

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

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

The Company is an investment holding company. The activities of its subsidiaries and an associate are set out in notes 41 and 42 respectively.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP"s) and Interpretations approved by the HKSA.

Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was required to be made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) by the Group has resulted in the introduction of new disclosures requirements in the notes to the financial statements, but has had no significant impact on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

Turnover

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

Revenue recognition

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

Service income is recognised when services are rendered.

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, amortisation and impairment losses.

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

Investment properties

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

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

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

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

Goodwill

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

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

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

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

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

Patents and beneficial rights to drugs under development

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

Costs incurred in the acquisition of beneficial rights to drugs under development and the subsequent development cost are capitalised and amortised on a straight line basis over their useful economic lives when the underlying drugs are ready for commercial production.

Investments in subsidiaries

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

Interests in associates

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

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interests in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

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

Investments in securities

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

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

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leases

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

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

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

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

Retirement benefit costs

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

Share options

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

4. SEGMENT INFORMATION

Business segments

The Group is principally engaged in research, development and sale of biopharmaceutical products. No business segment analysis is presented as management considers this as one single business segment.

Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China.

Notes to the Financial Statements

For the year ended 31 December 2003

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

Segment information of the Group by location of customers is presented as below:

For the year ended 31 December 2003

	People's Republic of China ("PRC") HK\$'000	Kingdom of Cambodia ("Cambodia") HK\$'000 (note)	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
Revenue					
External sales	<u>28,988</u>	<u>28,080</u>	<u>33</u>	<u>112</u>	<u>57,213</u>
Result					
Segment results	<u>941</u>	<u>23,745</u>	<u>(26)</u>	<u>3</u>	<u>24,663</u>
Other operating income					<u>38,570</u>
Unallocated corporate expenses					<u>(26,690)</u>
Profit from operations					<u>36,543</u>
Finance costs					<u>(730)</u>
Gain on partial disposal of subsidiaries					<u>19,127</u>
Loss on disposal of subsidiaries					<u>(14,948)</u>
Share of loss of an associate					<u>(1,433)</u>
Profit before taxation					<u>38,559</u>
Income tax expense					<u>(7)</u>
Profit before minority interests					<u>38,552</u>
Minority interests					<u>(1,704)</u>
Profit for the year					<u><u>36,848</u></u>

Note:

The Group has granted an exclusive distribution right to an independent distributor in Cambodia to distribute a pharmaceutical product in the Cambodia, Union of Myanmar and Lao People's Democratic Republic for a period of five years commencing November 2003.

Notes to the Financial Statements

For the year ended 31 December 2003

4. SEGMENT INFORMATION (continued)

At 31 December 2003

	PRC HK\$'000	Cambodia HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
Assets					
Segment assets	<u>9,436</u>	<u>28,080</u>	<u>-</u>	<u>-</u>	<u>37,516</u>
Unallocated corporate assets					<u>252,318</u>
Consolidated total assets					<u>289,834</u>
Liabilities					
Segment liabilities	<u>3,549</u>	<u>4,140</u>	<u>-</u>	<u>38</u>	<u>7,727</u>
Unallocated corporate liabilities					<u>22,818</u>
Consolidated total liabilities					<u>30,545</u>

For the year ended 31 December 2003

	PRC HK\$'000	Hong Kong HK\$'000	Cambodia HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions in:						
- Property, plant and equipment	-	-	-	-	1,344	1,344
- Goodwill	-	-	-	-	943	943
- Intangible assets	-	-	-	-	46,744	46,744
Depreciation and amortisation of property, plant and equipment	-	-	-	-	5,573	5,573
Amortisation of goodwill	-	-	-	-	410	410
Amortisation of intangible assets	674	-	490	12	-	1,176
Allowance for doubtful debts	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,268</u>	<u>6,268</u>

Notes to the Financial Statements

For the year ended 31 December 2003

4. SEGMENT INFORMATION (continued)

For the year ended 31 December 2002

	PRC HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
Revenue				
External sales	<u>30,994</u>	<u>15</u>	<u>—</u>	<u>31,009</u>
Result				
Segment results	<u>333</u>	<u>(895)</u>	<u>—</u>	(562)
Other operating income				943
Write back of other payables				11,700
Unallocated corporate expenses				<u>(26,680)</u>
Loss from operations				(14,599)
Finance costs				(2,096)
Gain on disposal of subsidiaries				32
Share of loss of an associate				<u>(1,444)</u>
Loss before taxation				(18,107)
Income tax expense				<u>—</u>
Loss before minority interests				(18,107)
Minority interests				<u>(5,211)</u>
Loss for the year				<u>(23,318)</u>

Notes to the Financial Statements

For the year ended 31 December 2003

4. SEGMENT INFORMATION (continued)

At 31 December 2002

	PRC HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
Assets				
Segment assets	<u>14,943</u>	<u>–</u>	<u>–</u>	14,943
Interest in an associate				6,726
Unallocated corporate assets				<u>129,626</u>
Consolidated total assets				<u>151,295</u>
Liabilities				
Segment liabilities	<u>413</u>	<u>–</u>	<u>–</u>	413
Unallocated corporate liabilities				<u>32,015</u>
Consolidated total liabilities				<u>32,428</u>

For the year ended 31 December 2002

	PRC HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions in:					
– Property, plant and equipment	–	–	–	17,228	17,228
– Goodwill	–	–	–	2,219	2,219
Depreciation and amortisation of					
property, plant and equipment	–	–	–	6,130	6,130
Amortisation of goodwill	–	–	–	444	444
Amortisation of intangible assets	1,643	–	–	–	1,643
Allowance for doubtful debts	–	–	–	3,810	3,810
Allowance for inventories	148	478	–	–	626
Loss on disposal of property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>25</u>	<u>25</u>

The geographical location of the segment assets is the same as the geographical location of customers in both years.

