Medical China Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 8186

Medical China

Annual Report 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

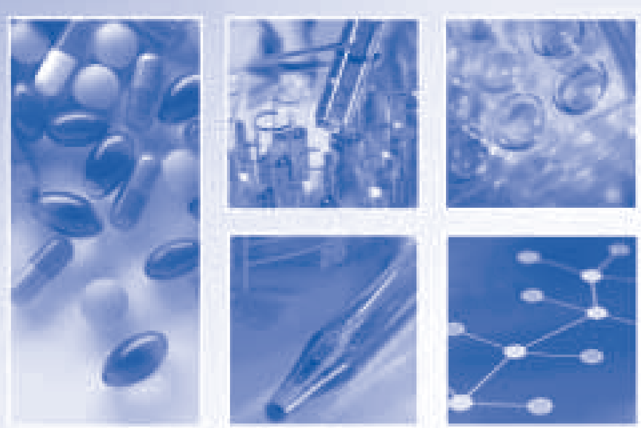
Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 GEM of the Stock Exchange (the "GEM Listing Rules") 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 at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Medical China



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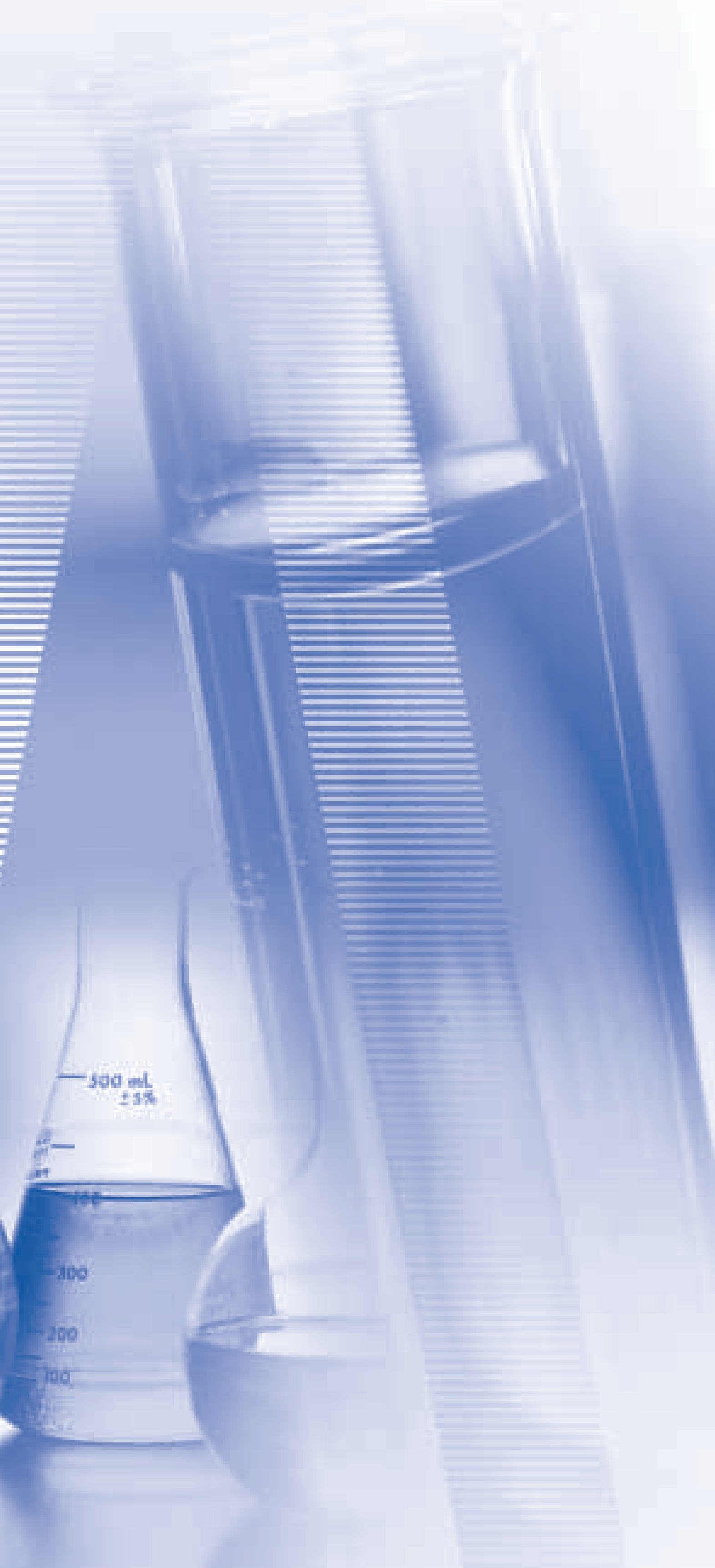

Corporate Information

BOARD OF DIRECTORS

Executive directors
LI Nga Kuk, James *(Chairman)*
LI Wo Hing *(Chief Executive Officer)*
LI Tai To, Titus

Non-executive director
CHEN Minshan

Independent non-executive directors
GUO Guoqing
FAN Wan Tat
TAM Wai Leung, Joseph

AUDIT COMMITTEE

FAN Wan Tat *(Chairman)*
GUO Guoqing
TAM Wai Leung, Joseph

NOMINATION COMMITTEE

FAN Wan Tat *(Chairman)*
TAM Wai Leung, Joseph
LI Nga Kuk, James

REMUNERATION COMMITTEE

TAM Wai Leung, Joseph *(Chairman)*
FAN Wan Tat
LI Wo Hing

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

AUDITORS

Kennic L. H. Lui & Co. Ltd.
Certified Public Accountants (Practising)

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 2005.

RESULT ANALYSIS

For the year ended 31 December 2005, the Group recorded a turnover of approximately HK$36,081,000, representing an increase of 14% over the year 2004. Loss attributable to shareholders were approximately HK$2,167,000, while a profit of approximately HK$3,560,000 recorded by the Group for the corresponding period in 2004.

BUSINESS REVIEW

Due to the intensify competition in the People's Republic of China (the "PRC") market, the Group's RFAS radio frequency treatment business was continue reducing in revenue and number of co-operation contracts with the PRC hospitals. The promotion of the Group's "Multi-bullet, multi-hole drug injection system" in the PRC hospitals progressed slower than expected. All these affected the Group's revenue and result for the year.

The sale of medical testing equipments had a better progress during the year. The sales of medical testing equipments increased by 56% to approximately HK$15,634,000 as compared to the previous year. However, the positive contribution to the Group's profit was small. The sales increase offset by the increase of the input of new products development and promotion expenses. The Board expected the situation will be improved in the year 2006 as the Group will focus to accelerate the sales of existing well-developed products and control the new development and promotion expenses at a lower level.

The research and development of Chinese and western drugs business had positive contribution to the Group's revenue during the year of review. The progress of the research and development of 10 medicine items by the Group is good.

Chairman's Statement

BUSINESS OUTLOOK

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

The Group realises medical equipment, testing instrument and drug development businesses are high competition and fast growing in nature. Innovation, research efforts and net-working are the means to keep the Group competitive. Therefore, we will continue to keep abreast of up-to-date information on advanced technology for medical equipment, testing instruments, anti-cancer drugs and medicine in order to improve our products and services.

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 contributions and supports.

Li Nga Kuk, James
Chairman

27 March 2006

FINANCIAL REVIEW

The Group's annual turnover for the year ended 31 December 2005 was approximately HK$36,081,000, representing an increase of 14% as compared to that for the year ended 31 December 2004. For the year ended 31 December 2005, the Group sustained a net loss attributable to equity holders of the Company of approximately HK$2,167,000, as compared to a net profit attributable to equity holders of the Company of approximately HK$3,560,000 for the year ended 31 December 2004.

The basic loss per share for the year ended 31 December 2005 was 0.26 Hong Kong cents, while basic earnings per share was 0.43 Hong Kong cents for the year ended December 2004.

CAPITAL STRUCTURE

As at 31 December 2005, the total number of issued ordinary shares and the issued share capital of the Company were 835,000,000 (2004: 835,000,000) and HK$8,350,000 (2004: HK$8,350,000) respectively.

FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY

As at 31 December 2005, the Group had total assets of approximately HK$157,058,000 (2004: HK$189,747,000) which were financed by current liabilities of approximately HK$32,870,000 (2004: HK$69,255,000) and equity attributable to equity holders of the Company of approximately HK$120,454,000 (2004: HK$116,708,000).

