

Notes to the Financial Statements

For the year ended 31 December 2004

1. Basis of Preparation of the Financial Statements

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets, in accordance with accounting principles generally accepted in Hong Kong and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Public Certified Accountants ("HKICPA") and the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Group accounting

(i) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of 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 effective date of disposal, as appropriate.

All intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

2. Principal Accounting Policies *(continued)*

(a) Group accounting *(continued)*

(i) Consolidation *(continued)*

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement's items are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(b) Goodwill/negative 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 the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is recognised as an asset and carried at cost less accumulated amortisation and impairment losses. Goodwill is amortised on a straight line basis over its estimated useful life.

Goodwill on acquisition that occurred prior to 1 January 2001 was written off against reserves. Any impairment arising on such goodwill is accounted for in the income statement.

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

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2. Principal Accounting Policies (continued)

(b) Goodwill/negative goodwill (continued)

For acquisitions after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on consolidation.

(c) Fixed assets

(i) Properties under development

Properties under development are investments in land and buildings on which development work has not been completed and which, upon completion, management intend to hold for investment purposes. These properties are carried at cost which includes development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. On completion, the properties are transferred to investment properties at cost less accumulated impairment losses.

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, furniture and fixtures, office equipment, plant and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	over the lease term
Furniture and fixtures and office equipment	20%
Plant and equipment	10%
Motor vehicles	10%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement.

2. Principal Accounting Policies (continued)

(c) Fixed assets (continued)

(ii) Other fixed assets (continued)

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iii) Gain or loss on disposal

The gain or loss on disposal of a fixed asset other than properties under development is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to accumulated losses and is shown as a movement in reserves.

(d) Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are stated at cost less impairment losses, if any. The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment security is reduced to its fair value. The impairment loss is recognised as an expense in the income statement.

Profits or losses on disposals of investment securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(e) Properties held for resale

Properties held for resale transferred from fixed assets to current assets are stated at the lower of the carrying value of the asset, as stated under its original classification, and net realisable value. Net realisable value is determined by reference to management's estimate of the selling price based on the prevailing market conditions, less any material estimated costs to be incurred on disposal.

(f) 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 those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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For the year ended 31 December 2004

2. Principal Accounting Policies (continued)

(f) Impairment (continued)

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.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of sales and the estimated costs necessary to make the sale.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(j) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

2. Principal Accounting Policies (continued)

(k) Mandatory Provident Fund ("MPF")

The Group contributes to Mandatory Provident Fund Scheme ("MPF Scheme") which is available to all employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as a percentage of employees' basic salaries. Payments made to the MPF Scheme are charged as an expense to the income statement as they fall due. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(n) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(o) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Financial Statements

For the year ended 31 December 2004

2. Principal Accounting Policies (continued)

(p) Revenue recognition

Revenue is recognised in the income statement as follows:

- (i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (ii) Rental income is recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.
- (iii) Income on property sales is recognised when the legally binding sales contracts are signed or when a contract which gives rise to the effect of a deemed disposal of property is duly completed.
- (iv) Interest income from bank deposits is accrued on a time proportion basis on the principal outstanding and at the effective interest rates applicable.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(r) Related parties

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

(s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, investment securities, properties held for resale, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries, if any.

In respect of geographical segment reporting, sales of health products, proceeds and rental income from properties are based on the country in which the customer/property/tenant is respectively located and total assets and capital expenditure are where the assets are located.

