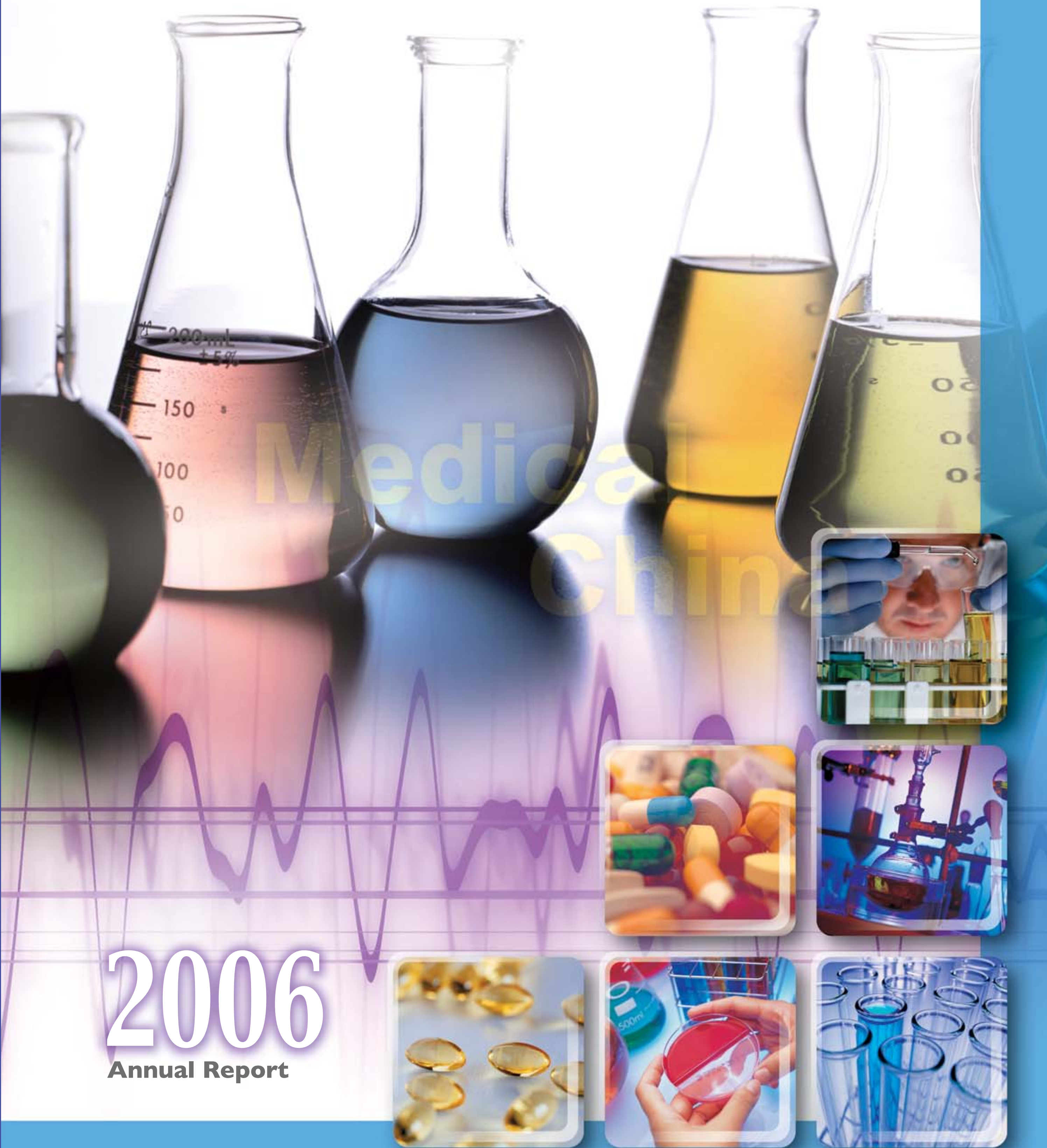
Medical China Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 8186



2006
Annual Report

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.

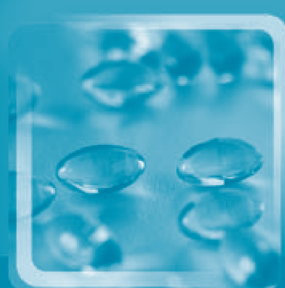
The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to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







Contents

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
FAN Wan Tat
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel

AUDIT COMMITTEE

FAN Wan Tat *(Chairman)*
TAM Wai Leung, Joseph
CHAN Kim Chung, Daniel

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

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.md23.cn

I hereby present to the shareholders the annual report of the Group for the year ended 31 December 2006.

RESULT ANALYSIS

For the year ended 31 December 2006, the Group recorded a turnover of HK$34,979,000, representing a decrease of 3% over the year 2005. Loss attributable to shareholders were approximately HK$29,378,000, while a net loss of approximately HK$2,167,000 recorded by the Group for the corresponding period in 2005.

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 hospital. The promotion of the Group's "Multi-bullet, multi-hold drug injection system" in PRC hospitals progressed slower than expected. All these affected the Group's revenue and profit for the year.

The sale of medical testing equipments had a good progress during the year. The sales of medical testing equipment increased by 79% to HK$27,994,000 as compared to the previous year. The sales increase has a positive contribution to the Group's revenue. The Board expected the sales will continue to increase in the year 2007 with a better sale net-working of the products that developed previously.

The research and development of Chinese and western drugs business had positive contribution to the Group's revenue during the year of review. After due evaluation of the conditions of the current drugs and medicines market, the Group has decided to temporarily postpone the research and development of 9 of drugs and medicines, in order to concentrate the resource on the research and development of a principal product. During the year, the Group has made full provision for impairment of the aforesaid 9 drugs and medicines based on the Group's accounting policy and for the sake of prudence.

BUSINESS OUTLOOK

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

The Group realizes 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 and 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

26 March 2007

FINANCIAL REVIEW

The Group's annual turnover for the year ended 31 December 2006 amounted to approximately HK$34,979,000, representing a decrease of 3% as compared to that for the year ended 31 December 2005. For the year ended 31 December 2006, the Group sustained a net loss attributable to equity holders of the Company of approximately HK$29,378,000 (2005: HK$2,167,000).

The operating expenses for the year ended 31 December 2006 increased by 100% from HK$24,766,000 to HK$49,506,000 as compared to 2005. This increase was mainly attributable to the impairment loss on intangible assets of HK$29,667,000 (which was made according to the Group's accounting policies and for prudence purposes).

Other revenue for the year ended 31 December 2006 amounted to approximately HK$2,135,000, representing an increase of 7.9% as compared to 2005.

