the year ended 31 December 2001 include the results of the Company and its subsidiaries with effect from 26 April 2000 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.