Notes to the Financial Statements

For the year ended 31 December 2004

3. Turnover and Revenue

The principal activity of the Company during the year was investment holding. The principal activities of the subsidiaries during the year are set out in Note 16 to the financial statements.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Proceeds on deemed disposal/disposal of properties (Note 18(iv))	10,600	8,400
Rental income	1,461	1,257
Sales of health products	18,916	–
	30,977	9,657
Other revenue		
Interest income	6	–
Other income	14	–
	20	–
Total revenue	30,997	9,657

4. Segmental Information

Business segments

During the year the Group had two main business segments:

- Property investment – property holding, investment and re-development
- Health products – manufacture, sales and distribution of health products

Notes to the Financial Statements

For the year ended 31 December 2004

4. Segmental Information (continued)

Information about these business segments for the year ended 31 December 2004 is presented as follows:

	Property investment 2004 HK\$'000	Health products 2004 HK\$'000	Other operations 2004 HK\$'000	Group 2004 HK\$'000
Turnover	12,061	18,916	-	30,977
Segment results	197	12,347	-	12,544
Other revenue	-	6	14	20
Operating costs	(771)	(9,320)	-	(10,091)
Impairment loss on segment assets	(3,620)	(359)	-	(3,979)
Gain on deconsolidation of segmental entities	44	-	-	44
Gain on restructuring of segment liabilities	144,843	-	-	144,843
Unallocated costs	-	-	(6,141)	(6,141)
Profit/(Loss) from operations	140,693	2,674	(6,127)	137,240
Finance costs	(2,977)	-	(442)	(3,419)
Profit/(Loss) before taxation	137,716	2,674	(6,569)	133,821
Taxation	-	-	-	-
Profit/(Loss) after taxation	137,716	2,674	(6,569)	133,821
Minority interests	-	(847)	-	(847)
Profit/(Loss) attributable to shareholders	137,716	1,827	(6,569)	132,974
Segment assets	24,233	8,921	997	34,151
Unallocated assets	-	-	1,534	1,534
Total assets	24,233	8,921	2,531	35,685
Segment liabilities	(44,907)	(7,094)	38,423	(13,578)
Unallocated liabilities	-	-	(11,296)	(11,296)
Total liabilities	(44,907)	(7,094)	27,127	(24,874)
Other segment information:				
Capital expenditure	269	133	12	414
Depreciation	-	(7)	(52)	(59)
Bad debt/impairment charges	-	(359)	-	(359)
Write down of value of properties held for resale	(3,620)	-	-	(3,620)
Other non-cash expenses	-	-	-	-

Other than the provision of finance by corporate division in other operations to the respective segments reflected under segment liabilities, there are no sales or other transactions between the business segments.

Notes to the Financial Statements

For the year ended 31 December 2004

4. Segmental Information (continued)

Geographical segments

The following table presents turnover and certain assets and expenditure information for the Group's geographical segment for the year ended 31 December 2004:

	Hong Kong HK\$'000	PRC HK\$'000
Turnover	<u>12,061</u>	<u>18,916</u>
Other segment information:		
Segment assets	26,764	8,921
Capital expenditure	<u>281</u>	<u>133</u>

No segment information for the year ended 31 December 2003 is presented as substantially all the Group's turnover and contribution to operating results were derived from property investment in Hong Kong.

5. Gain on Debts Restructuring Arrangements

The gain of HK\$144,843,000 represents the overdrafts, loans principal and accrued interest payable of the Group waived by certain banks during the year in accordance with the respective terms of the debt restructuring arrangements (Notes 23(a) and 24).

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For the year ended 31 December 2004

6. Operating Profit/(Loss)

	2004 HK\$'000	2003 HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:		
<u>Crediting</u>		
Rentals receivable from properties less outgoings of HK\$1,264,000 (2003: HK\$818,000)	197	355
Write back of other payables	-	3,074
<u>Charging</u>		
Auditors' remuneration	550	450
Depreciation on owned fixed assets	59	251
Impairment loss on goodwill	-	367
Net loss on disposal of fixed assets	-	101
Operating lease on land and buildings	536	321
Provision for bad and doubtful debts	359	17,006
Staff costs (excluding directors' emoluments)	710	843
Write down of value of properties held for resale	3,620	-

7. Finance Costs

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years (Note)	2,814	25,487
Interest on other loans wholly repayables within five years	234	901
Interest on loan notes	371	2,032
	3,419	28,420

Note: Included in interest on bank loans and overdrafts wholly repayable within five years was an amount of HK\$664,000 (2003: HK\$6,346,000) which related to bank overdrafts borrowed through a third party.