The basic loss per share for the year ended 31 December 2006 was 3.52 Hong Kong cents, compared to 0.26 Hong Kong cents for the year ended 31 December 2005.

As at 31 December 2006, the Group had a bank loan outstanding in the amount of approximately HK$3,484,000 (2005: HK$4,326,000). The loan was obtained from a PRC Authorised Credit Union and was secured by buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$6,750,000 at 31 December 2006.

CAPITAL STRUCTURE

As at 31 December 2006, the total number of issued ordinary shares and the issued share capital of the Company were 835,000,000 (2005: 835,000,000) and HK$8,350,000 (2005: HK$8,350,000), respectively.

FINANCIAL RESOURCES, BORROWINGS, BANKING FACILITIES AND LIQUIDITY

As at 31 December 2006, the Group had total assets of approximately HK$134,558,000 (2005: HK$157,058,000) which were financed by current liabilities of approximately HK$33,799,000 (2005: HK$32,870,000) and equity attributable to equity holders of the Company of approximately HK$94,420,000 (2005: HK$120,454,000).

The current assets of the Group amounted to approximately HK$87,613,000 (2005: HK$87,170,000) of which approximately HK$69,957,000 (2005: HK$68,267,000) were cash and bank deposits. The current liabilities of the Group amounted to approximately HK$33,799,000 (2005: HK$32,870,000) of which approximately HK$30,075,000 (2005: HK$28,320,000) were trade and other payables, HK$3,484,000 (2005: HK$4,326,000) was a short term loan and HK$240,000 (2005: HK$24,000) was taxation. The Group obtained the said short term loan from a PRC Authorised Credit Union with pledge of certain assets security on 15 June 2006.

The Group finances its operations with internally generated resources and it is Group policy to place surplus funds with banks on deposit with maturities not exceeding one year. An interest in leasehold land and building with a value of HK$6,750,000 (2005: HK$7,426,000) is charged to secure the Group's short term loan. The gearing ratio of the Group is calculated on the basis of the short term loan over total assets. As at 31 December 2006, the Group had a gearing ratio of 2.6% (2005: 2.8%).

The net assets value per share as at 31 December 2006 was HK$0.12 (2005: HK$0.15).

CAPITAL COMMITMENTS, SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 December 2006, the Company had no significant new investments and there were no material acquisitions or disposals of subsidiaries and affiliated companies.

As at 31 December 2006, the Group had outstanding capital commitments of approximately HK$17,123,000 (2005: HK$14,780,000).

FOREIGN EXCHANGE EXPOSURE AND HEDGING INSTRUMENTS

The Group's transactions are mainly denominated in Renminbi, Hong Kong dollars and United States dollars. During the year under review, the Group has not entered into any hedging arrangements.

As at 31 December 2006, the Group had no outstanding hedging instruments (2005: HK$Nil).

EMPLOYEES' INFORMATION AND BENEFIT SCHEMES FOR THE EMPLOYEES

As at 31 December 2006, the Group has 198 (2005: 177) employees. The total amounts of employees remuneration, including that of the directors, for the years ended 31 December 2006 and 2005 were approximately HK$6,115,000 and HK$4,631,000, respectively.

In addition to a Share Option Scheme 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 into retirement funds for its employees in the PRC according to the relevant PRC regulations.

Pursuant to the relevant labor rules and regulations in the PRC, the PRC subsidiaries of the Group participate in defined contribution retirement benefit schemes (the "Schemes") organised by the municipal governments of the PRC (the "PRC government") whereby the subsidiaries are required to contribute to the Schemes to fund the retirement benefits of 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 its contributions to the Schemes.

CONTINGENT LIABILITIES

As at 31 December 2006, 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

The Group's RFAS radio frequency treatment business continued to decrease under pressure of keen competition in the PRC market. The number of RFAS tumour therapeutic centers operated by the Group with hospitals in the PRC dropped to 2 for the year ended 31 December 2006. The promotion of the "Multi-bullet, Multi-hole Drug Injection System", which the Group had obtained an agency fee in 2005 has been slow, as hospitals need time to get used to such new treatment technologies and equipment.

Manufacture and sales of medical equipment

The Group's sales of medical equipment achieved HK$27,994,000 for the year ended 31 December 2006, an increase of 79% as compared to that of the corresponding year of 2005. The Group has applied for 16 new patents for its medical equipment in the PRC and 6 have been obtained. In order to strengthen sales, 9 new sales offices have been set up in major cities in the PRC. In respect of overseas markets, Group products are being sold to more than 60 countries.

Research, development and sales of drugs

The Group has been working on research and development for 16 Chinese and Western drugs/medicines since 2003. After due evaluation of current conditions for the drugs and medicines market, the Group has decided to postpone research and development on 9 drugs/medicines, in order to concentrate its resource on the research and development of a particular principal product. During the year, the Group made full provision for impairment of the aforesaid 9 drugs/medicines based on its accounting policies and for the sake of prudence.

Manufacturing and sales of drugs and medicines

The first phase construction work of the drugs and medicines manufacturing factory has been substantially completed by the end of 2006. The second phase of the construction programme has commenced in 2007.

OUTLOOK

The Group will continue to expand its sales network of medical testing equipment, in order to boost sales volumes in both its local and overseas markets. Also, more effort will be placed to promote the application of the "Multi-bullet, Multi-hole Drug Injection System" to PRC hospitals in the treatment of tumors. The second phase construction work of the drugs and medicines manufacturing factory is expected to be completed by the third quarter of 2007. We predict that trial production can be launched by the end of 2007, which will provide a manufacturing base for the Group's research and development projects once granted approval by the relevant authority. All these factors are expected to increase the future revenue stream of the Group.

DIRECTORS

Executive Directors

Dr. Li Nga Kuk, James, aged 61, 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 60, 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 67, is an Executive Director and Vice General Manager of the Company responsible for promoting the RFA technology in the PRC. He graduated from 中國上海第一醫學院 and has obtained a medical diploma in Taiwan. He was a surgeon in 浙江嘉興第二醫學院 (Zhenjian 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 42, 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 62, is an independent non-executive Director. Mr. Fan is a medical doctor in Hong Kong. Mr. Fan was appointed on 10 December 2001.

Mr. Tam Wai Leung, Joseph, aged 41, 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.

Mr. Chan Kim Chung, Daniel, aged 43, is an independent non-executive Director. Mr. Chan is the General Manager of Royal Media Limited that is specialised in the provision of consultancy services in software testing and quality assessment. He holds a Doctor of philosophy degree in computer science from the University of Glasgow, United Kingdom. Mr. Chan was appointed on 16 June 2006.