Notes to the Financial Statements

For the year ended 31 December 2003

5. OTHER OPERATING INCOME

	2003	2002
	HK\$'000	HK\$'000
Unrealised gain on revaluation of investments in securities	36,200	–
Gain on disposal of investments in securities	847	16
Net exchange gain	533	–
Management fee income	435	261
Interest income	265	206
Rental income	30	30
Gain on disposal of property, plant and equipment	5	–
Sundry	255	430
	38,570	943

6. WRITE BACK OF OTHER PAYABLES

Included in creditors and accrued charges of the Group as at 31 December 2001 was an aggregate amount of approximately HK\$11,700,000 recorded by a subsidiary of the Company established in the PRC. This amount was payable to several independent parties and had been brought forward since the acquisition of the subsidiary by the Group during the year ended 31 December 2000. The Group has been unable to contact these parties to clarify the nature of the payables and, on the other hand, these parties had not demanded repayment of the amount by whatever means for more than two years. Pursuant to a legal opinion obtained by the directors from a firm of PRC lawyers, these independent parties have lost the civil right under PRC law to claim against the subsidiary for the aggregate amount and, accordingly, the amount of HK\$11,700,000 was written back to the consolidated income statement during the year ended 31 December 2002.

7. ALLOWANCE FOR DOUBTFUL DEBTS

	2003	2002
	HK\$'000	HK\$'000
Allowance for doubtful debts are analysed as follows:		
Allowance for amount due from an associate	5,258	1,000
Allowance for trade debtors	1,000	–
Allowance for amount due from a former subsidiary	10	–
Allowance for other debtors	–	2,810
	6,268	3,810
Recovery from trade debtors	–	(696)
Recovery from other debtors	(2,312)	–
	3,956	3,114

Notes to the Financial Statements

For the year ended 31 December 2003

8. PROFIT (LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Staff cost		
– Directors' remuneration (note 9)	6,469	6,396
– Other staff		
– Salaries and allowances	6,906	7,814
– Retirement benefit scheme contribution	111	584
	<u>13,486</u>	<u>14,794</u>
Amortisation of goodwill (included in administrative expenses)	410	444
Amortisation of intangible assets (included in administrative expenses)	1,176	1,643
Auditors' remuneration	795	806
Depreciation and amortisation	5,573	6,130
Loss on disposal of property, plant and equipment	–	25
Operating lease rentals paid in respect of rented premises (note)	1,855	2,376
Research and development expenditure	2,247	409
	<u>2,247</u>	<u>409</u>

Note: The amount excludes the accommodation benefits provided to a director amounting to HK\$840,000 (2002: HK\$624,000) as set out in note 9.

9. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Directors' remuneration

The directors' remuneration are analysed as follows:

	2003 HK\$'000	2002 HK\$'000
Fee paid to:		
Executive directors	–	–
Independent non-executive directors	240	240
	<u>240</u>	<u>240</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	5,377	5,520
Accommodation benefits	840	624
Retirement benefit scheme contribution	12	12
	<u>6,229</u>	<u>6,156</u>
Total directors' remuneration	<u>6,469</u>	<u>6,396</u>

Notes to the Financial Statements

For the year ended 31 December 2003

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

Directors' remuneration (continued)

The remunerations of the directors were within the following bands:

	2003 Number of Directors	2002 Number of Directors
Nil to HK\$1,000,000	4	2
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$2,000,001 – HK\$2,500,000	<u>2</u>	<u>2</u>

Highest paid employees

The five highest paid employees of the Group included three directors (2002: three directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid employees of the Group, other than directors, were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,700	1,915
Retirement benefit scheme contributions	<u>22</u>	<u>24</u>
	<u>1,722</u>	<u>1,939</u>

Their emoluments were within the following bands:

	2003 Number of employees	2002 Number of employees
Nil to HK\$1,000,000	2	1
HK\$1,000,001 – HK\$1,500,000	<u>–</u>	<u>1</u>

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10. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank and other borrowings:		
– wholly repayable within five years	676	1,857
– not wholly repayable within five years	–	33
Interest on other loan	14	130
Finance charges on finance leases	40	76
	730	2,096

11. GAIN ON PARTIAL DISPOSAL OF SUBSIDIARIES

On 31 December 2003, LifeTec (Holdings) Limited ("LifeTec Holdings"), a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to dispose of its entire interest in the issued share capital of its wholly-owned subsidiary, Durable Stock Investments Limited ("DSI"). DSI holds a 5% equity interests each in Golden Butterfly Investments Limited and Shanghai Youheng Biotechnology Limited ("Shanghai Youheng") and a 1.5% equity interests in Hainan Kangwei Medicine Co., Ltd. ("Hainan Kangwei"), all of which are subsidiaries of the Company.