Notes to the Financial Statements

For the year ended 31 December 2004

8. Taxation

(a) Taxation in the consolidated income statement represents:

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax		
– Overprovision in prior years	–	560

No provision for Hong Kong profits tax is required for current year since each individual Hong Kong company sustained losses for taxation purposes.

The subsidiary, Fuzhou Landun Science of Life Co., Ltd. ("Fuzhou Landun") operating in the PRC, is subject to enterprise income tax rate at 33% in accordance with Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法). However, pursuant to a notice issued by Fuzhou Economic & Technological Development District State Tax Bureau (福州經濟技術開發區國家稅務局), Fuzhou Landun is exempted from enterprise income tax for two years starting from the first year of profitable operation in 2004, followed by a 50% reduction for the next three years.

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax taxation rate as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Profit/(Loss) before taxation	132,974	(36,162)
Tax at domestic income tax rate of 17.5% (2003: 17.5%)	23,270	(6,328)
Tax effect of income that is not taxable in determining current year's taxable profits	(25,356)	(2,275)
Tax effect of expenses that is not deductible in determining current year's taxable profits	2,572	7,208
Tax effect of profits that is exempted from PRC tax authority	(390)	–
Tax effect of unused tax losses not recognised	–	835
Tax effect of utilisation of tax losses	(96)	–
Taxation for the year	–	(560)

Notes to the Financial Statements

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8. Taxation (continued)

(b) At the balance sheet date the Group and the Company has unused tax losses of HK\$27,449,000 (2003: HK\$26,901,000) and HK\$3,739,000 (2003: HK\$3,739,000) respectively available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unused tax losses of the Group are losses of HK\$548,000 that have not yet agreed by Inland Revenue Department.

9. Profit/(Loss) Attributable to Shareholders

The Profit/(loss) attributable to shareholders includes a profit of HK\$17,834,000 (2003: loss of 13,049,000) which has been dealt with in the financial statements of the Company.

10. Earnings/(Loss) per Share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$132,974,000 (2003: loss of HK\$36,162,000) and the weighted average of 3,070,988,721 (2003: 335,175,562) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the Group's profit attributable to shareholders for the year of HK\$132,974,000 and on 3,092,642,856 ordinary shares, being the weighed average number of 3,070,988,721 ordinary shares in issue during the year, as used in the basic earnings per share calculation plus the weighted average of 21,654,135 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

There were no dilutive potential ordinary shares in existence for the year ended 31 December 2003.

11. Staff Costs (including directors' emoluments)

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	3,506	3,527
Unutilised annual leave	-	-
MPF contributions	67	65
	<u>3,573</u>	<u>3,592</u>

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12. Mandatory Provident Fund

The Group did not operate any retirement scheme up to 30 November 2000. With effect from 1 December 2000, MPF Scheme has been set up for employees, including executive directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Scheme Ordinance (the "MPF Ordinance"). Under the MPF Scheme, the Group's contributions are at 5% of employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The employees also contribute a corresponding amount to the MPF Scheme from 31 December 2000. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group's contributions to the MPF Scheme charged to the income statement during the year amounted to approximately HK\$67,000 (2003: HK\$65,000).

13. Directors' Emoluments

Details of directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	360	320
Basic salaries, allowances and benefits in kind	2,459	2,400
MPF contributions	44	29
	<u>2,863</u>	<u>2,749</u>

Included in the directors' emoluments were HK\$360,000 (2003: HK\$273,000) paid to independent non-executive directors during the year.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
HK\$Nil to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	1	1

There were no director waived emoluments in 2004 and 2003.

No emoluments were paid or payable by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

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14. Five Highest Paid Individuals

Of the five individuals with the highest emoluments within the Group for the year, 4 (2003: 2) are directors whose emoluments are disclosed in Note 13. The emoluments in respect of the remaining individual during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, allowances and benefits in kind	209	552
MPF contributions	11	28
	220	580

No emoluments were paid or payable to the five highest paid individuals by the Group as an inducement to join or upon joining the Group, or as compensation for loss of office during the year.