The current assets of the Group amounted to approximately HK$87,170,000 (2004: HK$114,017,000) of which approximately HK$68,267,000 (2004: HK$100,282,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK$32,870,000 (2004: HK$69,255,000) of which approximately HK$28,320,000 (2004: HK$65,561,000) were trade and other payables, HK$4,326,000 (2004: HK$1,880,000) was short term loan and HK$24,000 (2004: HK$24,000) was provision for income tax. The short term loan of the Group was obtained from a PRC Authorised Credit Union on 11 April 2005.

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 period within one year. The said loan was secured against the Group's leasehold land with carrying amount of HK$1,075,000 (2004: HK$1,089,000). The gearing ratio of the Group is calculated on the basis of short term loan over total assets. As at 31 December 2005, the Group had a gearing ratio of 2.8% (2004: 0.99%).

The net assets per share as at 31 December 2005 was HK$0.15 (2004: HK$0.14).

CAPITAL COMMITMENT, SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

The Company's wholly-owned subsidiary, Guilin Simei Biotechnology Ltd., was incorporated on 28 March 2005 with registered capital of US$1,000,000. The intended principal activity of the subsidiary is the development and sale of tropical plants for Chinese drugs and medicine usages.

Apart from the aforesaid investment in subsidiary, the Company had no other significant investment and there was no other material acquisition and disposals of subsidiaries and affiliated companies during the year ended 31 December 2005.

As at 31 December 2005, the Group had outstanding capital commitment of approximately HK$14,780,000 (2004: HK$28,860,000).

FOREIGN EXCHANGE EXPOSURE AND HEDGING INSTRUMENTS

The Group's transactions are denominated in Renminbi, Hong Kong dollars and United States 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 2005, the Group had no outstanding hedging instruments (2004: HK$Nil).

EMPLOYEES' INFORMATION AND BENEFIT SCHEME FOR THE EMPLOYEES

As at 31 December 2005, the Group has 177 (2004: 146) employees. The total of employees remuneration, including that of the directors, for the years ended 31 December 2005 and 31 December 2004 amounted to approximately HK$4,631,000 and HK$4,007,000 respectively.

In addition to the Share Option Scheme, which was conditionally approved and adopted by the Company on 14 September 2001, the Group also provides 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 to its employees in the PRC according to the relevant regulations in the PRC.

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the municipal government of the PRC (the "PRC government") whereby the subsidiaries are required to contribute to the Scheme to fund the retirement benefits of the eligible employees. The PRC government 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 2005 and 2004, the Group and the Company did not have any outstanding contingent liabilities.

BUSINESS REVIEW

Development of the market and application of RFAS in the PRC

As a result of the Group's initial promotional efforts in the PRC market, RFAS radio frequency treatment technology and its related equipment have been widely used by hospitals in the PRC to treat patients suffering from liver cancer, lung cancer and kidney cancer. However, our RFAS radio frequency treatment business is now facing rigorous competition as more and more local and foreign manufacturers entered the market. As such, prices of these equipments have dropped significantly over the year. Meanwhile, a shift in the PRC government's policies which now discourages the cooperation between non-state-owned companies and the hospitals had severely hampered the Group's effort in obtaining new cooperation contracts with domestic hospitals. Without new cooperation contracts to make up for the expired contracts, the revenue generated from the business dropped remarkably. As at 31 December 2005, the number of RFAS tumour therapeutic centres established by the Group with hospitals in the PRC dropped to 21 as compared to 56 in the previous year. The Group is the sales agent for the "Multi-bullet, Multi-hole Drug Injection System". The promotion of this product has been slowed down as the hospitals needed more time than expected to adopt and get used to the new treatment technology and equipment.

Manufacture and sales of medical testing equipment

The Group has successfuly developed various new types of testing equipment which include three new items in the automatic biochemical analyzers D series, one new item in spectrophotometers, one new item in the Hematology Analyzers, one new item in the electrolyte analyzers and one new item in the semi-automatic biochemical analyzers. In addition, approximately 30 new types of testing reagents have been developed, which are mostly near completion with only a few still being tested.

As for domestic market promotion, the Group held a seminar which was attended by experts and officials from the Ministry of Health, where the Group's medical testing equipment were met with favourable comments from those experts. This inevitably gave a big boost to the nation-wide promotion of our products. During the year, three new representative offices were established in the PRC together with recruitment of a group of highly competent agents as marketing support team. As for overseas market development, our products have been sold to more than 40 countries. The sales of medical testing equipment increased by 56% to approximately HK$15,634,000 as compared to the previous year.

Research, development and sales of drugs

The Group has proceeded with the research and development of Chinese and western drugs and medicines as planned, among which two Chinese drugs have finished clinical trials, two Chinese drugs have finished research work pending for clinical trials, one is still on clinical trial, three are undergoing toxin tests and one western drug has obtained production approval.

Research and development of 3-dimensional laparoscopes

The development of its prototype has been completed and is now in the process of clinical testing. In consideration of clinical response, we are improving the size of the micro-video camera used in the 3-dimensional laparoscope.

OUTLOOK

RFAS's market development and application in the PRC

In view of the fact that the RFAS radio frequency tumor treatment technology has been widely used in the hospitals in the PRC for liver cancer and that it has not been extended to the treatment of other types of tumors though it can achieve excellent results in those fields too, the Group plans to introduce the RFAS radio frequency tumor treatment technology into the treatment of kidney cavity tumor, bone tumor and lung tumor, with reference to the application experience in the western countries. The Multi-bullet, Multi-hole Drug Injection System has been applied in more than 100 treatment cases, and achieved better results in treating 5-7 cm liver tumors as compared to that through surgical operation and RFAS radio frequency tumor treatment technology. In 2006, the Group will place more efforts in the promotion of this technology and make contribution to the treatment of patients to whom other therapies did not produce satisfactory results.

Manufacture and sale of medical testing equipment

To boost sales volume in both local and overseas markets, the Group envisages in its outlook planning that:

– Supported by better quality of product, increased productivity and improved marketing preparations made last year, the sales volume of the automatic biochemical analyzers D series in 2006 shall increase greatly;

– The gross profit margin on sales will increase further as a result of the improvement in product quality and the reduction of cost of the semi-automatic biochemical analyzers; and

– The overall profitability of the Group will improve, as the Group will focus on efforts to increase the sales of existing well-developed products and a reduction in the expenditure on new product development and promotion.

Research, development and sales of drugs

The Group will take brisk steps to submit two Chinese drugs, which have gone through clinical trials, to the State Food and Drug Administration for production approval, and commence relevant clinical trials for drugs that have completed pre-clinical research. Meanwhile, the Group will seek opportunities to cooperate with other domestic drug manufacturers and study the possibility of joint-production of products which have been granted production approvals to increase the Group's revenue.

Research and development of 3-dimensional laparoscopes

As scheduled, the improvement of the micro-video camera and its clinical testing will be completed in 2006 and submitted for approval thereafter.

Directors and Senior Executives

DIRECTORS

Executive Directors

Dr. Li Nga Kuk, James, aged 60, 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 59, is an Executive Director and the Chief Executive Officer 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 66, 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 (Zhejiang Jiaxing 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 41, 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 61, 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 43, 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 40, 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.

SENIOR MANAGEMENT

Ms. Guo Ping, aged 46, 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 Minshan, aged 41, 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 62, 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 69, 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 (collectively referred to as the "Group") for the year ended 31 December 2005.

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 PRC. The principal activities and other particulars of its subsidiaries are set out in note 17 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 12 to 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	10%	
Five largest customers in aggregate	23%	
The largest supplier		19%
Five largest suppliers in aggregate		33%

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 result of the Group for the year ended 31 December 2005 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 27 to 74.

DIVIDENDS AND RESERVES

The directors do not recommend the payment of any dividends for the year ended 31 December 2005 (2004: Nil).

Details of the movements in reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

CHARITABLE DONATIONS

No donation was made by the Group during the year (2004: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2005 are set out in note 23 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. Li, Wo Hing
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. Tam Wai Leung, Joseph

Pursuant to the By-Laws of the Company, Messrs. Li Tai To, Titus, Guo Guoqing and Chen Minshan 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 and 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 and shall continue thereafter. 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 their 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 Minshan have renewed a service contract with the Company for a term of one year commencing on 1 December 2005. The service contract of Mr. Tam Wai Leung, Joseph is renewed for a term of one year commencing on 30 September 2005.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

As at 31 December 2005, 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 dealings by directors as referred to in rule 5.46 to 5.67 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 Corporate	3.93%
	212,320,000	*(Note 1)*	25.43%
	Aggregate : 245,120,000		**Aggregate : 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 . At 2 February 2005, Mr. Li Wo Hing purchased 7,142 shares of PMM, which represented 35.71% of the total issued shares of PMM from Mr. Ng Kwai Sang. Therefore, Mr. Li Wo Hing is deemed to be interested in 212,320,000 shares held directly by PMM.