The consideration was satisfied by 15,732,000 shares in Sen Hong Resources Holdings Limited, a company with its shares listed on the Stock Exchange, with market value as at 31 December 2003, being the date of completion of the agreement, amounting to HK\$19,193,000. Accordingly, the disposal of DSI constituted a partial disposal of subsidiaries and the resulting gain on disposal of HK\$19,127,000 was credited to the consolidated income statement.

12. INCOME TAX EXPENSE

	2003 HK\$'000	2002 HK\$'000
The charge represents:		
Current taxation		
Profits tax outside Hong Kong	7	–

Profits tax outside Hong Kong represents PRC Income Tax which is calculated at 33% (2002: 33%).

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12. INCOME TAX EXPENSE (continued)

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/2004.

The tax charge for the year can be reconciled to the profit (loss) per consolidated income statement as follows:

	2003	2002
	HK\$'000	HK\$'000
Profit (loss) before taxation	38,559	(18,107)
Tax at PRC income tax rate of 33% (2002: 33%)	12,724	(5,975)
Tax effect of expenses not deductible for tax purpose	6,041	2,822
Tax effect of income not taxable for tax purpose	(11,825)	(616)
Tax effect of tax losses not recognised	3,690	8,060
Utilisation of tax losses previously not recognised	(9,163)	–
Effect of tax exemptions granted to a subsidiary in the PRC	(1,480)	(4,291)
Others	20	–
Tax expense for the year	7	–

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13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2003 HK\$'000	2002 HK\$'000
Earnings (loss):		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share:		
– Profit (loss) for the year	<u>36,848</u>	<u>(23,318)</u>
Number of shares:		
Weighted average number of shares for the purposes of basic earnings (loss) per share:		
– as originally stated	<u>2,157,477,143</u>	1,606,102,658
– adjustment for the effect of rights issue in 2003 as set out in note 29	–	50,190,708
– as restated	<u>2,157,477,143</u>	<u>1,656,293,366</u>
Effect of dilutive potential shares in respect of share options	<u>26,545,096</u>	
Weighted average number of shares for the purposes of diluted earnings per share	<u>2,184,022,239</u>	

Note: As the exercise of the Company's outstanding share options during the year ended 31 December 2002 would be anti-dilutive, no diluted loss per share was presented in that year.

Notes to the Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST					
At 1 January 2003	41,521	30,595	3,215	2,450	77,781
Additions	–	643	177	–	820
Acquisition of subsidiaries	–	494	30	–	524
Disposals	–	(99)	(5)	–	(104)
Disposal of subsidiaries	(32,395)	(27,339)	(216)	(576)	(60,526)
At 31 December 2003	<u>9,126</u>	<u>4,294</u>	<u>3,201</u>	<u>1,874</u>	<u>18,495</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES					
At 1 January 2003	8,565	13,369	1,314	1,070	24,318
Provided for the year	667	3,949	553	404	5,573
Eliminated on disposals	–	(9)	(1)	–	(10)
Eliminated on disposal of subsidiaries	(1,201)	(13,420)	(115)	(204)	(14,940)
At 31 December 2003	<u>8,031</u>	<u>3,889</u>	<u>1,751</u>	<u>1,270</u>	<u>14,941</u>
NET BOOK VALUES					
At 31 December 2003	<u>1,095</u>	<u>405</u>	<u>1,450</u>	<u>604</u>	<u>3,554</u>
At 31 December 2002	<u>32,956</u>	<u>17,226</u>	<u>1,901</u>	<u>1,380</u>	<u>53,463</u>

The net book value of the Group's leasehold land and buildings comprises:

Property situated in Hong Kong held under long lease
Properties situated outside Hong Kong held under
medium term leases

The net book value of property, plant and equipment held
under finance leases

2003 HK\$'000	2002 HK\$'000
1,095	1,120
–	31,836
<u>1,095</u>	<u>32,956</u>
<u>238</u>	<u>497</u>

Notes to the Financial Statements

For the year ended 31 December 2003

15. INVESTMENT PROPERTY

THE GROUP

HK\$'000

VALUATION

At beginning of the year and at end of the year	3,200
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The investment property, which is rented out for rental income, was revalued as at 31 December 2003 by Dudley Surveyors Limited, an independent firm of professional valuers, on an open market value basis. There was no surplus or deficit arising on the revaluation of the investment property as at 31 December 2003.