The emoluments of the five highest paid individuals (including directors and other employees) fell within the following bands:

	Number of individuals	
	2004	2003
HK\$Nil to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	1	1
	5	5

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15. Fixed Assets

The Group

	Properties under development HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures, and office equipment HK\$'000	Plant and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:						
At 1 January 2004	5,556	128	101	-	-	5,785
Additions	269	-	64	32	49	414
At 31 December 2004	<u>5,825</u>	<u>128</u>	<u>165</u>	<u>32</u>	<u>49</u>	<u>6,199</u>
Accumulated depreciation:						
At 1 January 2004	-	36	46	-	-	82
Charge for the year	-	26	30	1	2	59
At 31 December 2004	<u>-</u>	<u>62</u>	<u>76</u>	<u>1</u>	<u>2</u>	<u>141</u>
Net book value:						
At 31 December 2004	<u>5,825</u>	<u>66</u>	<u>89</u>	<u>31</u>	<u>47</u>	<u>6,058</u>
At 31 December 2003	<u>5,556</u>	<u>92</u>	<u>55</u>	<u>-</u>	<u>-</u>	<u>5,703</u>

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15. Fixed Assets (continued)

	Leasehold improvements HK\$'000	The Company Office equipment HK\$'000	Total HK\$'000
Cost:			
At 1 January 2004	128	101	229
Additions	-	12	12
At 31 December 2004	<u>128</u>	<u>113</u>	<u>241</u>
Accumulated depreciation:			
At 1 January 2004	36	46	82
Charge for the year	26	26	52
At 31 December 2004	<u>62</u>	<u>72</u>	<u>134</u>
Net book value:			
At 31 December 2004	<u>66</u>	<u>41</u>	<u>107</u>
At 31 December 2003	<u>92</u>	<u>55</u>	<u>147</u>

16. Investments in Subsidiaries

	The Company 2004 HK\$'000	2003 HK\$'000
Unlisted, at cost	12,738	12,738
Loans to subsidiaries	861,338	952,786
	874,076	965,524
Less: Impairment losses	(870,545)	(965,524)
	3,531	-

The loans to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

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16. Investments in Subsidiaries (continued)

Details of subsidiaries which, in the opinion of the directors of the Company, materially contributed to the results of the Group or held a material portion of assets or liabilities of the Group are set out below. To give full details of subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Name of company	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
Direct subsidiaries				
Cheong Wa Limited	Hong Kong	Investment holding in Hong Kong	100 ordinary shares of HK\$1 each	70%
Day Success Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Marson Development Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of HK\$1 each	100%
Sheen Win Investment Limited	Hong Kong	Provision of funding for the Group in Hong Kong	2 ordinary shares of HK\$1 each	100%
Wisehall Star Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK\$1 each	100%
Indirect subsidiaries				
Henrich Development Limited	Hong Kong	Property re-development in Hong Kong	10,000 ordinary shares of HK\$1 each	95%
Fuzhou Landun	PRC	Manufacturing, sales and distribution of health products	HK\$10,000,000*	70%

* The registered capital of Fuzhou Landun is HK\$10,000,000 and HK\$5,000,000 has been paid up as at 31 December 2004.

None of the subsidiaries has issued any debt securities.