Save as disclosed above, as at 31 December 2005, 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 any of 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 to 5.67 of the GEM Listing Rules relating to the minimum standards of dealings 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 2005, 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 a 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 2005, none of the directors or chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

Save as disclosed above, at no time during the year 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

As at 31 December 2005, 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%

Note : As at 31 December 2005, 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 64.28% 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 2005, 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 2005, 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 schemes for the year ended 31 December 2005 are set out in note 32 to the financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the code on corporate governance practices as set out in Appendix 15 of the GEM Listing Rules for the year. Further details are set out in the Corporate Governance Report.

AUDIT COMMITTEE

As required by rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Committee") with written terms of reference which deals 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.

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 Company's annual report for the year ended 31 December 2005.

AUDITORS

On 12 May 2005, the Company announced that KPMG resigned as auditors of the Company with effect from 20 April 2005. Following the resignation of KPMG, the Board resolved to appoint Kennic L. H. Lui & Co. Ltd., Certified Public Accountants (Practising) as the new auditors of the Company to fill casual vacancy in accordance with the relevant laws of Bermuda and the Bye-laws of the Company. Pursuant to an ordinary resolution passed at the Annual General Meeting held on 22 June 2005, Kennic L. H. Lui & Co. Ltd. had been re-appointed as the auditors of the Company.

The financial statements for the year were audited by Kennic L. H. Lui & Co. Ltd. Kennic L. H. Lui & Co. Ltd. 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 Kennic L. H. Lui & Co. Ltd. as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Li Nga Kuk, James
Chairman

Hong Kong, 27 March 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board and senior management are committed to maintaining a high standard of corporate governance. It is believed that high standards of corporate governance provide a framework and solid foundation for achieving, attracting and retaining the high standard and quality of the Group's management, promoting high standards of accountability and transparency, sound internal control and meeting the expectations of all of the Group's various shareholders.

In November 2004, the Stock Exchange introduced the "Code on Corporate Governance Practices" (the "Code") and the "Corporate Governance Report" which will take effect for accounting periods commencing on or after 1 January, 2005, with the exception for those relating to internal controls which will be implemented for accounting periods commencing on or after 1 July, 2005. The Code as set out in Appendix 15 to the GEM Listing Rules will replace the rules 5.34 to 5.45 of the GEM Listing Rules (the "Code of Best Practice") and sets out the principles of good corporate governance and two levels of recommendation, namely (a) Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviations; and (b) Recommended Best Practices, which are for guidance only.

Throughout the year ended 31 December, 2005, the Company has complied with the Code Provisions.

THE BOARD OF DIRECTORS

Board Composition

As at 31 December, 2005, the Board comprises 7 directors of the Company including the Executive Directors of Li Nga Kuk, James, Li Wo Hing and Li Tai To, Titus; the Non-Executive Director of Chen Minshan; and the Independent Non-Executive Directors of Guo Guoqing, Fan Wan Tat and Tam Wai Leung, Joseph. The board of directors is responsible for supervising the management of the Group. Details of the Chairman and other directors of the Company are set out in the Report of the Directors. All directors give sufficient time and attention to the affairs of the Group.

The presence of four Non-Executive Directors, of whom three are independent, is considered by the Board to be a reasonable balance between Executive and Non-Executive Directors, and the Board is of the opinion that such balance has and shall continue to provide adequate checks and balances for safeguarding the interests of shareholders and the Group. The Non-Executive Directors provide to the Group a wide range of expertise and experience and play an important role in the work of the board of directors, as well as to ensure that the interests of all shareholders are taken into account. They contribute significantly to the development of the Group's strategies and policies through their informed comments and criticism. They are also responsible for participating in Board meetings, dealing with potential conflicts of interest, serving on Audit, Remuneration and Nomination Committees, and scrutinizing the Group's performance and reporting. Through their active participation, they give the Board the benefit of their skills, expertise and background experience, and the management process can be critically reviewed and controlled.

Corporate Governance Report

In full compliance with rule 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent Non-Executive Directors, whereas one of them has appropriate professional qualifications on accounting or related financial management expertise. The Group has received from each Independent Non-Executive Director an annual confirmation of their independence, and the Group considers such directors to be independent in accordance with each and every guideline set out in rule 5.09 of the GEM Listing Rules. No Independent Non-Executive Director has served the Group for more than nine years.

All Independent Non-Executive Directors are identified as such in all corporate communications containing the names of the directors.

Dr. Li Nga Kuk, James (the Chairman) and Mr. Li Tai To, Titus (the Executive Director) are brothers. Besides the above, there is no family or other material relationship among members of the Board.

Board Meetings

The Board regularly meets at least four times every year. The directors participated the board meeting in person or through other electronic means of communication. At lease 7 days notice of all board meetings were given to all directors, who were are all given an opportunity to include matters in the agenda for discussion. The Company Secretary assists the Chairman in preparing the agenda for the meeting, and ensures that all applicable rules and regulations regarding the meetings are observed. The finalised agenda and the accompanying board papers are then sent to all directors at least three days prior to the meeting.

In the financial year ended 31 December, 2005, four board meetings were held and the following is an attendance record of the meetings by each director:

Name of directors	Attendance/Number Meetings held
Executive Directors	
Li Nga Kuk, James	3/4
Li Wo Hing	3/4
Li Tai To, Titus	4/4
Non-executive Director	
Chen Minshan	1/4
Independent Non-executive Directors	
Guo Guoqing	4/4
Fan Wan Tat	4/4
Tam Wai Leung, Joseph	4/4

During regular meetings of the Board, the directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual and quarterly results, as well as discuss and decide on the Group's other significant matters. Execution of the daily operational matters is delegated to management.

The Company Secretary attends all regular board meetings to advise on corporate governance and statutory compliance when necessary. In addition, the Company has maintained a procedure for directors to seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meeting. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable time on reasonable notice by any director.

The board committees, including the audit committee, the remuneration committee and the nomination committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

Insurance for Directors

No insurance coverage has been purchased for any of the directors as the Board do not foresee any contingent liabilities against the Group.

Chairman and Chief Executive Officer

The roles of the Chairman, Dr. Li Nga Kuk, James and the Chief Executive Officer ("CEO"), Mr. Li Wo Hing are segregated. This segregation ensures a clear distinction between the Chairman's and CEO's responsibilities which allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability. There is no financial, business, family or other material/relevant relationship between the Chairman and the CEO.

Dr. Li, as the Chairman of the Company, has overall responsibility for providing leadership, vision and direction in the development of the business of the Company. He ensures that:

– the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board in a timely manner;

– the responsibilities for drawing up the agenda for each Board meeting and, where appropriate, taking into account any matters proposed by each director for inclusion in the agenda have been duly delegated to the Company Secretary; and

– good corporate governance practices and procedures are established and encourages all directors to make full and active participation to the affairs of the Group.

Corporate Governance Report

Mr. Li, as the CEO, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the executive management team of each core business division, he ensures the smooth operations and development of the Group. He maintains a continuing dialogue with the Chairman and all directors to keep them fully informed of all major business developments and issues.

Company Secretary

The Company Secretary is responsible to the Board for ensuring that board procedures are followed and for ensuring that the Board is fully briefed on all legislative, regulatory and corporate governance developments and that it has regards to them when making decisions. The Company Secretary is also directly responsible for the Group's compliance with the continuing obligations of the GEM Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

Compliance with the required standard of dealings in Securities Transactions by Directors of Listed Issuers

The Group adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, all directors had confirmed that they had fully complied with the required standard of dealings and there was no event of non-compliance duing the year ended 31 December 2005.

NOMINATION COMMITTEE

The Nomination Committee was established in 2005. The Chairman of the committee is Mr. Fan Wan Tat, an Independent Non-Executive Director of the Company. Other members include Mr. Tam Wai Leung, Joseph and Dr. Li Nga Kuk, James, the majority being Independent Non-Executive Directors of the Company.

The Nomination Committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of directors and board succession. The Committee will also develop selection procedures for nomination of candidates, review the size, structure and composition of the Board, as well as assess the independence of independent non-executive directors. The Committee is provided with sufficient resources enabling it to discharge its duties. The terms of reference of the Nomination Committee is in written form in compliance with the GEM Listing Rules.

The Nomination Committee held its first meeting on 27 March 2006 to review the structure, size and composition of the Company's Board of directors. Mr. Tam Wai Leung, Joseph, Mr. Fan Wan Tat and Dr. Li Nga Kuk, James attended this meeting. The Nomination Committee was satisfied with the existing composition of the Company's board of directors and recommended no change to be made in the near term.