SENIOR MANAGEMENT

Ms. Guo Ping, aged 47, is the general manager of China Best Drug, a subsidiary of the Company. Ms. Guo is a recognised research analyst of medicine in the PRC.

Consultants

Dr. Chen Min Shan, aged 42, 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 63, 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 70, 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.

The directors have pleasure in submitting their annual report together with the audited financial statements of Medical China Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2006.

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 sales of related accessories, the provision of medical research and development services and the sales of medical equipment in the PRC. The principal activities and other particulars of its subsidiaries are set out in note 18 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 on the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	9%	
Five largest customers in aggregate	23%	
The largest supplier		7%
Five largest suppliers in aggregate		41%

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

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2006 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 28 to 76.

DIVIDENDS AND RESERVES

The directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: 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 (2005: 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 2006 are set out in note 24 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

Independent Non-executive Directors

Mr. Fan Wan Tat	
Mr. Tam Wai Leung, Joseph	
Mr. Chan Kim Chung, Daniel	(appointed on 16 June 2006)
Mr. Guo Guoqing	(resigned on 22 June 2006)

Pursuant to the By-Laws of the Company, Messrs. Li Nga Kuk, James, Li Wo Hing and Chan Kim Chung, Daniel 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 9 to 10.

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 his conduct of business affairs, among other commitments.

The non-executive directors have entered into a service contract with the Company. Messrs Fan Wan Tat and Chen Minshen have renewed a service contract with the Company for a term of one year commencing on 1 December 2006. The service contract of Mr. Tam Wai Leung, Joseph was renewed for a term of one year commencing on 30 September 2006. The service contract of Mr. Chan Kim Chung, Daniel signed for a term of one year on 16 June 2006.

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

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

As at 31 December 2006, the interests and short positions of the directors and the 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")) 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 Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Interests in the Company's shares:

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

Note: 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 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 of the Company held directly by PMM.

Save as disclosed above, as at 31 December 2006, none of the directors or the 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 Rules 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.

SHARE OPTION SCHEME

Pursuant to a written resolution passed by all the shareholders of the Company on 14 December 2001, the Company 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 options were granted by the Company under the Share Option Scheme and at 31 December 2006, there were no share options outstanding.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 14 December 2001, the Company 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.

As at 31 December 2006, none of the directors or the 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 arrangements to enable the directors or the chief executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, so far as is known to any of the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had an interest or short positions 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		Number of shares held	Capacity	Percentage of interest
1.	PMM *(note)*	212,320,000	Beneficial owner	25.43%
2.	China Equity Associates L.P.	84,040,000	Beneficial owner	10.06%

Note: As at 31 December 2006, 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 interest in the 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 2006, so far as is known to any of the directors or the chief executive of the Company, no other person (other than a director or the 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' INTEREST IN CONTRACTS

No contracts, commitments or agreements of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party or in which any of the directors of the Company had a material interest, either directly or indirectly, subsisted during the year ended 31 December 2006.

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

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

PENSION SCHEMES

Details of the Group's pension scheme for the year ended 31 December 2006 are set out in note 31 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 (the "Code") as set out in Appendix 15 of the Rules Governing the Listing of Securities of the GEM of the Stock Exchange for the year ended 31 December 2006.

The Company has adopted the required standards on dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' transactions in securities of the Company throughout the year ended 31 December 2006. Having made specific enquiry of all directors of the Company, the Company's directors confirmed that they have complied with such code of conduct and required standards of dealings throughout the year ended 31 December 2006.

AUDIT COMMITTEE

As required by the 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 systems of the Group and to provide advice and comments to the directors.

The Committee comprises three independent non-executive directors, namely, Messrs. Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel. The Committee held four meetings during the year for the purpose of reviewing the Company's reports and financial statements, and providing advice and recommendations to the Board.

The Committee members have reviewed the Company's annual report for the year ended 31 December 2006 and were of the opinion that the preparation of such results complied with applicable accounting standards.

AUDITORS

Kennic L. H. Lui & Co. Ltd. were first appointed as auditors of the Company in 2005 upon the resignation of KPMG.

The financial statements for the year were audited by Kennic L. H. Lui & Co. Ltd., Certified Public Accountants. 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, 26 March 2007

The Company has complied with the Code provisions set out in the Code on Corporate Governance Practice (the "Code") in Appendix 15 of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited, which became effective on 1 January 2005.

Throughout the year ended 31 December 2006, the Company has complied with the Code provisions set out in the Code.

THE BOARD OF DIRECTORS

Board Composition

As at 31 December, 2006, 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 Chan Minshan; and the independent non-executive directors of Fan Wan Tat, Tam Wai Leung, Joseph and Chan Kim Chung, Daniel. The Board of directors is responsible for supervising the management of the Group. Details of the Chairman and the other directors of the Company are set out in the Directors Report. 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 cork of the Board of Directors, as well as 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 to the Board the benefit of their skills, expertise and background experience, and the management process can be critically reviewed and controlled.

In full compliance with rules 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive directors, at least one of whom has appropriate professional qualifications or accounting or related financial management expertise. The Group has received from each independent non-executive director an annual confirmation of his 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 full Board regularly meets at least four times every year. The directors participated 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 finalized agenda and accompanying board papers are then sent to all directors at least three days prior to the meeting.

In the financial year ended 31 December 2006, 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 (resigned on 22 June 2006)	2/2
Fan Wan Tat	4/4
Tam Wai Leung, Joseph	4/4
Chan Kim Chung, Daniel (appointed on 16 June 2006)	2/2

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 other significant matters. Executive of daily operational matters is delegated to management.

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.

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.

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

The Company 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 Company's specific enquiry, each director had confirmed that during the year ended 31 December, 2006, he had fully complied with the required standard of dealings and there was no event of non-compliance.

Term of Appointment and Re-election

All directors, including the executive and non-executive directors, are appointed for a term of one year and renewed with the board approval. 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 Nga Kuk, James, Li Wo Hing and Chan Kim Chung, Daniel will retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

NOMINATION COMMITTEE

The Nomination Committee was established in 2005. The Chairman of the committee is Mr. Tam Wai Leung, Joseph, an independent non-executive director of the Company, and other members include Mr. Fan Wai Tat and Dr. Li Nga Kuk, James, the majority is 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 of candidates for nomination, 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 written in compliance with the GEM Listing Rules.

The Nomination Committee held a meeting on 26 March 2007 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 in the near term.