17. Investment Securities

	The Group	
	2004 HK\$'000	2003 HK\$'000
Club debentures	<u>997</u>	<u>997</u>

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18. Properties Held for Resale

	The Group	
	2004 HK\$'000	2003 HK\$'000
At 1 January	31,100	32,500
Disposals	-	(1,400)
Delivery of possession to a bank (Note (iv))	(10,600)	-
Write down	(3,620)	-
At 31 December	<u>16,880</u>	<u>31,100</u>

An analysis of the carrying value of properties held for resale is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	8,380	22,600
Leases of between 10 to 50 years	8,500	8,500
	<u>16,880</u>	<u>31,100</u>

- (i) At 31 December 2004, the carrying value of properties held for resale that was carried at net realisable value amounted to HK\$16,880,000 (2003: HK\$31,100,000).
- (ii) At 31 December 2004, the properties held for resale with carrying value of HK\$8,380,000 (2003: HK\$31,100,000) were pledged to a bank for banking facilities granted to the Group (Note 24(a)).
- (iii) At 31 December 2004, the properties held for resale with carrying value of HK\$8,500,000 (2003: HK\$Nil) were pledged to a bank as a security for other payables of HK\$1,710,000.
- (iv) The possession of properties with carrying value of HK\$10,600,000 was delivered to a bank as one of the conditions of a loans settlement agreement (Note 23(a)). The directors consider that the arrangement constitutes a deemed disposal of properties.

Notes to the Financial Statements

For the year ended 31 December 2004

19. Inventories

	The Group	
	2004 HK\$'000	2003 HK\$'000
Finished goods	890	–

20. Trade and Other Receivables

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables (Note)	2,748	22	22	22
Other receivables	18,414	17,095	79	79
Less: provision for doubtful debts	(17,365)	(17,006)	–	–
	1,049	89	79	79
Prepayments and deposits	1,878	735	110	352
	5,675	846	211	453

Note: The majority of the Group's turnover is the invoiced amount of health products sold and the consideration realised on the deemed disposal of properties. The remaining portion of turnover is rental income. The payment terms of the invoiced amount of the health products sold are normally from 30 days to 60 days while that of rental income are in accordance with the tenancy agreements and the payments are normally due on the first day of the month. At 31 December 2004, the ageing analysis of the trade receivables was as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current – 60 days	378	–	–	–
61 – 90 days	277	–	–	–
Over 90 days	2,093	22	22	22
	2,748	22	22	22

21. Bank and cash balances

At 31 December 2004, HK\$690,000 (approximately RMB 731,000) (2003: HK\$Nil) of the Group's bank and cash balances were denominated in Renminbi and kept in the PRC. The conversion of Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Notes to the Financial Statements

For the year ended 31 December 2004

22. Trade and Other Payables

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables (Note (a))	2,464	1,860	-	-
Other payables and accruals	6,603	8,319	5,729	8,704
Deposits received	1,770	280	-	-
Due to subsidiaries (Note (b))	-	-	-	20,301
Due to a director (Note (c))	553	3,630	553	3,630
	11,390	14,089	6,282	32,635

Notes:

(a) At 31 December 2004, the ageing analysis of the trade payables was as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current – 60 days	818	266	-	-
61 – 90 days	34	26	-	-
Over 90 days	1,612	1,568	-	-
	2,464	1,860	-	-

(b) The amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(c) The amount due to a director is unsecured, interest free and has no fixed terms of repayment.

23. Short Term Borrowings

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts (Note (a))	-	130,378	-	34,580
Other loans, secured (Note (b))	-	10,500	-	10,500
Other loans, unsecured (Note (c))	6,144	10,529	-	5,001
Loan from a director (Note (d))	500	7,000	500	7,000
Loan notes (Note (e))	-	17,057	-	17,057
	6,644	175,464	500	74,138

23. Short Term Borrowings (continued)

Notes:

- (a) On 31 December 2003, the Group entered into a settlement agreement with a bank regarding the bank overdrafts of HK\$130,378,000 and bank loans of HK\$35,238,000 (Note 24). The principal terms of settlement were as follows:
- (i) cash payment of HK\$18 million ("Settlement Sum") on or before 31 March 2004;
 - (ii) the delivery of possession of a mortgaged property with carrying value of HK\$10,600,000 (Note 18);
 - (iii) filing of a winding-up petition against a subsidiary within 3 months from the date of settlement agreement and obtaining a winding-up order within 12 months from the filing of the winding-up petition.
 - (iv) the delivery of 60% of any future recovery, if any, on six existing projects of the Group after deducting all reasonable actual expenses incurred for the recovery.