Term of Appointment and Re-election

All the executive directors entered into a service contract with the Company for an initial term of three years effective from 1 December 2001 and shall continue thereafter. All the non-executive directors, are appointed for a term of one year. All directors would retire from office by rotation and are subject to re-election at annual general meeting once every three years. Pursuant to the By-Laws of the Company, Messrs. Li Tai To, Titus, Guo Guoqing and Chen Minshan will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005. The Chairman of the committee is Mr. Tam Wai Leung, Joseph, an Independent Non-Executive Director of the Company. Other members include Mr. Fan Wan Tat and Mr. Li Wo Hing, the majority also being Independent Non-Executive Directors of the Company.

The Remuneration Committee is responsible for formulating and recommending to the Board the remuneration policy, determining the remuneration of executive directors and members of senior management of the Group, as well as reviewing and making recommendations on the Company's share option scheme, bonus structure, provident fund and other compensation-related issues. The Committee consults with the Chairman and/or the Chief Executive Officer on its proposals and recommendations, and also has access to professional advice if deemed necessary by the Committee. The Committee is also provided with other resources enabling it to discharge its duties. The terms of reference of the Remuneration Committee is in written form in compliance with the GEM Listing Rules.

The Remuneration Committee held its first meeting on 27 March 2006 to review the remuneration packages of Executive Directors, Non-Executive Directors and senior management. Mr. Fan Wan Tat, Mr. Tam Wai Leung, Joseph and Mr. Li Wo Hing attended this meeting. The Remuneration Committee was satisfied with the existing remuneration packages offered and recommended no change in present term.

AUDIT COMMITTEE

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the financial statements of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and other financial disclosures. Management provides all relevant information and record to the Board enabling the Board to make the above assessment and to prepare the financial statements and other financial disclosures.

In full compliance with rule 5.28 of the GEM Listing Rules, the Audit Committee, which was established in 2002, is currently chaired by Mr. Fan Wan Tat, an Independent Non-Executive Director of the Company. Other members of the Committee are Mr. Guo Guoqing and Tam Wai Leung, Joseph, with all being Independent Non-Executive Directors of the Company.

Corporate Governance Report

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors during the year under review.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual and interim and quarterly reports, and the auditors' report present a true and balanced assessment of the Group's financial position; reviewing the Group's financial control, internal control and risk management systems; and reviewing the Group's financial and accounting policies and practices. Other duties of the Audit Committee are set out in its terms of reference, which is in written form in compliance with the GEM Listing Rules.

The Audit Committee is provided with sufficient resources enabling it to discharge its duties. The Audit Committee had met four times to review the quarterly and annual results of the Group during the year ended 31 December, 2005, which were attended by all members. Full minutes of the Audit Committee are kept by the Company Secretary.

External Auditors

KPMG had tendered their resignation as external auditors of the Company and its subsidiaries with effect from 20 April 2005 due to the Company and KPMG could not make a concensus on the auditors' remuneration for the year ended 31 December 2005. As recommended by the Audit Committee, Kennic L. H. Lui & Co. Ltd. were appointed as external auditors of the Company and its subsidiaries with effect from 12 May 2005 to fill the casual vacancy upon the resignation of KPMG, and shall hold office until the conclusion of the forthcoming Annual General Meeting of the Company. Pursuant to an ordinary resolution passed at the Annual General Meeting held on 22 June 2005, Kennic L. H. Lui & Co. Ltd. had been re-appointed as the auditors of the Company and to hold office until the conclusion of the next Annual General Meeting. The Group's annual financial statements for the year ended 31 December 2005 have been audited by Kennic L. H. Lui & Co. Ltd.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group to safeguard the Group's assets and shareholders' interests, as well as for reviewing such systems' effectiveness. The Board will from time to time conduct a review of the Group's internal control systems. The Board has reviewed the effectiveness of the Group's internal control systems, covering financial, operational and compliance controls and risk management functions, during the year under review.

In such review, the Board has considered factors such as changes made since last review; scope and quality of management in monitoring risk factors; incidence of any significant control failure or weaknesses identified; and the effectiveness relating to financial reporting and compliance with the GEM Listing Rules.

DELEGATION BY THE BOARD

The Board is responsible for decision in relation to the overall strategic development of the Group's business. All directors have formal letters of appointment setting out key terms and conditions relating to their appointment. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and execution of the strategic business plans are delegated to management.

All committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, have their terms of reference clearly defining the powers and responsibilities of the respective committees. All committees are required to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situation, to seek the Board's approval before taking any actions.

The Board reviews, on yearly basis, all delegations by the Board to different committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT

The Company uses a number of formal communication channels to render information regarding the performance of the Company to shareholders and investors. These include (i) publication of quarterly and annual reports; (ii) holding annual general meeting or extraordinary general meeting to provide a forum for the shareholders to raise comments and exchange their views with the Board; (iii) providing updated and key information of the Group on the website of the Company; and (iv) engaging the Company's share registrars in Hong Kong to serve the shareholders in respect of all share registration matters.

The Company aims to provide its shareholders and investors with high standard of disclosure and financial transparency. The Board is committed to provide clear and detailed information of the Group to the shareholders through the publication of quarterly and annual reports and/or dispatching circular, notices, and other announcements, in a timely and regular manner.

The Company strives to take into consideration its shareholders' views and inputs, and address shareholders' concerns. Shareholders are encouraged to attend the annual general meeting for which at least 21 days' notice is given. The Chairman as well as chairmen of Audit Committee, Nomination Committee and/or Remuneration Committee, or in their absence, directors are available to answer shareholders' questions on the Group's businesses during the meetings. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders.

Auditors' Report

呂禮恒會計師事務所有限公司

Kennic L. H. Lui & Co. Ltd.

Certified Public Accountants (Practising)

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

We have audited the financial statements on pages 27 to 74 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 judgments 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 Hong Kong Standards on Auditing 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 judgments 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 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Kennic L. H. Lui & Co. Ltd.
Certified Public Accountants (Practising)
Lau Wu Kwai King, Lauren
Practising Certificate No. P02651

Hong Kong, 27 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Note	**2005** ***HK$'000***	2004 *HK$'000* *Restated*
Turnover	*4*	**36,081**	31,576
Cost of services/sales		**(15,294)**	(15,768)
Gross profit		**20,787**	15,808
Other revenue	*5*	**1,979**	4,905
Selling and distribution expenses		**(5,737)**	(3,315)
Administrative expenses		**(9,356)**	(8,121)
Impairment loss recognised in respect of property, plant and equipment	*13*	**(6,416)**	–
Impairment loss recognised in respect of inventories	*18*	**(437)**	–
Other operating expenses		**(2,820)**	(3,132)
Profit/(loss) from operations		**(2,000)**	6,145
Finance costs	*6(a)*	**(301)**	(73)
Share of loss of an associate		**–**	(290)
Profit/(loss) before taxation	*6*	**(2,301)**	5,782
Income tax	*7*	**–**	(2,507)
Profit/(loss) for the year		**(2,301)**	3,275
Attributable to:			
Equity holders of the Company		**(2,167)**	3,560
Minority interests		**(134)**	(285)
		(2,301)	3,275
Earnings/(loss) per share (in Hong Kong cents)			
Basic	*11(a)*	**(0.26)**	0.43

The notes on pages 34 to 74 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2005

	Note	2005 HK$'000	2005 HK$'000	2004 HK$'000 Restated	2004 HK$'000 Restated
Non-current assets					
Property, plant and equipment	13	**8,842**		19,493	
Construction in progress	14	**760**		–	
Interest in leasehold land held for own use under operating lease	15	**2,303**		1,089	
Intangible assets	16	**57,983**		58,237	
Negative goodwill		**–**		(3,089)	
			69,888		75,730
Current assets					
Inventories	18	**6,035**		7,098	
Trade and other receivables	19	**12,868**		6,637	
Deposits with banks	21	**52,869**		91,191	
Cash at bank and on hand	22	**15,398**		9,091	
		87,170		114,017	
Current liabilities					
Trade and other payables	24	**28,320**		65,561	
Bank loan	23	**4,326**		1,880	
Amounts due to related companies	26	**–**		1,790	
Amount due to a director	34	**200**		–	
Current taxation	27	**24**		24	
		32,870		69,255	
Net current assets			**54,300**		44,762
NET ASSETS			**124,188**		120,492

The notes on pages 34 to 74 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2005

	Note	2005 HK$'000	2005 HK$'000	2004 HK$'000 Restated	2004 HK$'000 Restated
CAPITAL AND RESERVES					
Share capital	*28*		**8,350**		8,350
Reserves	*29*		**112,104**		108,358
Total equity attributable to equity holders of the Company			**120,454**		116,708
Minority interests			**3,734**		3,784
TOTAL EQUITY			**124,188**		120,492

Approved and authorised for issue by the board of directors on 27 March 2006.