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

16. GOODWILL

THE GROUP

HK\$'000

COST

At 1 January 2003	2,219
Acquisition of subsidiaries	943
Disposal of subsidiaries	(2,219)
Partial disposal of subsidiaries	(18)
	<hr/>
At 31 December 2003	925

AMORTISATION

At 1 January 2003	444
Provided for the year	410
Eliminated on disposal of subsidiaries	(666)
Eliminated on partial disposal of subsidiaries	(3)
	<hr/>

At 31 December 2003	185
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NET BOOK VALUE

At 31 December 2003	740
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At 31 December 2002	1,775
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Notes to the Financial Statements

For the year ended 31 December 2003

17. INTANGIBLE ASSETS

	Patent	Beneficial rights to drugs under development	Total
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
COST			
At 1 January 2003	4,705	–	4,705
Additions	–	660	660
Acquisition of subsidiaries	–	46,084	46,084
	<hr/>	<hr/>	<hr/>
At 31 December 2003	4,705	46,744	51,449
	<hr/>	<hr/>	<hr/>
AMORTISATION			
At 1 January 2003	2,819	–	2,819
Provided for the year	1,176	–	1,176
	<hr/>	<hr/>	<hr/>
At 31 December 2003	3,995	–	3,995
	<hr/>	<hr/>	<hr/>
NET BOOK VALUES			
At 31 December 2003	710	46,744	47,454
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2002	1,886	–	1,886
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

The amortisation of the cost of the beneficial rights to drugs under development will commence when the underlying drugs are fully developed and are ready for commercial production.

Notes to the Financial Statements

For the year ended 31 December 2003

18. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	–	1,433
Amount due from an associate	6,258	6,293
	<hr/>	<hr/>
	6,258	7,726
Less: Allowance for amount due from an associate	(6,258)	(1,000)
	<hr/>	<hr/>
	–	6,726
	<hr/> <hr/>	<hr/> <hr/>

Particulars of the Group's associate at 31 December 2003 are set out in note 42.

19. PAYMENTS FOR INVESTMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Deposits paid for the acquisition of a subsidiary (note a)	14,143	38,186
Amount paid for the acquisition of beneficial rights to a drug under development (note b)	7,000	7,000
	<hr/>	<hr/>
	21,143	45,186
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) The Company through its wholly owned subsidiaries, LifeTec Holdings and Weihai Genen Biotech Limited ("Weihai Genen"), entered into a conditional sale and purchase agreement with independent parties on 19 December 2002 for the acquisition by LifeTec Holdings and Weihai Genen of a 81 % and a 19% interest, respectively, in the registered capital of Shanghai Youheng for a consideration of HK\$40,072,000. Shanghai Youheng is a limited liability company established in the PRC and holds the rights to two new drug projects. As at 31 December 2002, the deposits paid by the Group for the acquisition of Shanghai Youheng amounted to HK\$38,186,000.

Shanghai Youheng became a subsidiary of the Group during the year. Details of the assets and liabilities of Shanghai Youheng and other subsidiaries acquired by the Group during the year are set out in note 32.

Notes to the Financial Statements

For the year ended 31 December 2003

19. PAYMENTS FOR INVESTMENTS (continued)

On 27 December 2003, LifeTec Holdings entered into a conditional sale and purchase agreement with an independent party for the acquisition of the entire issued share capital of LGH Limited for a cash consideration of RMB16,000,000 (equivalent to HK\$15,086,000). LGH Limited is a limited liability company incorporated in the British Virgin Islands and holds the rights to a new drug project. As at 31 December 2003, the deposits paid by the Group for the acquisition of LGH Limited amounted to RMB15,000,000 (equivalent to HK\$14,143,000).

- (b) On 26 July 2002, LifeTec Holdings entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of HK\$7,609,000. The amount paid by the Group amounting to HK\$7,000,000 at 31 December 2002 and 31 December 2003 represents the partial consideration paid under the agreement.

20. PROMISSORY NOTES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Promissory notes receivable from disposal of subsidiaries was or will be matured on:		
30 December 2003	10,260	—
30 May 2004	10,260	—
30 October 2004	10,259	—
30 March 2005	10,259	—
	41,038	—
Less: Amount due within one year classified as current assets	(30,779)	—
Amount due after one year	10,259	—

The promissory notes represent the partial consideration receivable resulting from the disposal of certain subsidiaries during the year. Details of the disposal of subsidiaries are set out in note 33. The promissory notes bear interest at prevailing market rate and are secured by a first mortgage over the entire issued share capital of Goldstone International Holdings Limited ("Goldstone"), the holding company of the disposed subsidiaries, and the assignment of the benefit of all the shareholders' loan to Goldstone after the disposal and before the full repayment of the promissory notes.

The promissory note matured on 30 December 2003 was subsequently settled in February 2004.

Notes to the Financial Statements

For the year ended 31 December 2003

21. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	48,726	48,726
Impairment loss	(48,726)	(48,726)
	<hr/>	<hr/>
	–	–
Amounts due from subsidiaries less allowance	208,315	134,104
	<hr/>	<hr/>
	208,315	134,104
	<hr/> <hr/>	<hr/> <hr/>

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

Particulars of the Company's subsidiaries as at 31 December 2003 are set out in note 41.

22. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials and consumable	–	323
Work in progress	–	140
Finished goods	38	2
	<hr/>	<hr/>
	38	465
	<hr/> <hr/>	<hr/> <hr/>
At cost	38	2
At net realisable value	–	463
	<hr/>	<hr/>
	38	465
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2003

23. DEBTORS AND PREPAYMENTS

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

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade debtors		
Within 30 days (note a)	32,157	9,838
31 – 60 days	2,221	1,061
61 – 90 days	1,535	1,353
More than 90 days	1,603	2,691
	<hr/>	<hr/>
	37,516	14,943
Balance of consideration receivable resulting from disposal of subsidiaries (note b)	1,300	1,300
Amount due from a former subsidiary	14,543	–
Deposit to a financial consulting company (note c)	28,286	–
Other debtors and prepayments	4,486	4,495
	<hr/>	<hr/>
	86,131	20,738
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) Included in the balance is an amount of HK\$28,080,000, representing the trade debt due from a distributor in Cambodia. Pursuant to the sales contract entered into with the distributor on 6 December 2003, the balance will be repayable by 10 equal monthly instalments commencing January 2004.
- (b) The amount is unsecured, interest free and has been fully settled after 31 December 2003.
- (c) The amount represents the outstanding deposit to a financial consulting company established in the PRC. Pursuant to an agreement entered into between the financial consulting company and Shanghai Youheng in July 2003, Shanghai Youheng has appointed the financial consulting company:
- (i) to solicit potential biopharmaceutical investment projects in the PRC and to provide consultancy services to the related investments for a service fee of 3% on the amount to be invested in the projects by Shanghai Youheng; and
 - (ii) to make payment of earnest money for the potential investment projects or cost of investment from the outstanding deposit after obtaining the approval from Shanghai Youheng.

The agreement is effective from 1 July 2003 to 30 June 2006. The outstanding deposit is unsecured, carries interest at 1% per annum and has no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31 December 2003

24. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Other investments:		
Equity securities listed in Hong Kong, at market value	73,243	–

Included in the equity securities is an amount of HK\$52,000,000, representing the Group's investment in Mexan Limited, a company incorporated in Bermuda with its shares listed on the Stock Exchange. The Group's investment represents a 1.53% of the issued share capital of Mexan Limited at 31 December 2003.

25. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
The aging analysis of trade creditors is as follows:		
Within 30 days	5,343	118
31 – 60 days	876	64
61 – 90 days	660	–
More than 90 days	848	231
	7,727	413
Other creditors and accrued charges	8,795	17,817
	16,522	18,230

Notes to the Financial Statements

For the year ended 31 December 2003

26. BANK BORROWINGS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Mortgage loans	420	534
Bank loans	6,276	12,562
	6,696	13,096
Of which:		
Secured	621	2,836
Unsecured	6,075	10,260
	6,696	13,096
The terms of repayment of the bank borrowings are analysed as follows:		
Within one year or on demand	2,696	4,481
More than one year, but not exceeding two years	2,719	2,561
More than two years, but not exceeding five years	1,281	5,884
After five years	–	170
	6,696	13,096
Less: Amount due within one year shown under under current liabilities	(2,696)	(4,481)
Amount due after one year	4,000	8,615

Notes to the Financial Statements

For the year ended 31 December 2003

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
THE GROUP				
Amount payable under finance leases:				
Within one year	46	371	44	340
More than one year, but not exceeding two years	–	46	–	44
	<u>46</u>	<u>417</u>		
Less: Future finance charges	(2)	(33)		
	<u>44</u>	<u>384</u>	<u>44</u>	<u>384</u>
Present value of lease obligations				
Less: Amount due within one year shown under current liabilities			(44)	(340)
			<u>–</u>	<u>44</u>
Amount due after one year				

28. DEFERRED TAX LIABILITY

The balance as at 31 December 2003 represents the deferred tax liability recognised in respect of the temporary difference attributable to the intangible assets acquired in relation to the acquisition of interests in Shanghai Youheng (note 32).

At 31 December 2003, the Group has unused tax losses of HK\$85,227,000 (2002: HK\$110,911,000) available for offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$842,000 (2002: HK\$8,709,000) that will be expired from 2005 to 2008. Other losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31 December 2003

29. SHARE CAPITAL

	2003 Number of shares	2002 Number of shares	2003 HK\$'000	2002 HK\$'000
Shares of HK\$0.01 each				
Authorised:				
At beginning and at end of the year	10,000,000,000	10,000,000,000	100,000	100,000
Issued and fully paid:				
At beginning of the year	1,717,745,946	1,415,945,946	17,177	14,159
Rights issue	858,872,973	–	8,589	–
Placement of new shares	–	280,000,000	–	2,800
Issue of shares upon exercise of share options	–	21,800,000	–	218
At end of the year	2,576,618,919	1,717,745,946	25,766	17,177

On 10 July 2003, the Company issued 858,872,973 new shares in the Company of HK\$0.01 each by way of a rights issue on the basis of one new share for every two then existing shares at an issue price of HK\$0.10 per new share (the "Rights Issue"). These new shares rank pari passu with the existing shares in all respects.

The Company intended to use the net proceeds from the rights issue amounting to approximately HK\$81.19 million as follows:

- (a) as to approximately HK\$30 million, for the building of a more extensive proprietary distribution network for the Group;
- (b) as to approximately HK\$20 million, for research and development costs for existing new drug projects and potential new projects; and
- (c) as to the remaining balance, for general working capital of the Group.