REMUNERATION COMMITTEE

The Remuneration Committee was established in 2005. The Chairman of the committee is Mr. Fan Wan Tat, an independent non-executive director of the Company, and other members include Mr. Tam Wai Leung, Joseph 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 written in compliance with the GEM Listing Rules.

The Remuneration Committee held a meeting on 26 March 2007 to review the remuneration package 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 accounts 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 accounts and other financial disclosures.

In full compliance with rule 5.28 of the GEM Listing Rules, the Audit Committee, established in 2002, is currently chaired by Mr. Fan Wan Tat, an independent non-executive director, and the other members are Mr. Tam Wai Leung, Joseph and Chan Kim Chung, Daniel, with all being independent non-executive directors of the Company.

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 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 written 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 2006, which were attended by all members. Full minutes of the Audit Committee are kept by the Company Secretary.

Auditors' Remuneration

An amount of approximately HK$693,000 (2005: HK$600,000) was charged to the Group's consolidated income statement for the year ended 31 December 2006 for the auditing services. There is no significant non-audit service assignment provided by the auditors during the year.

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 system, covering financial, operational and compliance controls and risk management functions, during the year under review.

In such review, the Board have considered factors such as change since the last review; scope and quality of management's monitoring of risks; incidence of significant control failing and weaknesses identified; and 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 relative to their appointment. Due to the diversity and volume of the Group's business, responsibility in relation to the daily operations and executive 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 communications channels to account to shareholders and investors for the performance of the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging view with the Board; (iii) updated and key information of the Group available on the website of the Company; and (iv) the Company's share registrars in Hong Kong serve the shareholders respecting 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, detailed, timely manner and on a regular basis information of the Group to shareholders through the publication of quarterly and annual reports and/or dispatching circular, notices, and other announcements.

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 at the meetings. All shareholders have statutory rights to call for extraordinary general meetings and put forward agenda items for consideration by shareholders.

吕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 of Medical China Limited (the "Company") set out on pages 28 to 75, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's result and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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, 26 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	4	**34,979**	36,081
Cost of services/sales		**(14,080)**	(15,294)
Gross profit		**20,899**	20,787
Other revenue	5	**2,135**	1,979
Selling and distribution expenses		**(6,939)**	(5,737)
Administrative expenses		**(10,239)**	(9,356)
Impairment loss recognised in respect of:			
Property, plant and equipment	13	**–**	(6,416)
Inventories	19	**(710)**	(437)
Intangible assets	17	**(29,667)**	–
Other operating expenses		**(1,951)**	(2,820)
Loss from operations		**(26,472)**	(2,000)
Finance costs	6(a)	**(271)**	(301)
Loss before taxation	6	**(26,743)**	(2,301)
Taxation	7	**(211)**	–
Loss for the year		**(26,954)**	(2,301)
Attributable to:			
Equity holders of the Company	29	**(29,378)**	(2,167)
Minority interests	29	**2,424**	(134)
		(26,954)	(2,301)
Loss per share (Hong Kong cents)			
Basic	11(a)	**(3.52)**	(0.26)

The notes on pages 35 to 75 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2006 HK$'000	2005 HK$'000	2005 HK$'000
Non-current assets					
Property, plant and equipment	13	**7,473**		8,842	
Construction in progress	14	**6,447**		760	
Biological assets	15	**2,426**		–	
Interests in leasehold land held for own use under operating leases	16	**2,509**		2,303	
Intangible assets	17	**28,090**		57,983	
			46,945		69,888
Current assets					
Inventories	19	**5,234**		6,035	
Trade and other receivables	20	**12,422**		12,868	
Deposits with banks	22	**57,928**		52,869	
Cash at bank and on hand	23	**12,029**		15,398	
		87,613		87,170	
Current liabilities					
Trade and other payables	25	**30,075**		28,320	
Bank loan	24	**3,484**		4,326	
Amount due to a director	33	**–**		200	
Taxation	27	**240**		24	
		33,799		32,870	
Net current assets			**53,814**		54,300
NET ASSETS			**100,759**		124,188

The notes on pages 35 to 75 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2006 HK$'000	2005 HK$'000	2005 HK$'000
CAPITAL AND RESERVES					
Share capital	*28*		**8,350**		8,350
Reserves	*29*		**86,070**		112,104
Total equity attributable to equity holders of the Company			**94,420**		120,454
Minority interests	*29*		**6,339**		3,734
TOTAL EQUITY			**100,759**		124,188

Approved and authorised for issue by the board of directors on 26 March 2007.

Li Nga Kuk, James
Chairman

Li Wo Hing
Director

The notes on pages 35 to 75 form part of these financial statements.

Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2006 HK$'000	2005 HK$'000	2005 HK$'000
Non-current assets					
Property, plant and equipment	13		**49**		232
Investments in subsidiaries	18		**55,755**		47,670
			55,804		47,902
Current assets					
Trade and other receivables	20	**15**		19	
Amounts due from subsidiaries	21	**84,468**		84,519	
Cash at bank and on hand	23	**121**		221	
		84,604		84,759	
Current liabilities					
Trade and other payables	25	**1,016**		848	
Amounts due to subsidiaries	26	**79,792**		65,648	
Amount due to a director	33	**–**		200	
		80,808		66,696	
Net current assets			**3,796**		18,063
NET ASSETS			**59,600**		65,965
CAPITAL AND RESERVES					
Share capital	28		**8,350**		8,350
Reserves	29		**51,250**		57,615
TOTAL EQUITY			**59,600**		65,965

Approved and authorised for issue by the board of directors on 26 March 2007.

Li Nga Kuk, James
Chairman

Li Wo Hing
Director

The notes on pages 35 to 75 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company							
	Share capital *HK$'000*	Share premium *HK$'000*	Contributed surplus *HK$'000*	Exchange reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2005	8,350	70,733	5,265	(100)	32,460	116,708	3,784	120,492
– Adjustment to retained profits in respect of amortisation of negative goodwill	–	–	–	–	3,089	3,089	–	3,089
Restated 1 January 2005	8,350	70,733	5,265	(100)	35,549	119,797	3,784	123,581
– 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**
At 1 January 2006	8,350	70,733	5,265	2,724	33,382	120,454	3,734	124,188
– Currency translation differences	–	–	–	3,344	–	3,344	181	3,525
Loss for the year	–	–	–	–	(29,378)	(29,378)	2,424	(26,954)
At 31 December 2006	**8,350**	**70,733**	**5,265**	**6,068**	**4,004**	**94,420**	**6,339**	**100,759**