Li Nga Kuk, James
Chairman

Li Wo Hing
Director

The notes on pages 34 to 74 form part of these financial statements.

Balance Sheet

At 31 December 2005

	Note	2005 HK$'000	2005 HK$'000	2004 HK$'000	2004 HK$'000
Non-current assets					
Property, plant and equipment	13		**232**		406
Investments in subsidiaries	17		**47,670**		17,748
			47,902		18,154
Current assets					
Trade and other receivables	19	**19**		13	
Amounts due from subsidiaries	20	**84,519**		84,519	
Cash at bank and on hand	22	**221**		692	
		84,759		85,224	
Current liabilities					
Trade and other payables	24	**848**		2,235	
Amounts due to subsidiaries	25	**65,648**		31,364	
Amount due to a director	34	**200**		–	
		66,696		33,599	
Net current assets			**18,063**		51,625
NET ASSETS			**65,965**		69,779
CAPITAL AND RESERVES					
Share capital	28		**8,350**		8,350
Reserves	29		**57,615**		61,429
TOTAL EQUITY			**65,965**		69,779

Approved and authorised for issue by the board of directors on 27 March 2006.

Li Nga Kuk, James
Chairman

Li Wo Hing
Director

The notes on pages 34 to 74 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the Company								
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Exchange reserve *HK$'000*	General reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2004	8,350	70,733	5,265	(405)	5,783	23,117	112,843	4,062	116,905
Net gains and losses not recognised in the consolidated income statement									
– Currency translation differences	–	–	–	278	–	–	278	7	285
Reserves realised upon disposal of a subsidiary	–	–	–	27	(5,783)	5,783	27	–	27
Profit/(loss) for the year	–	–	–	–	–	3,560	3,560	(285)	3,275
At 31 December 2004	**8,350**	**70,733**	**5,265**	**(100)**	**–**	**32,460**	**116,708**	**3,784**	**120,492**
At 1 January 2005	8,350	70,733	5,265	(100)	–	32,460	116,708	3,784	120,492
– Adjustment on retained profits in respect of amortisation of negative goodwill	–	–	–	–	–	3,089	3,089	–	3,089
– As restated	8,350	70,733	5,265	(100)	–	35,549	119,797	3,784	123,581
Net gains and losses not recognised in the consolidated income statement									
– Currency translation differences	–	–	–	2,824	–	–	2,824	84	2,908
Loss for the year	–	–	–	–	–	(2,167)	(2,167)	(134)	(2,301)
At 31 December 2005	**8,350**	**70,733**	**5,265**	**2,724**	**–**	**33,382**	**120,454**	**3,734**	**124,188**

The notes on pages 34 to 74 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005		2004	
		HK$'000	**HK$'000**	*HK$'000* *Restated*	*HK$'000* *Restated*
Cash flows from operating activities					
Profit/(loss) before taxation		**(2,301)**		5,782	
Adjustments for:					
Depreciation		**5,088**		5,636	
Impairment loss recognised in respect of property, plant and equipment		**6,416**		–	
Impairment loss recognised in respect of inventories		**437**		–	
Amortisation of negative goodwill		**–**		(2,853)	
Amortisation of intangible assets		**337**		308	
Amortisation of prepaid lease payments		**38**		34	
Net loss on disposal of property, plant and equipment		**24**		123	
Interest income		**(1,588)**		(1,570)	
Finance cost		**301**		73	
Share of losses of an associate		**–**		290	
Net gain on disposal of a subsidiary	*30(a)*	**–**		(643)	
Operating profit before changes in working capital		**8,752**		7,180	
(Increase)/decrease in inventories		**755**		(2,413)	
Increase in trade and other receivables		**(6,082)**		(16,102)	
Decrease in amount due from a related company		**–**		75	
Increase/(decrease) in trade and other payables		**(37,241)**		17,212	
Increase/(decrease) in amounts due to related companies		**(1,790)**		512	
Increase in amount due to a director		**200**		–	
Net cash generated from/(used in) operating activities			**(35,406)**		6,464

The notes on pages 34 to 74 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2005 HK$'000	2004 HK$'000 Restated	2004 HK$'000 Restated
Cash flows from investing activities					
Capital expenditure					
– Property, plant and equipment		**(713)**		(703)	
– Interest in leasehold land held for own use under operating lease		**(1,227)**		–	
– Construction in progress		**(760)**		(826)	
(Increase)/decrease in placement of deposits with banks		**40,373**		(11,281)	
Interest received		**1,588**		1,570	
Proceeds from sales of property, plant and equipment		**103**		260	
Proceeds from disposal of an associate		**–**		104	
Net inflow from disposal of a subsidiary	30(b)	**–**		3,544	
Net cash generated from/(used in) investing activities			**39,364**		(7,332)
Cash flows from financing activities					
Interest paid		**(301)**		(73)	
Proceeds from a new bank loan		**5,768**		1,880	
Repayment of bank loan		**(3,322)**		–	
Net cash generated from financing activities			**2,145**		1,807
Net increase in cash and cash equivalents			**6,103**		939
Cash and cash equivalents at beginning of the year			**9,091**		8,139
Effect of foreign exchange rates changes			**204**		13
Cash and cash equivalents at end of the year			**15,398**		9,091

The notes on pages 34 to 74 form part of these financial statements.

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investments holding. The principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements.

2. CHANGES IN ACCOUNTING POLICIES

(a) Adoption of New and Revised Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations which are generally effective for accounting periods beginning on or after 1 January 2005.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in the financial statements.

(i) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to equity holders of the Company.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative year has been restated accordingly.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Adoption of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

(ii) Amortisation of negative goodwill (HKFRS 3, Business combinations)

In prior years, negative goodwill was amortised on a straight-line basis in accordance with the remaining estimated useful economic lives of the relevant assets acquired.

With effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

This change was adopted by way of an adjustment to the opening balance of the retained profits as at 1 January 2005 of HK$3,089,000. No restatement of comparative figures is required.

(iii) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and impairment losses.

With the adoption of HKAS 17 as from 1 January 2005, the interest in leasehold land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the interest in leasehold land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Such leasehold land will not be revalued. Instead, any prepaid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term. If the property is in the course of development or re-development, or the property is otherwise being used in the production of inventory, the amortisation charge is included as part of the costs of the property under development or other inventory. In all other cases the amortisation charge for the year is recognised in the income statement immediately.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Adoption of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

(iii) Leasehold land and buildings held for own use (HKAS 17, Leases) (Continued)

Any buildings held for own use which are situated on such leasehold land continue to be presented as part of property, plant and equipment. As from 1 January 2005 the buildings are also stated at cost less accumulated depreciation which is consistent with the new policy required to be adopted for the land element.

This change has no material impact on the operating results of the Group.

(iv) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

With effect from 1 January 2005, the Group has adopted HKAS 32 and HKAS 39.

HKAS 32 requires retrospective application. The application of HKAS 32 has no material effect on the presentation of financial instruments in the financial statements of the Group.

HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. With the adoption of HKAS 39 as from 1 January 2005, financial assets of the Group are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Unquoted equity investments for which fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has no material effect on the recognition and measurement of financial assets and financial liabilities of the Group.

(v) Definition of related parties (HKAS 24, Related party disclosures)

HKAS 24 provides additional guidance and clarity to the definition and disclosures of related parties and related party transactions. Upon the adoption of HKAS 24, the related note disclosures are now more extensive than previously required. These related party disclosures are presented in note 34 to the financial statements.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Impact of Hong Kong Financial Reporting Standards Issued but not yet Effective

Up to the date of issue of these financial statements, the HKICPA has issued a number of HKFRSs which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements.

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these new standards, new interpretations and amendments is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, as modified for the revaluation of financial assets and financial liabilities at fair value through income statement.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities of the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of consolidation

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

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

Capital reserves arising on consolidation, which represents the deficit of cost over fair values attributed to the net assets of the subsidiaries acquired, are credited directly to reserves on consolidation.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in income statement.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and controlled entities

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half of 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 controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

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 and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

The gain or loss arising from the disposal or retirement of a property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the relevant asset and is recognised in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

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

(f) 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. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Construction in progress *(Continued)*

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 3(e) above.

(g) Intangible assets (other than goodwill)

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Medical research projects and other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised 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.