By 31 March 2004, the group fully settled the Settlement Sum, delivered the mortgaged property and filed a winding-up petition against the subsidiary (winding up order was subsequently obtained on 30 June 2004). Pursuant to the terms of the settlement agreement, that part of the bank overdrafts and loans which has not been and will not be repaid in full by the Settlement Sum referred to in (i) above, the proceeds recoverable from the property and the project receivables are deemed to be fully repaid.

- (b) During the year, a sum of HK\$10,000,000 was capitalised into 100,000,000 shares of the Company of HK\$0.10 each (Note 25(b)) and HK\$500,000 was fully repaid.
- (c) Unsecured other loan to the extent of HK\$6,144,000 (2003: HK\$5,528,000) is interest free and repayable on or before 31 October 2005.

During the year, the other loan of HK\$5,000,000 was discharged upon the execution of the subscription agreement (Note 25(b)).

- (d) The loan from a director is unsecured, interest bearing at 4% per annum and repayable on or before 31 December 2005.

During the year, a loan of HK\$7,000,000 was capitalised into 70,000,000 shares of the Company of HK\$0.10 each (Note 25(b)).

- (e) During the year, the loan notes to the extent of HK\$17,000,000 were capitalised into 170,000,000 shares of the Company of HK\$0.10 each (Note 25(b)).

Notes to the Financial Statements

For the year ended 31 December 2004

24. Long Term Borrowings

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loans, secured (Note (a))	4,493	19,789	4,493	–
Bank loans (Note (b))	–	35,238	–	–
	4,493	55,027	4,493	–
Current portion of long term borrowings	(4,493)	(55,027)	(4,493)	–
	–	–	–	–
	–	–	–	–

Notes:

- (a) The bank loan is interest bearing at prime rate per annum and repayable by 84 monthly installments. This loan is secured by a property held for resale with carrying value of HK\$8,380,000. The loan was fully repaid after the balance sheet date upon disposal of the pledged property (Note 34).

During the year, the Group paid a sum of HK\$12,500,000 to a bank as full settlement of the secured bank loans of HK\$19,789,000 pursuant to the terms of a deed of settlements.

- (b) During the year, the bank loans were fully settled (Note 23(a)).

The long term borrowings are repayable as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
On demand or within one year	4,493	55,027	4,493	–

Notes to the Financial Statements

For the year ended 31 December 2004

25. Share Capital

	Note	No. of shares '000	HK\$'000
Authorised:			
Ordinary shares of HK\$0.10 (2003: HK\$0.10) each			
At 31 December 2003 and 2004		<u>16,000,000</u>	<u>1,600,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.10 (2003: HK\$0.10) each			
At 1 January 2003		302,792	30,279
Issue of shares	(a)	<u>60,000</u>	<u>6,000</u>
At 31 December 2003		362,792	36,279
Issue of shares	(b)	<u>3,360,000</u>	<u>336,000</u>
At 31 December 2004		<u>3,722,792</u>	<u>372,279</u>

During the last and current years, the following transactions in respect of the share capital of the Company took place:

- (a) On 10 June 2003, the Company entered into subscription agreements with 5 subscribers for the subscription of a total of 60,000,000 subscription shares at HK\$0.10 per share. The subscription shares were allotted on 18 June 2003.
- (b) On 12 January 2004, the lender of a loan of HK\$5,000,000 referred to in Note 23(c) executed the subscription agreement, and subscribed for 500,000,000 shares of the Company at HK\$0.10 each. The subscription shares were issued together with 1,500,000,000 bonus shares on the basis of three bonus shares for each share subscribed by the lender.