30. SHARE OPTIONS

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

Notes to the Financial Statements

For the year ended 31 December 2003

30. SHARE OPTIONS (continued)

Old Share Option Scheme

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

New Share Option Scheme

The purpose of the New Share Option Scheme is to provide incentives or rewards for the contribution by the directors and employees of the Group; any supplier of goods or services to the Group; any customer of the Group; any adviser or consultant of the Group; any person or entity that provides research, development or other technological support to the Group; or any shareholders of the Group. The period within which the shares must be taken up under an option of the New Share Option Scheme shall not be more than 5 years from the date of the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK\$1 is payable on acceptance of an option within 21 days from the date of grant.

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

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

Notes to the Financial Statements

For the year ended 31 December 2003

30. SHARE OPTIONS (continued)

New Share Option Scheme (continued)

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

Details of the movements in share options granted under the Old Share Option Scheme and the New Share Option Scheme during each of the two years ended 31 December 2003 are set out as follows:

Date of grant	Exercisable period	Exercise price per share prior to Rights Issue HK\$	Exercise price per share adjusted for the effect of Rights Issue HK\$	Number of share options				
				Outstanding at 1.1.2003	Granted during the year	Adjustment due to Rights Issue	Lapsed/ cancelled during the year	Outstanding at 31.12.2003
Category: Directors								
<i>Old Share Option Scheme</i>								
02.06.2000	02.06.2000 to 01.06.2003	0.06848	0.06848	43,600,000	-	-	(43,600,000)	-
<i>New Share Option Scheme</i>								
27.11.2003	27.11.2003 to 26.11.2008	0.08800	0.08800	-	3,500,000	-	-	3,500,000
				<u>43,600,000</u>	<u>3,500,000</u>		<u>(43,600,000)</u>	<u>3,500,000</u>
Category: Employees								
<i>Old Share Option Scheme</i>								
19.04.2000	19.04.2000 to 18.04.2003	0.24000	0.24000	1,500,000	-	-	(1,500,000)	-
05.06.2001	05.06.2001 to 04.06.2004	0.19600	0.13060	2,500,000	-	1,250,000	(3,750,000)	-
07.05.2002	07.05.2002 to 06.05.2005	0.14460	0.09640	5,000,000	-	2,500,000	(7,500,000)	-
08.05.2002	08.05.2002 to 07.05.2005	0.14580	0.09720	2,500,000	-	1,250,000	(3,750,000)	-
<i>New Share Option Scheme</i>								
27.11.2003	27.11.2003 to 26.11.2008	0.08800	0.08800	-	76,825,000	-	-	76,825,000
				<u>11,500,000</u>	<u>76,825,000</u>	<u>5,000,000</u>	<u>(16,500,000)</u>	<u>76,825,000</u>
Category: Consultants								
<i>New Share Option Scheme</i>								
27.11.2003	27.11.2003 to 26.11.2008	0.08800	0.08800	-	91,375,000	-	-	91,375,000
				<u>55,100,000</u>	<u>171,700,000</u>	<u>5,000,000</u>	<u>(60,100,000)</u>	<u>171,700,000</u>

Notes to the Financial Statements

For the year ended 31 December 2003

30. SHARE OPTIONS (continued)

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
			Outstanding at 1.1.2002	Granted during the year	Exercised during the year	Outstanding at 31.12.2002
Category: Directors						
<i>Old Share Option Scheme</i>						
02.06.2000	02.06.2000 to 01.06.2003	0.06848	65,400,000	–	(21,800,000)	43,600,000
Category: Employees						
<i>Old Share Option Scheme</i>						
19.04.2000	19.04.2000 to 18.04.2003	0.24000	1,500,000	–	–	1,500,000
05.06.2001	05.06.2001 to 04.06.2004	0.19600	2,500,000	–	–	2,500,000
07.05.2002	07.05.2002 to 06.05.2005	0.14460	–	5,000,000	–	5,000,000
08.05.2002	08.05.2002 to 07.05.2005	0.14580	–	2,500,000	–	2,500,000
			4,000,000	7,500,000	–	11,500,000
Total all categories			<u>69,400,000</u>	<u>7,500,000</u>	<u>(21,800,000)</u>	<u>55,100,000</u>

Total consideration received during the year from directors, employees and consultants for accepting the options granted amounted to HK\$15 (2002: Nil).

The closing price of the Company's share at the date of the exercise of the 21,800,000 share options during the year ended 31 December 2002 was HK\$0.345 per share.

Notes to the Financial Statements

For the year ended 31 December 2003

31. RESERVES

	Share premium	Contributed surplus	Deficit	Total
	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000
THE COMPANY				
At 1 January 2002	163,483	110,223	(206,863)	66,843
Issue of shares	79,675	–	–	79,675
Expenses incurred in connection with the issue of shares	(2,379)	–	–	(2,379)
Loss for the year	–	–	(27,867)	(27,867)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	240,779	110,223	(234,730)	116,272
Issue of shares	77,298	–	–	77,298
Expenses incurred in connection with the issue of shares	(4,696)	–	–	(4,696)
Loss for the year	–	–	(6,849)	(6,849)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>313,381</u>	<u>110,223</u>	<u>(241,579)</u>	<u>182,025</u>

Contributed surplus represents the aggregate of:

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

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

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

In the opinion of the directors, the Company did not have reserves available for distribution to shareholders as at 31 December 2002 and 31 December 2003.