Amortisation of intangible assets is charged to income statement on a straight-line basis over the assets' estimated useful lives unless such lives are indefinite. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Medical research projects	5 to 10 years
Other intangible assets	5 to 10 years

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets

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

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable 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 recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised 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 realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Cash and 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 consolidated cash flow statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

A deferred tax asset is also recognised for the carryforward of unused tax losses, to the extent that it is probable that taxable profits will be available against which the carryforward of the unused tax losses can be utilised.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a 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.

(p) Revenue recognition

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

(i) *Medical service fee*

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

(ii) *Sales of goods*

Sales of goods recognised when goods are delivered and the title has passed. Revenue excludes value added tax and is after deduction of any trade discounts.

(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 estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases.

Rental payables under the operating leases are charged to the income statement on a straight-line basis over the period of the relevant lease.

(r) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the group in an independently administered fund. The Group's contributions as employer vest fully with the employees when contributed into the Scheme. No forfeited contributions are available to reduce the contributions payable in future years.

The Group has joined a mandatory central pension scheme organised 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 profit and loss account as they became payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

(s) Foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Foreign currencies *(Continued)*

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) 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 capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) 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 geographical segment information as the secondary reporting format for the purposes of these financial statements.

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 balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

4. TURNOVER

Turnover represents service fees arising from the provision of medical equipment services and related accessories, net of respective taxes; the sale 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 People's Republic of China (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 utilisation of the medical equipment after deducting the related direct expenses.

Turnover recognised during the year is analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
Medical equipment service fees and sales of related accessories	**16,664**	20,351
Sale of testing equipment	**15,634**	10,036
Research and development services	**3,783**	1,189
	36,081	31,576

5. OTHER REVENUE

	2005	2004
	HK$'000	*HK$'000*
		Restated
Interest income	**1,588**	1,570
Amortisation of negative goodwill	**–**	2,853
Net loss on disposal of property, plant and equipment	**(24)**	(123)
Net gain on disposal of a subsidiary *(Note)*	**–**	643
Foreign exchange loss	**(146)**	(140)
Miscellaneous	**561**	102
	1,979	4,905

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

6. PROFIT/(LOSS) BEFORE TAXATION

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

		2005 *HK$'000*	2004 *HK$'000* *Restated*
(a)	**Finance costs:**		
	Interest expense on bank loan	**301**	73
(b)	**Staff costs:**		
	Staff costs (including directors' remuneration in Note 8)		
	– wages and salaries	**4,614**	3,987
	– staff retirement benefits	**17**	20
		4,631	4,007
	Average number of employees during the year	**177**	146
(c)	**Other items:**		
	Cost of inventories	**11,748**	10,089
	Depreciation	**5,088**	5,636
	Auditors' remuneration		
	– audit services	**600**	800
	– other services	**14**	207
	Operating lease charges in respect of office premises	**372**	490
	Amortisation of prepaid lease payments	**38**	34
	Amortisation of negative goodwill	**–**	(2,853)
	Amortisation of intangible assets	**337**	308
	Research and development costs	**2,820**	3,283
	Impairment losses recognised in respect of		
	– property, plant and equipment	**6,416**	–
	– inventories	**437**	–

7. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2005 ***HK$'000***	2004 *HK$'000*
Current tax – PRC		
Tax for the year	–	2,507

(i) *Hong Kong Profits Tax*

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits chargeable to Hong Kong Profits Tax during the year.

(ii) *PRC Income Tax*

The Company's subsidiary, Tat Lung Medical Treatment (Shenzhen) Ltd. ("Tat Lung Treatment"), located in the Shenzhen Special Economic Zone ("SSEZ") in the PRC is subject to PRC income tax at a reduced rate of 15% (2004: 15%). According to the relevant income tax rules and regulations in the PRC, Tat Lung Treatment obtained approval from the state tax bureau that they are entitled to a 100% relief from PRC Income Tax in the first and second years and 50% relief for the third to fifth years, commencing from the first profitable year after the offset of deductible losses incurred in prior years, if any.

No provision for PRC Income Tax has been made for the Company's other subsidiaries, China Best Drugs Research (Nanjing) Ltd. ("China Best"), Sinnowa Medical Science & Technology Co., Ltd. ("Sinnowa"), China Best Pharmaceutical (Nanjing) Company Ltd. ("CB Pharmaceutical") and Guilin Simei Biotechnology Ltd. ("Guilin Simei"), as they did not have assessable profits for the year determined in accordance with the relevant income tax rules and regulations in the PRC.

7. INCOME TAX *(Continued)*

(b) Reconciliation between taxation and profit/(loss) before taxation at applicable tax rates:

	2005		2004	
	HK$'000	%	*HK$'000*	%
Profit/(loss) before taxation	**(2,301)**		5,782	
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to the countries concerned	**(297)**	**12.9**	463	8.0
Tax effect of non-deductible expenses	**741**	**(32.2)**	743	12.9
Tax effect of non-taxable revenue	**–**	**–**	(9)	(0.2)
Tax effect of concession period	**(444)**	**19.3**	1,310	22.7
Taxation	**–**	**–**	2,507	43.4

The tax rate applicable to the Group's operations in Hong Kong is 17.5% (2004: 17.5%). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. The applicable income tax rate for the Group's PRC operations is 33% (2004: 33%) except for certain subsidiaries which are located in the SSEZ in the PRC. The applicable income tax rate for these subsidiaries in SSEZ is 15% (2004: 15%). These tax rates are taken into account in the preparation of the Group's tax reconciliation.

(c) No provision has been made for deferred taxation as the Group does not have any material deductible or taxable temporary differences (2004: HK$Nil).

8. DIRECTORS' REMUNERATION

Pursuant to Section 161 of the Companies Ordinance, the details of remuneration made to the directors are as follows:

	Directors fees		Salaries, allowance and benefits in kind		Total	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Executive directors						
Li Nga Kuk, James	**–**	–	**152**	165	**152**	165
Li Wo Hing	**–**	–	**–**	–	**–**	–
Li Tai To, Titus	**–**	–	**152**	165	**152**	165
Chan Shut Li, William	**–**	–	**–**	330	**–**	330
Chan Siu Sun	**–**	–	**–**	330	**–**	330
Ng Kwai Saug	**–**	–	**–**	–	**–**	–
Non-executive director						
Chen Minshan	**60**	60	**–**	–	**60**	60
Independent non-executive directors						
Guo Guoqing	**60**	60	**–**	–	**60**	60
Fan Wan Tat	**60**	60	**–**	–	**60**	60
Tam Wai Leung, Joseph	**60**	60	**–**	–	**60**	60
Huang Han K	**–**	60	**–**	–	**–**	60
	240	300	**304**	990	**544**	1,290

The remuneration of the directors is within the following band:

	2005 ***Number of directors***	2004 *Number of directors*
Nil – HK$1,000,000	**7**	11

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 during the year ended 31 December 2005.

The Executive Directors entered into service contracts with the Company for an initial period of three years commencing on 1 December 2001. Thereafter, they are appointed for a term of one year and renewed with the Board approval.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2004: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining three (2004: one) individuals are as follows:

	2005 **HK$'000**	2004 HK$'000
Basic salaries, allowances and other benefits	**511**	180
Discretionary bonuses	**22**	–
Retirement benefit scheme contributions	**8**	9
	541	189

The emoluments of the remaining three (2004: one) individuals with the highest emoluments are within the following band:

	2005 ***Number of individuals***	2004 *Number of individuals*
Nil – HK$1,000,000	**3**	1

10. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity holders of the Company includes a loss of HK$3,814,000 (2004: HK$3,370,000) which has been dealt with in the financial statements of the Company.

11. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the loss attributable to equity holders of the Company of HK$2,167,000 (2004: profit of HK$3,560,000) divided by the weighted average number of 835,000,000 (2004: 835,000,000) ordinary shares in issue during the year.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share for the year ended 31 December 2005 and 2004 have been presented because there were no potential dilutive ordinary shares in existence during the respective years.

12. SEGMENT INFORMATION

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 mainly 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.

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

Research and development: development of drugs.

12. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Medical services		Sale of medical equipment		Research and development		Unallocated		Consolidated	
	2005	*2004*	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000* (Restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)
Revenue from external customers	**16,664**	20,351	**15,634**	10,036	**3,783**	1,189	**–**	–	**36,081**	31,576
Segment result	**1,285**	11,478	**(310)**	(623)	**(159)**	(3,418)	**–**	–	**816**	7,437
Unallocated operating income and expenses									**(2,816)**	(1,292)
Profit/(loss) from operations									**(2,000)**	6,145
Finance costs									**(301)**	(73)
Share of loss of an associate									**–**	(290)
Income tax									**–**	(2,507)
Loss shared by minority interests									**134**	285
Profit/(loss) attributable to equity holders of the Company									**(2,167)**	3,560
Depreciation for the year	**4,123**	4,906	**541**	415	**228**	135	**196**	180	**5,088**	5,636
Impairment loss for the year	**6,701**	–	**–**	–	**152**	–	**–**	–	**6,853**	–
Amortisation for the year										
– negative goodwill	**–**	(2,853)	**–**	–	**–**	–	**–**	–	**–**	(2,853)
– intangible assets	**–**	–	**337**	308	**–**	–	**–**	–	**337**	308
– prepaid lease payments	**–**	–	**38**	34	**–**	–	**–**	–	**38**	34
Segment assets	**62,874**	11,679	**19,988**	18,268	**63,823**	59,057	**–**	–	**146,685**	89,004
Unallocated assets									**10,373**	100,743
Total assets									**157,058**	189,747
Segment liabilities	**(1,206)**	(17,109)	**(9,267)**	(8,419)	**(159)**	(20,993)	**–**	–	**(10,632)**	(46,521)
Unallocated liabilities									**(22,238)**	(22,734)
Total liabilities									**(32,870)**	(69,255)
Capital expenditure incurred during the year	**260**	177	**169**	1,099	**27**	237	**250**	16	**706**	1,529

13. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings *HK$'000*	Medical equipment *HK$'000*	Motor vehicles *HK$'000*	Plant, machinery and equipment *HK$'000*	Total *HK$'000*
Cost					
At 1 January 2004	5,160	30,057	1,723	1,462	38,402
Additions	–	172	235	296	703
Transfer from construction in progress *(Note 14)*	1,618	–	34	–	1,652
Disposals	–	(734)	–	–	(734)
Exchange adjustment	10	27	2	2	41
At 31 December 2004	**6,788**	**29,522**	**1,994**	**1,760**	**40,064**
At 1 January 2005	6,788	29,522	1,994	1,760	40,064
Additions	–	–	500	213	713
Impairment loss	–	(6,265)	(8)	(143)	(6,416)
Disposals	–	(12,430)	(218)	–	(12,648)
Exchange adjustment	152	241	24	35	452
At 31 December 2005	**6,940**	**11,068**	**2,292**	**1,865**	**22,165**
Aggregate depreciation					
At 1 January 2004	39	14,531	406	305	15,281
Charge for the year	233	4,804	362	237	5,636
Written back on disposal	–	(351)	–	–	(351)
Exchange adjustment	–	5	–	–	5
At 31 December 2004	**272**	**18,989**	**768**	**542**	**20,571**
At 1 January 2005	272	18,989	768	542	20,571
Charge for the year	309	4,018	401	360	5,088
Written back on disposal	–	(12,430)	(91)	–	(12,521)
Exchange adjustment	9	152	9	15	185
At 31 December 2005	**590**	**10,729**	**1,087**	**917**	**13,323**
Net book value					
At 31 December 2005	**6,350**	**339**	**1,205**	**948**	**8,842**
At 31 December 2004	6,516	10,533	1,226	1,218	19,493

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) The Company

	Motor vehicles HK$'000	Plant, machinery and equipment HK$'000	Total HK$'000
Cost			
At 1 January 2004	803	90	893
Additions	–	16	16
At 31 December 2004	**803**	**106**	**909**
At 1 January 2005	803	106	909
Additions	–	9	9
At 31 December 2005	**803**	**115**	**918**
Aggregate depreciation			
At 1 January 2004	295	28	323
Charge for the year	160	20	180
At 31 December 2004	**455**	**48**	**503**
At 1 January 2005	455	48	503
Charge for the year	161	22	183
At 31 December 2005	**616**	**70**	**686**
Net book value			
At 31 December 2005	**187**	**45**	**232**
At 31 December 2004	348	58	406

(c) At 31 December 2005, the directors of the Company reviewed the carrying value of the Group's medical equipment by assessing its recoverable amount. Based on the value-in-use assessment by using a pre-tax rate that reflects the current market assessment of time value of money and the risks specific to the property, plant and equipment, the directors consider that an impairment loss of HK$6,265,000 would be made on the carrying amount of the medical equipment.

14. CONSTRUCTION IN PROGRESS

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	825
Exchange adjustments	**–**	1
Additions	**760**	826
Transfer to property, plant and equipment *(Note 13(a))*	**–**	(1,652)
Balance at end of the year	**760**	–

15. INTEREST IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

	The Group
	HK$'000
Cost	
At 1 January 2004	1,132
Exchange adjustments	1
At 31 December 2004	**1,133**
Additions	1,227
Exchange adjustments	26
At 31 December 2005	**2,386**
Accumulated amortisation	
At 1 January 2004	10
Charge for the year	34
At 31 December 2004	**44**
Charge for the year	38
Exchange adjustments	1
At 31 December 2005	**83**
Net book value	
At 31 December 2005	**2,303**
At 31 December 2004	1,089

(a) The leasehold lands held by the Group are under medium term leases and situated outside Hong Kong.

(b) At 31 December 2005, one of the leasehold lands amounted to HK$1,076,000 (2004: HK$1,089,000) had been pledged to a bank as security for the Group's bank borrowing.

16. INTANGIBLE ASSETS

	Medical research projects HK$'000	Others HK$'000	Total HK$'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**
Exchange adjustments	43	82	125
At 31 December 2005	**83,940**	**2,413**	**86,353**
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**
Charge for the year	–	379	379
At 31 December 2005	**27,625**	**745**	**28,370**
Net book value			
At 31 December 2005	**56,315**	**1,668**	**57,983**
At 31 December 2004	56,272	1,965	58,237

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 2005, 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 commercialisation 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 2005 (2004: HK$Nil).

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**47,670**	17,748

The following list contains the particulars of subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 3(d) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Issued capital	Registered capital	Principal activities	*Note*
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 Limited	Hong Kong	100%	–	100%	HK$142,900	HK$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 and 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	

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ establishment and operation	Group's effective holding	Percentage of equity held by the Company	Percentage of equity held by subsidiary	Issued capital	Registered capital	Principal activities	*Note*
CB Pharmaceutical (Nanjing) Co., Ltd.	PRC	100%	100%	–	US$4,000,000	US$4,000,000	Manufacturing and sale of medicine and drugs	(iv)
Guilin Simei Biotechnology Ltd.	PRC	100%	100%	–	US$150,000	US$1,000,000	Development and sale of tropical plants for Chinese drugs and medicine usages	(v)

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. Pursuant to a research projects acquisition and reorganisation agreement with Miss Guo Ping dated 6 December 2002, the subsidiary acquired certain medical research projects from Miss Guo. Upon the completion of reorganisation, 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 2004 and 2005, 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$3,700,000 as capital contribution. Nanjing Golden ShiCheng Certified Public Accountants Co, Ltd. has verified the above capital contribution and issued a capital verification report on 29 November 2005. As at 31 December 2005, the Company's total investment in this subsidiary amounted to US$4,000,000.

(v) The subsidiary is a wholly foreign owned enterprise established in Guilin, the PRC. During the year, the Company contributed US$150,000 as capital contribution. Guang Xi Fang Zhong Certified Public Accountants Co., Ltd. has verified the above capital contribution and issued a capital verification report on 11 August 2005. As at 31 December 2005, the Company's total investment in this subsidiary amounted to US$150,000.

18. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**1,793**	2,772
Work in progress	**653**	795
Finished goods	**3,589**	3,531
	6,035	7,098

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**11,311**	10,089
Write down of inventories	**437**	–
	11,748	10,089

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors	**5,821**	1,746	**–**	–
Other receivables, deposits and prepayments	**7,047**	4,891	**19**	13
	12,868	6,637	**19**	13

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

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in trade and other receivables are trade debtors with the following ageing analysis as at the balance sheet date:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within 3 months of the date of billing	**4,582**	1,274
3 to 6 months of the date of billing	**660**	353
6 to 12 months of the date of billing	**579**	119
	5,821	1,746

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

20. AMOUNTS DUE FROM SUBSIDIARIES

	2005	**2004**
	HK$'000	***HK$'000***
Sinnowa Medical Science and Technology Co. Ltd.	**51**	51
Medical China Technology Ltd.	**84,468**	84,468
	84,519	84,519

The amounts due are unsecured, interest free and repayable on demand.

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. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and on hand	**15,398**	9,091	**221**	692

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they related:

	The Group		The Company	
	2005	2004	**2005**	2004
	'000	*'000*	***'000***	*'000*
Renminbi Yuan	**12,884**	4,802	**–**	–

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.

23. BANK LOAN

At 31 December 2005, the bank loan was repayable as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year or on demand	**4,326**	1,880

The above bank loan was secured by a charge on the leasehold land of the Group with an aggregate carrying value of HK$1,075,000 (2004: HK$1,089,000) at 31 December 2005.