The notes on pages 35 to 75 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2006 HK$'000	2005 HK$'000	2005 HK$'000
Cash flows from operating activities					
Loss before taxation		**(26,743)**		(2,301)	
Adjustments for:					
Depreciation		**1,235**		5,088	
Impairment losses recognised in respect of:					
Property, plant and equipment		**–**		6,416	
Inventories		**710**		437	
Intangible assets		**29,667**		–	
Amortisation of prepaid lease payments		**39**		38	
Amortisation of intangible assets		**346**		337	
Bad debts written off		**756**		–	
Net loss on disposal of property, plant and equipment		**–**		24	
Interest income		**(1,207)**		(1,588)	
Finance costs		**271**		301	
Operating profit before changes in working capital		**5,074**		8,752	
Decrease in inventories		**257**		755	
(Increase)/decrease in trade and other receivables		**120**		(6,082)	
Increase/(decrease) in trade and other payables		**1,756**		(37,241)	
Increase/(decrease) in amounts due to related companies		**–**		(1,790)	
Increase/(decrease) in amount due to a director		**(200)**		200	
Cash generated from/(used in) operations and net cash from/(used in) operating activities			**7,007**		(35,406)

The notes on pages 35 to 75 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2006 HK$'000	2005 HK$'000	2005 HK$'000
Cash flows from investing activities					
Capital expenditure:					
Property, plant and equipment		**(460)**		(713)	
Interests in leasehold land held for own use under operating leases		**(164)**		(1,227)	
Construction in progress		**(4,781)**		(760)	
Biological assets		**(2,426)**		–	
(Increase)/decrease in placement of deposits with banks		**(3,185)**		40,373	
Interest received		**1,207**		1,588	
Proceeds from sales of property, plant and equipment		**–**		103	
Net cash from/(used in) investing activities			**(9,809)**		39,364
Cash flows from financing activities					
Interest paid		**(271)**		(301)	
Proceeds from a new bank loan		**3,484**		5,768	
Repayment of bank loan		**(4,326)**		(3,322)	
Net cash from/(used in) financing activities			**(1,113)**		2,145
Net increase/(decrease) in cash and cash equivalents			**(3,915)**		6,103
Cash and cash equivalents at beginning of the year			**15,398**		9,091
Effect of foreign exchange rate changes			**546**		204
Cash and cash equivalents at end of the year	*23*		**12,029**		15,398

The notes on pages 35 to 75 form part of these financial statements.

1. GENERAL

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

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 18 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 is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The adoption of the relevant HKFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the years presented.

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

Up to the date of issue of these financial statements, HKICPA has issued a number of amendments, new standards and new interpretations which are not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these financial statements.

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with HKFRSs issued by 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 by the revaluation of financial assets and financial liabilities at fair values through the 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.

Judgments made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on 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.

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 represent deficits of cost over fair values attributed to the net assets of 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 accumulated 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 an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in the income statement.

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

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 included in the consolidated financial statements from the date that control commences until the date that control ceases.

Minority interests represent 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, and 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 a minority interest exceeds 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.

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in the income statement. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

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 leases
Office, computers and other equipment	5 years
Motor vehicles	5 years

Both the useful life of assets and their residual values, if any, are reviewed annually.

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 finite) 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 the income statement on the straight-line basis over the assets' estimated useful lives. 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

Both the period and method of amortisation are reviewed annually.

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 are any indications that these assets have suffered impairment losses. 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, in which case the impairment loss is treated as a revaluation decrease.

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 a 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 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 at 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 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 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 Group or the Company 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 fees*

Medical service fees are recognised at the time when services are rendered, net of business taxes.

(ii) *Sales of goods*

Sales of goods are recognised when goods are delivered and 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 on 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 are probable will be recoverable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Revenue recognition *(Continued)*

(iv) Interest income

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

(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 operating leases are charged to the income statement on the straight-line basis over the periods of the relevant leases.

Land lease prepayments are stated at cost less accumulated amortisation and any impairment, and are amortised over the remaining lease terms on the straight-line basis to the income statement.

(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.

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 income statement as they became payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 values are translated using the foreign exchange rates ruling at the dates the fair values were determined.

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 as 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(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 systems, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Segment reporting *(Continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group 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 an accounting period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

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

(w) Biological assets

Biological assets are living animals and/or plants managed by the Group which is involved in the agricultural activities of transformation of biological assets for sale, into agricultural produce, or into additional biological assets. Biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date. The fair value of biological assets are determined based on either the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate or the market price with reference to the species, growing condition, cost incurred and expected yield of the crops.

The agricultural produce is initially measured at fair value less estimated point-of-sale costs at the time of harvest. The fair value of agricultural produce is measured at the market prices in the local market. The fair value less estimated point-of-sale costs at the time of harvest is deemed as the cost of agricultural produce for further processing.

The gain or loss arising on initial recognition of biological asset at fair value less estimated point-of-sale costs is recognised in the consolidated income statement for the period in which it arises.

4. TURNOVER

Turnover represents service fees arising from the provision of medical equipment services and sales of related accessories, net of respective taxes; the sale value of medical 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 locate 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:

	2006	2005
	HK$'000	*HK$'000*
Medical equipment service fees and sales of related accessories	**5,669**	16,664
Sales of medical equipment	**27,994**	15,634
Research and development service fees	**1,316**	3,783
	34,979	36,081

5. OTHER REVENUE

	2006	2005
	HK$'000	*HK$'000*
Interest income	**1,207**	1,588
Net loss on disposal of property, plant and equipment	**–**	(24)
Foreign exchange loss	**(1)**	(146)
Miscellaneous	**929**	561
	2,135	1,979

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		2006 *HK$'000*	2005 *HK$'000*
(a)	**Finance costs:**		
	Interest expense on bank loan	**271**	301
(b)	**Staff costs:**		
	Staff costs (including directors' remuneration in Note 8)		
	Wages and salaries	**6,098**	4,614
	Staff retirement benefits	**17**	17
		6,115	4,631
	Average number of employees during the year	**198**	177
(c)	**Other items:**		
	Cost of inventories	**14,192**	11,748
	Depreciation	**1,235**	5,088
	Bad debts written off	**756**	–
	Auditors' remuneration		
	Audit services	**693**	600
	Other services	**34**	14
	Operating lease charges in respect of office premises	**547**	372
	Amortisation of prepaid lease payments	**39**	38
	Amortisation of intangible assets	**346**	337
	Research and development costs	**1,941**	2,820
	Impairment losses recognised in respect of		
	Property, plant and equipment	**–**	6,416
	Inventories	**710**	437
	Intangible assets	**29,667**	–

7. TAXATION

(a) Taxation in the consolidated income statement represents:

	2006 **HK$'000**	2005 HK$'000
Current tax – PRC Tax for the year	**211**	–

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made as the Group did not have 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 the reduced rate of 15% (2005: 15%). Another subsidiary, Sinnowa Medical Science & Technology Company Ltd. ("Sinnowa"), is subject to PRC income tax of 33% (2005: 33%). According to the relevant income tax rules and regulations in the PRC, Tat Lung Treatment and Sinnowa 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"), 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. TAXATION *(Continued)*

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

	2006 *HK$'000*	**%**	2005 *HK$'000*	%
Loss before taxation	**(26,743)**		(2,301)	
Notional tax on loss before taxation, calculated at the rates applicable to the countries concerned	**(3,425)**	**12.8**	(297)	12.9
Tax effect of non-deductible expenses	**6,116**	**(22.9)**	741	(32.2)
Tax effect of concession period	**(2,480)**	**9.3**	(444)	19.3
Taxation for the year	**211**	**(0.8)**	–	–

The tax rate applicable to the Group's operations in Hong Kong is 17.5% (2005: 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% (2005: 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% (2005: 15%). These tax rates are taken into account in the preparation of the Group's tax reconciliation.

(c) No provision for deferred taxation is deemed necessary as the Group does not have any material deductible or taxable temporary differences (2005: HK$Nil).

8. DIRECTORS' REMUNERATION

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

	Directors fees		Salaries, allowances and benefits in kind		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Executive directors						
Li Nga Kuk, James	**–**	–	**152**	152	**152**	152
Li Wo Hing	**–**	–	**–**	–	**–**	–
Li Tai To, Titus	**–**	–	**152**	152	**152**	152
Non-executive director						
Chen Minshan	**60**	60	**–**	–	**60**	60
Independent non-executive directors						
Guo Guoqing	**28**	60	**–**	–	**28**	60
Fan Wan Tat	**60**	60	**–**	–	**60**	60
Tam Wai Leung, Joseph	**60**	60	**–**	–	**60**	60
Chan Kim Chung, Daniel	**32**	–	**–**	–	**32**	–
	240	240	**304**	304	**544**	544

The remuneration of all directors are within the Nil – HK$1,000,000 band.

No emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2006.

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 one year terms of renewal with Board approval.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining three (2005: three) individuals are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	**498**	511
Discretionary bonuses	**12**	22
Retirement benefit scheme contributions	**17**	8
	527	541

The emoluments of the remaining three (2005: three) individuals with the highest emoluments are within the following band:

	2006	2005
	Number of individuals	*Number of individuals*
Nil – HK$1,000,000	**3**	3

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of HK$6,365,000 (2005: HK$3,814,000) which has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2006 is based on the loss attributable to equity holders of the Company of HK$29,378,000 (2005: loss of HK$2,167,000) divided by the weighted average number of 835,000,000 (2005: 835,000,000) ordinary shares in issue during the year.

(b) Diluted loss per share

No diluted loss per share for the years ended 31 December 2006 and 2005 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 a single market, namely, the PRC.

Business segments

The Group comprises the following main business segments:

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

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

Research and development: development of drugs.

12. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Medical services		Sales of medical equipment		Research and development		Unallocated		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**5,669**	16,664	**27,994**	15,634	**1,316**	3,783	**–**	–	**34,979**	36,081
Segment results	**1,669**	1,285	**6,204**	(310)	**(30,467)**	(159)	**–**	–	**(22,594)**	816
Unallocated operating income and expenses									**(3,878)**	(2,816)
Loss from operations									**(26,472)**	(2,000)
Finance costs									**(271)**	(301)
Taxation									**(211)**	–
Loss for the year									**(26,954)**	(2,301)
Attributable to:										
Equity holders of the Company									**(29,378)**	(2,167)
Minority interests									**2,424**	(134)
									(26,954)	(2,301)
Depreciation for the year	**378**	4,123	**367**	541	**237**	228	**253**	196	**1,235**	5,088
Impairment losses for the year:										
Property, plant and equipment	**–**	6,416	**–**	–	**–**	–	**–**	–	**–**	6,416
Inventories	**710**	437	**–**	–	**–**	–	**–**	–	**710**	437
Intangible assets	**–**	–	**–**	–	**29,667**	–	**–**	–	**29,667**	–
Bad debts written off	**–**	–	**727**	–	**29**	–	**–**	–	**756**	–
Amortisation for the year:										
Intangible assets	**–**	–	**346**	337	**–**	–	**–**	–	**346**	337
Prepaid lease payments	**–**	–	**39**	38	**–**	–	**–**	–	**39**	38
Segment assets	**60,027**	62,874	**26,324**	19,988	**31,466**	63,823	**–**	–	**117,817**	146,685
Unallocated assets									**16,741**	10,373
Total assets									**134,558**	157,058
Segment liabilities	**(2,122)**	(1,206)	**(8,265)**	(9,267)	**(615)**	(159)	**–**	–	**(11,002)**	(10,632)
Unallocated liabilities									**(22,797)**	(22,238)
Total liabilities									**(33,799)**	(32,870)
Capital expenditure incurred during the year	**5**	260	**392**	169	**–**	27	**7,434**	250	**7,831**	706

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 2005	6,788	29,522	1,994	1,760	40,064
Additions	–	–	500	213	713
Impairment losses	–	(6,265)	(8)	(143)	(6,416)
Disposals	–	(12,430)	(218)	–	(12,648)
Exchange adjustments	152	241	24	35	452
At 31 December 2005	**6,940**	**11,068**	**2,292**	**1,865**	**22,165**
At 1 January 2006	6,940	11,068	2,292	1,865	22,165
Additions	29	–	–	431	460
Transfer from construction in progress *(Note 14)*	18	–	–	–	18
Disposals	–	(10,728)	–	–	(10,728)
Cost adjustment*	(894)	–	–	–	(894)
Exchange adjustments	246	169	53	62	530
At 31 December 2006	**6,339**	**509**	**2,345**	**2,358**	**11,551**
Aggregate depreciation					
At 1 January 2005	272	18,989	768	542	20,571
Charge for the year	309	4,018	401	360	5,088
Write-back on disposal	–	(12,430)	(91)	–	(12,521)
Exchange adjustments	9	152	9	15	185
At 31 December 2005	**590**	**10,729**	**1,087**	**917**	**13,323**
At 1 January 2006	590	10,729	1,087	917	13,323
Charge for the year	8	278	507	442	1,235
Write-back on disposal	–	(10,728)	–	–	(10,728)
Exchange adjustments	21	164	24	39	248
At 31 December 2006	**619**	**443**	**1,618**	**1,398**	**4,078**
Net book value					
At 31 December 2006	**5,720**	**66**	**727**	**960**	**7,473**
At 31 December 2005	6,350	339	1,205	948	8,842

* Cost adjustment represents the adjustment on building cost transferred from construction in progress during the year 2004 upon final settlement of the related construction contract.