Notes to the Financial Statements

For the year ended 31 December 2003

32. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired the entire interest in the registered capital of Shanghai Youheng for a consideration of approximately HK\$40,072,000 and the entire interest in the registered capital of Hainan Kangwei for a consideration of approximately HK\$2,829,000. Details of the net assets of the subsidiaries acquired were as follows:

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	524	–
Intangible assets	46,084	–
Inventories	4	–
Debtors and prepayments	308	–
Bank balances and cash	2,074	–
Creditors and accrued charges	(124)	–
Deferred tax liability	(6,912)	–
	<hr/>	<hr/>
Net assets acquired	41,958	–
Goodwill arising on acquisition	943	–
	<hr/>	<hr/>
Total consideration	42,901	–
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	4,715	–
Cash paid in last year included in payments for investments (note 19)	38,186	–
	<hr/>	<hr/>
	42,901	–
	<hr/> <hr/>	<hr/> <hr/>
Net cash outflow arising on acquisition:		
Cash consideration	(4,715)	–
Bank balances and cash acquired	2,074	–
	<hr/>	<hr/>
	(2,641)	–
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries acquired during the year contributed HK\$12,434,000 to the Group's turnover, and HK\$1,407,000 to the Group's profit from operations.

Notes to the Financial Statements

For the year ended 31 December 2003

33. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its entire interests in the issued share capital of Goldstone and the shareholder's loan advanced by the Group to Goldstone for a total consideration of RMB58,300,000 (approximately HK\$55,000,000). The principal activity of Goldstone was investment holding in a 65.7% equity interests in Weihai Sinogen Pharmaceutical Co., Ltd., a company engaged in research, development, manufacturing and sales of biopharmaceutical products. Details of the net assets of the subsidiaries disposed of were as follows:

	2003	2002
	HK\$'000	HK\$'000
Net (liabilities) assets disposed of:		
Property, plant and equipment	45,586	14,409
Goodwill	1,553	–
Inventories	2,393	–
Debtors and prepayments	22,928	–
Bank balances and cash	2,527	–
Creditors and accrued charges	(26,035)	(3,747)
Amount due to immediate holding company	(80,296)	–
Minority interests	(17,428)	–
Mortgage loan	–	(9,294)
	(48,772)	1,368
Net (liabilities) assets disposed of	(48,772)	1,368
Assignment of amount due from Goldstone	80,296	–
Attributable goodwill	38,571	–
Translation reserve realised	(147)	–
(Loss) gain on disposal of subsidiaries	(14,948)	32
	55,000	1,400
Total consideration	55,000	1,400
Satisfied by:		
Cash	13,962	100
Promissory notes (note 20)	41,038	–
Balance of consideration receivable included in debtors and prepayments (note 23)	–	1,300
	55,000	1,400
Net cash inflow arising on disposal:		
Cash consideration	13,962	100
Bank balances and cash disposed of	(2,527)	–
	11,435	100

The subsidiaries disposed of during the year contributed HK\$16,548,000 to the Group's turnover and HK\$2,403,000 to the Group's profit from operations.

Notes to the Financial Statements

For the year ended 31 December 2003

33. DISPOSAL OF A SUBSIDIARIES (continued)

The income statement of Goldstone and its subsidiary for the period from 1 January 2003 to 31 July 2003 (the effective date of disposal), based on the unaudited consolidated management accounts, is analysed as follows:

	1.1.2003 to 31.7.2003
	HK\$'000
Turnover	16,548
Cost of sales	(2,238)
	<hr/>
Gross profit	14,310
Other operating income	2
Marketing, selling and distribution costs	(7,830)
Administrative expenses	(4,079)
	<hr/>
Profit from operations	2,403
Finance costs	(6)
	<hr/>
Profit before taxation	2,397
Income tax expense	–
	<hr/>
Profit before minority interests	2,397
Minority interests	(1,768)
	<hr/>
Profit for the period	<u>629</u>

34. PLEDGE OF ASSETS

At 31 December 2003,

- (a) the Group's bank borrowings were secured by charges over properties of the Group with aggregate net book value of approximately HK\$4,295,000 (2002: HK\$4,320,000).
- (b) the Group's investments in securities amounting to HK\$54,200,000 were pledged to a securities broker to secure the margin facilities amounting to HK\$10,730,000 granted to the Group. No margin facilities have been utilised at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2003

35. CONTINGENT LIABILITIES

THE COMPANY

The Company has given guarantees to banks to secure general banking facilities granted to the subsidiaries. The extent of such facilities utilised by the subsidiaries as at 31 December 2003 amounted to approximately HK\$6,276,000 (2002: HK\$12,562,000).

THE GROUP

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

36. OPERATING LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,983	1,256	1,227	—
In the second to fifth year inclusive	7	630	—	—
	<u>1,990</u>	<u>1,886</u>	<u>1,227</u>	<u>—</u>

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

Notes to the Financial Statements

For the year ended 31 December 2003

37. CAPITAL AND OTHER COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of a subsidiary	943	1,886
Acquisition of the beneficial rights to a drug under development	609	609
	1,552	2,495
	13,571	–
Research and development expenditure contracted for but not provided in the financial statements		

38. RETIREMENT BENEFIT SCHEME

Hong Kong

The Group has joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the MPF Scheme.