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**2,807**	3,191	**–**	–
Other payables and accrued liabilities	**25,513**	62,370	**848**	2,235
	28,320	65,561	**848**	2,235

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

Included in trade and other payables are trade creditors with the following ageing analysis as at the balance sheet date:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Due within 3 months or on demand	**1,315**	3,191
Due after 3 months but within 6 months	**186**	–
Due after 6 months but within 1 year	**1,306**	–
	2,807	3,191

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2005	2004	**2005**	2004
	'000	*'000*	***'000***	*'000*
Renminbi Yuan	**28,578**	67,360	**–**	–

25. AMOUNTS DUE TO SUBSIDIARIES

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

26. AMOUNTS DUE TO RELATED COMPANIES

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Everblooming Enterprises Company ("Everblooming")	**–**	895
Nanjing Innova Technology Limited ("Innova")	**–**	895
	–	1,790

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

27. CURRENT TAXATION

Current taxation in the consolidated balance sheet represents:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Provision for PRC tax	**24**	24

28. SHARE CAPITAL

	2005		2004	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised				
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

29. RESERVES

(a) The Group

	General reserve HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Exchange reserve HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004	5,783	70,733	5,265	23,117	(405)	104,493	4,062	108,555
Net gains and losses not recognised in the consolidated income statement								
– Currency translation differences	–	–	–	–	278	278	7	285
Reserves realised upon disposal of a subsidiary	(5,783)	–	–	5,783	27	27	–	27
Profit/(loss) for the year	–	–	–	3,560	–	3,560	(285)	3,275
At 31 December 2004	–	70,733	5,265	32,460	(100)	108,358	3,784	112,142
At 1 January 2005	–	70,733	5,265	32,460	(100)	108,358	3,784	112,142
– Adjustment on retained profits in respect of unamortised negative goodwill	–	–	–	3,089	–	3,089	–	3,089
– As restated	–	70,733	5,265	35,549	(100)	111,447	3,784	115,231
Net gains and losses not recognised in the consolidated income statement								
– Currency translation differences	–	–	–	–	2,824	2,824	84	2,908
Loss for the year	–	–	–	(2,167)	–	(2,167)	(134)	(2,301)
At 31 December 2005	**–**	**70,733**	**5,265**	**33,382**	**2,724**	**112,104**	**3,734**	**115,838**

29. RESERVES *(Continued)*

(b) The Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
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
At 1 January 2005	70,733	5,265	(14,569)	61,429
Loss for the year	–	–	(3,814)	(3,814)
At 31 December 2005	**70,733**	**5,265**	**(18,383)**	**57,615**

(c) 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").

(d) Pursuant to a group reorganisation 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 reorganisation 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.

(e) The exchange reserve has been set up and will be dealt with in accordance with the accounting policy adopted for foreign currency translation.

(f) Included in the retained profits is an amount of HK$Nil (2004: HK$317,000), being the accumulated losses attributable to an associate.

(g) At 31 December 2005 and 2004, the Company had no reserve available for distribution to shareholders.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Net assets of a subsidiary disposed of

	2005 HK$'000	2004 HK$'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

	2005 HK$'000	2004 HK$'000
Cash consideration	–	5,000
Cash at bank and on hand	–	(1,456)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	3,544

31. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2005 contracted but not provided for in the financial statements were as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Capital contributions to the subsidiaries	**6,596**	28,860
Property, plant and equipment	**8,184**	–
	14,780	28,860

(b) Operating lease commitments

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 year	**459**	579
After 1 year but within 5 years	**173**	–
After 5 years	**243**	–
	875	579

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

32. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

(a) Hong Kong

The Group operated a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the plan vest immediately.

(b) The PRC

The PRC subsidiaries of the Group participate in a mandatory central pension scheme organised 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 6(b) to the financial statements.

33. 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.

34. MATERIAL RELATED PARTY TRANSACTIONS

(a) The Group had the following significant business transactions with its connected parties and related companies which are subject to common control during the year:

	Note	**2005** ***HK$'000***	2004 *HK$'000*
Advance from a director	*(i)*	**200**	–
Advance from Innova	*(ii)*	**–**	895
Advance to Innova	*(iii)*	**865**	–
Amount due to Everblooming	*(iv)*	**–**	895
Innova	*(v)*		
– Sale of medical equipment and accessories		**–**	757
– Purchase of medical equipment and accessories		**–**	73

Notes:

(i) During the year, the Group borrowed from one of the Company's executive directors, Mr. Li Wo Hing, an amount of HK$200,000 (2004: HK$Nil).

(ii) During the year ended 31 December 2004, the Group borrowed from Innova, an amount of HK$895,000. Innova is a minority shareholder of Sinnowa. The borrowing is interest free, unsecured and has no fixed terms of repayment.

(iii) During the year, the Group advanced to Innova an amount of HK$865,000 (2004: HK$Nil). The advance is interest free, unsecured and repayable on demand.

(iv) The amount due to Everblooming at 31 December 2004 is unsecured, interest free and has no fixed terms of repayment.

(v) During the year ended 31 December 2004, Sinnowa sold and purchased certain medical equipment and accessories to and from Innova amounted to HK$757,000 and HK$73,000 respectively.

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.

34. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and 9, is as follows

	2005 *HK$'000*	2004 *HK$'000*
Short-term employee benefits	**544**	1,290

Total remuneration is included in staff cost (note 6(b)).

35. FINANCIAL INSTRUMENTS

Exposure to credit and other risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The carrying amount of trade and other receivables included in the balance sheet represents the Group's exposure to credit risk in relation to its financial assets. The Group's receivables are unsecured to the extent they are not covered by security deposits. The Group believes that adequate provision for uncollectible trade and other receivables has been made.

(b) Other risks

The Group's sales, purchases and expense transactions are generally denominated in Renminbi and a significant portion of the Group's assets and liabilities is denominated in Renminbi. The Renminbi is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorised financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than Renminbi by the Group in the PRC must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to effect the remittance.

36. ACCOUNTING ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(i) Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

(ii) Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade and other receivables. The identification of doubtful debts requires management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(iii) Impairment of intangible assets and property, plant and equipment

The carrying value of the intangible assets and property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed in note 3(h) to the financial statements. The recoverable amount of the intangible assets and property, plant and equipment is the greater of fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

37. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2 to the financial statements.

Five Years Summary

	2001 *HK$'000* Restated	2002 *HK$'000* Restated	2003 *HK$'000* Restated	2004 *HK$'000* Restated	**2005** ***HK$'000***
Results					
Turnover	38,523	49,850	33,937	31,576	**36,081**
Profit/(loss) from operations	26,936	27,987	(18,736)	6,145	**(2,000)**
Finance costs	(316)	–	(136)	(73)	**(301)**
Share of loss of an associate	–	(15)	(12)	(290)	**–**
Profit/(loss) before taxation	26,620	27,972	(18,884)	5,782	**(2,301)**
Income tax	(4,217)	(4,993)	(2,445)	(2,507)	**–**
Profit/(loss) for the year	22,403	22,979	(21,329)	3,275	**(2,301)**
Attributable to:					
Equity holders of the Company	22,403	22,979	(21,316)	3,560	**(2,167)**
Minority Interests	–	–	(13)	(285)	**(134)**
	22,403	22,979	(21,329)	3,275	**(2,301)**
Assets and liabilities					
Property, plant and equipment	22,420	22,608	23,122	19,493	**8,842**
Construction in progress	–	1,547	825	–	**760**
Interest in leasehold land held for own use under operating lease	–	–	1,121	1,089	**2,303**
Intangible assets	–	–	58,537	58,237	**57,983**
Negative goodwill	(11,706)	(8,824)	(5,943)	(3,089)	**–**
Interest in an associate	–	447	435	–	**–**
Net current assets	81,629	118,774	38,808	44,762	**54,300**
Net Assets	92,343	134,552	116,905	120,492	**124,188**
Share capital	8,000	8,350	8,350	8,350	**8,350**
Reserves	84,343	126,202	104,493	108,358	**112,104**
	92,343	134,552	112,843	116,708	**120,454**
Minority interests	–	–	4,062	3,784	**3,734**
	92,343	134,552	116,905	120,492	**124,188**
Earnings/(loss) per share (in Hong Kong cents)					
Basic	4.34	2.82	(2.55)	0.43	**(0.26)**
Diluted	3.45	N/A	N/A	N/A	**N/A**

Five Years Summary

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 year ended 31 December 2001, rather than from 10 December 2001. Furthermore, the results of the Group for the year ended 31 December 2001 include the results of the Company and its subsidiaries with effect from 1 January 2001 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.