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 2005	803	106	909
Additions	–	9	9
At 31 December 2005	**803**	**115**	**918**
At 1 January 2006 and **31 December 2006**	**803**	**115**	**918**
Aggregate depreciation			
At 1 January 2005	455	48	503
Charge for the year	161	22	183
At 31 December 2005	**616**	**70**	**686**
At 1 January 2006	616	70	686
Charge for the year	160	23	183
At 31 December 2006	**776**	**93**	**869**
Net book value			
At 31 December 2006	**27**	**22**	**49**
At 31 December 2005	187	45	232

(c) At 31 December 2006, the directors of the Company reviewed the carrying values of the medical equipment by assessing their recoverable amounts. Based on the value-in-use assessment method 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 are satisfied there are no indications that the carrying values of the medical equipment may be impaired as at 31 December 2006 (2005: HK$6,265,000).

(d) At 31 December 2006, one of the buildings amounting to HK$5,676,000 (2005: HK$6,351,000) had been pledged to a bank as security for Group bank borrowings.

(e) All buildings of the Group are situated in the PRC.

14. CONSTRUCTION IN PROGRESS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Balance at beginning of the year	**760**	–
Additions	**4,781**	760
Cost adjustment*	**894**	–
Transfer to property, plant and equipment *(Note 13(a))*	**(18)**	–
Exchange adjustments	**30**	–
Balance at end of the year	**6,447**	760

* Cost adjustment represents the adjustment on building cost transferred from construction in progress during the year 2004 upon final settlement of the related construction contract.

15. BIOLOGICAL ASSETS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Balance at beginning of the year	**–**	–
Additions	**2,426**	–
Balance at end of the year	**2,426**	–

Biological assets represented the trees in plantation forest and are stated at fair values less estimated point-of-sale costs. The trees in plantation forest represented the growing of Gui Hua Shu (桂花樹) and were cultivated at initial stage. The directors considered that the fair value of the trees approximated to the cost incurred after taking into consideration the growing conditions and the period of plantation.

16. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	The Group
	HK$'000
Cost	
At 1 January 2005	1,133
Additions	1,227
Exchange adjustments	26
At 31 December 2005	**2,386**
Additions	164
Exchange adjustments	85
At 31 December 2006	**2,635**
Accumulated amortisation	
At 1 January 2005	44
Charge for the year	38
Exchange adjustments	1
At 31 December 2005	**83**
Charge for the year	39
Exchange adjustments	4
At 31 December 2006	**126**
Net book value	
At 31 December 2006	**2,509**
At 31 December 2005	2,303

(a) The leasehold land assets held by the Group are under medium term leases and situated in the PRC.

(b) At 31 December 2006, one of the leasehold land assets amounting to HK$1,074,000 (2005: HK$1,075,000) had been pledged to a bank as security for Group bank borrowings.

(c) The Group is in the process of applying for the land use right certificate in respect of a piece of land in the PRC with carrying value of approximately HK$1,435,000 and, at 31 December 2006, this land use right certificate had not yet been obtained from the regulatory authorities.

17. INTANGIBLE ASSETS

	Medical research projects HK$'000	Others HK$'000	Total HK$'000
Cost			
At 1 January 2005	83,897	2,331	86,228
Exchange adjustments	43	82	125
At 31 December 2005	**83,940**	**2,413**	**86,353**
Exchange adjustments	67	55	122
At 31 December 2006	**84,007**	**2,468**	**86,475**
Accumulated amortisation			
At 1 January 2005	27,625	366	27,991
Charge for the year	–	379	379
At 31 December 2005	**27,625**	**745**	**28,370**
Impairment loss	29,667	–	29,667
Exchange adjustment	–	2	2
Charge for the year	–	346	346
At 31 December 2006	**57,292**	**1,093**	**58,385**
Net book value			
At 31 December 2006	**26,715**	**1,375**	**28,090**
At 31 December 2005	56,315	1,668	57,983

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.

17. INTANGIBLE ASSETS *(Continued)*

At 31 December 2006, 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 an impairment loss of HK$29,667,000 (2005: HK$Nil) is required for the year.

In relation to the remainder of the projects, whilst there is inherent uncertainty over the ultimate outcome of these projects, based on their assessment, the directors believe that there are currently no indications that they may be impaired.

18. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**56,300**	47,670
Less: Impairment losses	**(545)**	–
	55,755	47,670

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

18. 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/ paid-in capital	Registered capital	Principal activities	*Notes*
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	Manufacture and sale of medical equipment	*(iii)*
Medical China Technology Ltd.	B.V.I.	75%	75%	–	US$100	US$50,000	Investment holding	
CB Pharmaceutical (Nanjing) Co., Ltd.	PRC	100%	100%	–	US$4,800,000	US$5,000,000	Manufacture and sale of medicine and drugs	*(iv)*
Guilin Simei and Biotechnology Ltd.	PRC	100%	100%	–	US$460,000	US$1,000,000	Development and sale of tropical plants for Chinese drugs and medicine usage	*(v)*

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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 was 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 the reorganisation, the Group retained a 75% shareholding in the subsidiary while the remaining 25% shareholding was 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 2006 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. On 13 June 2006, the registered capital of the Company increased from US$4,000,000 to US$5,000,000. During the year, the Company injected US$800,000 as capital contributions. 南京德遠會計師事務所 verified US$500,000 capital contribution and issued the capital verification report on 16 June 2006. The remaining injection of US$300,000 has not yet been verified by a PRC registered certified public accountant at the balance sheet date. As at 31 December 2006, the Company's total investment in this subsidiary amounted to US$4,800,000.

(v) The subsidiary is a wholly foreign-owned enterprise established in Guilin, the PRC. During the year, the Company injected US$310,000 as a capital contribution. This injection has not yet been verified by a PRC registered certified public accountant at the balance sheet date. As at 31 December 2006, the Company's total investment in this subsidiary amounted to US$460,000.

19. INVENTORIES

(a) Inventories comprise:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**2,325**	1,793
Work in progress	**1,026**	653
Finished goods	**1,883**	3,589
	5,234	6,035

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

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**13,482**	11,311
Write-down of inventories	**710**	437
	14,192	11,748

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade debtors	**4,243**	5,821	**–**	–
Other receivables, deposits and prepayments	**8,179**	7,047	**15**	19
	12,422	12,868	**15**	19

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

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as at the balance sheet date:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Within 3 months from the date of billing	**1,771**	4,582
3 to 6 months from the date of billing	**1,496**	660
6 to 12 months from the date of billng	**976**	579
	4,243	5,821

Trade debts are normally due within 90 days from the date of billing.