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

The Group's contribution under the MPF Scheme for the year amounted to HK\$123,000 (2002: HK\$150,000).

Notes to the Financial Statements

For the year ended 31 December 2003

38. RETIREMENT BENEFIT SCHEME (continued)

PRC

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

The Group's contribution under the respective schemes for the year amounted to HK\$75,000 (2002: HK\$446,000).

39. POST BALANCE SHEET EVENTS

- (a) Pursuant to a placing agreement dated 27 January 2004, the Company issued 340,000,000 warrants (the "Warrants") at a placing price of HK\$0.078 per Warrant. The Warrants are in registered form, which entitle the holders of the Warrants the right to subscribe up to HK\$34,680,000 in aggregate in cash for shares in the Company at the initial subscription price of HK\$0.102 per share (subject to adjustment) during the period from 23 February 2004 to 26 February 2005 (both dates inclusive). The Warrants have been listed on the Stock Exchange since 27 February 2004.

The net proceeds of the placing of about HK\$24.5 million were used for general working capital of the Group.

- (b) On 1 March 2004, LifeTec Holdings entered into a conditional sale and purchase agreement with an independent party to acquire 1 ordinary share in Anica Ltd., representing 100% of the issued share capital of Anica Ltd. for a cash consideration of RMB22,200,000 (equivalent to HK\$20,932,000). Anica Ltd. is a limited liability company incorporated in the British Virgin Islands and holds the rights of a new drug project. The deposit paid by the Group for the acquisition of Anica Ltd. on the date of the agreement amounted to RMB21,200,000 (equivalent to HK\$19,989,000).
- (c) On 28 March 2004, the Group disposed of its beneficial rights to a drug development project with carrying value of HK\$7,000,000 at 31 December 2003 for a consideration of RMB7,000,000 (equivalent to HK\$6,600,000).

Notes to the Financial Statements

For the year ended 31 December 2003

40. RELATED PARTY TRANSACTIONS

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

	Directors		Associate	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
THE GROUP				
Management fee income (note a)	–	–	240	240
Maintenance expenses paid (note a)	–	–	120	120
	<u>–</u>	<u>–</u>	<u>120</u>	<u>120</u>
Amount due from related party (note b)	–	–	6,258	6,293
Amount due to related party (note b)	<u>364</u>	<u>718</u>	<u>–</u>	<u>–</u>
THE COMPANY				
Amount due to related party (note b)	<u>364</u>	<u>–</u>	<u>–</u>	<u>–</u>

Notes:

- (a) The transactions were charged at predetermined amount agreed between the parties involved.
- (b) The amounts are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31 December 2003

41. SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued/registered capital held by the Group	Principal activities
Asset Manager Enterprises Limited	Hong Kong	HK\$100	100%	Property holding
Hop Fu (Hong Kong) Trading Company Limited	Hong Kong	HK\$10,000	100%	Inactive
Golden Butterfly Investments Limited	British Virgin Islands	US\$100	95%	Investment holding
Gold Corner International Limited	British Virgin Islands	US\$1	100%	Investment holding
Hainan Kangwei Medicine Co., Ltd. (Note a)	PRC	RMB2,000,000	98.5%	Trading of biopharmaceutical products
LifeTec Enterprise Limited	Hong Kong	HK\$100	100%	General trading
LifeTec Group (China) Limited	British Virgin Islands	US\$1	100%	Inactive
LifeTec (Holdings) Limited (Note b)	British Virgin Islands	HK\$141,176	100%	Investment holding
Longkou Sunny Link Leathering Co., Ltd. (Note c)	PRC	US\$3,100,000	68%	Manufacture and sale of PVC products
Shanghai Youheng Biotechnology Limited (Note d)	PRC	HK\$5,600,000	95%	Research and development of biopharmaceutical products

Notes to the Financial Statements

For the year ended 31 December 2003

41. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued/registered capital held by the Group	Principal activities
Sino Flow Investments Limited	British Virgin Islands	US\$1	100%	Trading of biopharmaceutical products
Sunny Link Trading Limited	Hong Kong	HK\$2	100%	General trading
Weihai Genen Biotech Limited (Note d)	PRC	US\$2,000,000	100%	Research and development of biopharmaceutical products
Yip Hing Toys Manufactory Limited	Hong Kong	HK\$100,000	100%	Inactive

Notes:

- (a) The subsidiary is established in the PRC as a domestic enterprise.
- (b) The subsidiary is directly held by the Company.
- (c) The subsidiaries are established in the PRC as cooperative joint ventures.
- (d) The subsidiaries are established in the PRC as wholly foreign owned enterprises.

Apart from Hainan Kangwei Medicine Co., Ltd., Longkou Sunny Link Leathering Co., Ltd. and Weihai Genen Biotech Limited which carry out their principal activities in the PRC, the principal activities of the remaining subsidiaries are carried out in Hong Kong.

None of the subsidiaries had any debt securities subsisting at 31 December 2003 or at any time during the year.

Notes to the Financial Statements

For the year ended 31 December 2003

42. ASSOCIATE

Particulars of the Group's associate as at 31 December 2003 are as follows:

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