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

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**97**	185	**–**	–
Euros	**6**	–	**–**	–

21. AMOUNTS DUE FROM SUBSIDIARIES

Particulars of the amounts due from subsidiaries, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

Name	**2006**	2005	**Maximum amount outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Sinnowa Medical Science and Technology Co., Ltd.	**–**	51	51
Medical China Technology Ltd.	**84,468**	84,468	84,468
	84,468	84,519	

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

22. 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.

23. CASH AND CASH EQUIVALENTS

	The Group		**The Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**12,029**	15,398	**121**	221

24. BANK LOAN

At 31 December 2006, the bank loan was repayable as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year or on demand	**3,483**	4,326

The bank loan was secured by buildings and leasehold land assets of the Group in the balance sheet with an aggregate carrying value of HK$6,750,000 at 31 December 2006 (2005: HK$7,426,000).

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade creditors	**2,630**	2,807	**–**	–
Other payables and accrued liabilities	**27,445**	25,513	**1,016**	848
	30,075	28,320	**1,016**	848

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:

	2006	2005
	HK$'000	*HK$'000*
Due within 3 months or on demand	**1,097**	1,315
Due after 3 months but within 6 months	**123**	186
Due after 6 months but within 1 year	**1,410**	1,306
	2,630	2,807

25. TRADE AND OTHER PAYABLES *(Continued)*

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	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
United States Dollars	**58**	139	**–**	–
Euros	**3**	4	**–**	–

26. AMOUNTS DUE TO SUBSIDIARIES

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

27. TAXATION

Taxation in the consolidated balance sheet represents:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Provision for PRC taxes	**240**	24

28. SHARE CAPITAL

	2006		2005	
	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

	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2005	70,733	5,265	(100)	32,460	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	(100)	35,549	111,447	3,784	115,231
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**	**2,724**	**33,382**	**112,104**	**3,734**	**115,838**
At 1 January 2006	70,733	5,265	2,724	33,382	112,104	3,734	115,838
Currency translation differences	–	–	3,344	–	3,344	181	3,525
Loss for the year	–	–	–	(29,378)	(29,378)	2,424	(26,954)
At 31 December 2006	**70,733**	**5,265**	**6,068**	**4,004**	**86,070**	**6,339**	**92,409**

29. RESERVES *(Continued)*

(b) The Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
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**
At 1 January 2006	70,733	5,265	(18,383)	57,615
Loss for the year	–	–	(6,365)	(6,365)
At 31 December 2006	**70,733**	**5,265**	**(24,748)**	**51,250**

(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 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 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 translations.

(f) At 31 December 2006 and 2005, the Company had no reserves available for distribution to shareholders.

30. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2006 contracted but not provided for in the financial statements were as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Capital contributions to subsidiaries	**5,758**	6,596
Property, plant and equipment	**11,365**	8,184
	17,123	14,780

(b) Operating lease commitments

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 1 year	**460**	459
After 1 year but within 5 years	**108**	173
After 5 years	**314**	243
	882	875

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

31. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plan

(a) *Hong Kong*

The Group operates 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 a 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 employee 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) of the financial statements.

32. SHARE OPTION SCHEME

On 14 December 2001, the Company 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.

No options have been granted under the share option scheme since its inception.

33. MATERIAL RELATED PARTY TRANSACTIONS

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

	Notes	**2006** **HK$'000**	2005 HK$'000
Advance from a director	*(i)*	–	200
Advance to Innova	*(ii)*	–	865

Notes:

(i) During the year ended 31 December 2005, the Group borrowed from one of the Company's executive directors, Mr. Li Wo Hing, an amount of HK$200,000. This amount has been repaid during the year.

(ii) During the year ended 31 December 2005, the Group advanced to Innova an amount of HK$865,000. Innova is a minority shareholder of Sinnowa. The advance is interest-free, unsecured and repayable on demand.

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.

(b) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had key management personnel remuneration, including amounts paid to the Company's directors as disclosed in notes 8 and 9, as follows:

	2006 **HK$'000**	2005 HK$'000
Short-term employee benefits	**544**	544

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

34. 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 remittances.

35. 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 judgments 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 the provision charge/write-back in the period in which such estimate has been changed.

35. ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(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 judgments 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.

Five Years Summary

	2002 *HK$'000*	2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	**2006** ***HK$'000***
Results					
Turnover	49,850	33,937	31,576	36,081	**34,979**
Profit/(loss) from operations	27,987	(18,736)	6,145	(2,000)	**(26,472)**
Finance costs	–	(136)	(73)	(301)	**(271)**
Share of loss of an associate	(15)	(12)	(290)	–	**–**
Profit/(loss) before taxation	27,972	(18,884)	5,782	(2,301)	**(26,743)**
Taxation	(4,993)	(2,445)	(2,507)	–	**(211)**
Profit/(loss) for the year	22,979	(21,329)	3,275	(2,301)	**(26,954)**
Attributable to:					
Equity holders of the Company	22,979	(21,316)	3,560	(2,167)	**(29,378)**
Minority interests	–	(13)	(285)	(134)	**2,424**
	22,979	(21,329)	3,275	(2,301)	**(26,954)**
Assets and liabilities					
Property, plant and equipment	22,608	23,122	19,493	8,842	**7,473**
Biological assets	–	–	–	–	**2,426**
Construction in progress	1,547	825	–	760	**6,447**
Interests in leasehold land held for own use under operating leases	–	1,121	1,089	2,303	**2,509**
Intangible assets	–	58,537	58,237	57,983	**28,090**
Negative goodwill	(8,824)	(5,943)	(3,089)	–	**–**
Interest in an associate	447	435	–	–	**–**
Net current assets	118,774	38,808	44,762	54,300	**53,814**
Net Assets	134,552	116,905	120,492	124,188	**100,759**
Share capital	8,350	8,350	8,350	8,350	**8,350**
Reserves	126,202	104,493	108,358	112,104	**86,070**
	134,552	112,843	116,708	120,454	**94,420**
Minority interests	–	4,062	3,784	3,734	**6,339**
	134,552	116,905	120,492	124,188	**100,759**
Earnings/(loss) per share (Hong Kong cents)					
Basic	2.82	(2.55)	0.43	(0.26)	**(3.52)**
Diluted	N/A	N/A	N/A	N/A	**N/A**