On 10 January 2004 and 13 January 2004, the Company entered into four loan capitalisation agreements with four of its creditors in respect of a total outstanding loan amount of HK\$34,000,000 (Notes 23(b), (d) and (e)). Pursuant to the loan capitalisation agreements, 340,000,000 shares of the Company at HK\$0.10 each were issued to the creditors. The capitalisation shares were issued together with 1,020,000,000 bonus shares on the basis of three bonus shares for each share subscribed by the creditors.

- (c) Proceeds received in respect of the shares issued was used to repay the outstanding borrowings, for new investment purposes and as additional working capital of the Group.

Notes to the Financial Statements

For the year ended 31 December 2004

26. Share Options

On 28 May 2004, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 28 August 1999 (the "1999 Share Option Scheme") and the adoption of a new share option scheme (the "2004 Share Option Scheme").

1999 Share Option Scheme

Under the 1999 Share Option Scheme, the directors of the Company were authorised, at their discretion, to invite executive directors and key employees of the Company or its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. The exercise price for any particular option was determined by the board of directors of the Company in its absolute discretion subject to the compliance with the requirements for share option schemes under the Listing Rules.

The 1999 Share Option Scheme was terminated on 28 May 2004 such that no further options shall be offered and no option that had been granted under the 1999 Share Option Scheme was remain outstanding as at 31 December 2003 and at the date of termination.

2004 Share Option Scheme

The 2004 Share Option Scheme was adopted by the Company on 28 May 2004. Under the 2004 Share Option Scheme, the directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the board of directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules.

Options to subscribe for 144,000,000 option shares of the Company have been granted to directors of the Company under the 2004 Share Option Scheme. The 2004 Share Option Scheme will expire on 27 May 2014.

Notes to the Financial Statements

For the year ended 31 December 2004

26. Share Options (continued)

Details of the movement of the share options under the 2004 Share Option Scheme during the year are as follows:

	2004 Number
At 1 January	–
Granted during the year	144,000,000
Exercised during the year	–
Lapsed during the year	–
	<hr/>
At 31 December (Note (a))	<u>144,000,000</u>

(a) Terms of share options at the balance sheet date were as follows:

Exercise period	2004	
	Exercise price HK\$	Number
24 June 2005 to 23 December 2007	0.113	70,000,000
27 June 2005 to 26 December 2007	0.113	74,000,000
		<hr/>
		<u>144,000,000</u>

(b) No share options were cancelled during the year.

Notes to the Financial Statements

For the year ended 31 December 2004

27. Reserves

(a)

	The Group				
	Share premium HK\$'000	Special capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	318,401	726,699	178	(1,249,374)	(204,096)
Issue of shares	(134)	-	-	-	(134)
Reversal of exchange reserve as a result of deconsolidation of subsidiaries	-	-	(178)	-	(178)
Loss for the year	-	-	-	(36,162)	(36,162)
At 31 December 2003	<u>318,267</u>	<u>726,699</u>	<u>-</u>	<u>(1,285,536)</u>	<u>(240,570)</u>
At 1 January 2004	318,267	726,699	-	(1,285,536)	(240,570)
Cost of issue of shares	(1,872)	-	-	-	(1,872)
Issue of bonus shares (Note 25(b))	(252,000)	-	-	-	(252,000)
Profit for the year	-	-	-	132,974	132,974
At 31 December 2004	<u>64,395</u>	<u>726,699</u>	<u>-</u>	<u>(1,152,562)</u>	<u>(361,468)</u>

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The application of the special capital reserve is subject to the court order granted by the High Court of Hong Kong SAR. Pursuant to the High Court Order dated 20 November 2002, as long as the Company shall remain a listed company, the balances shall be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance (Cap. 32) or any statutory re-enactment or modification thereof provided that (1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied; and (2) the amount standing to the credit of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits.

Notes to the Financial Statements

For the year ended 31 December 2004

27. Reserves (continued)

(b)

	The Company			
	Share premium HK\$'000	Special capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	318,401	726,699	(1,174,367)	(129,267)
Issue of shares	(134)	–	–	(134)
Loss for the year	–	–	(13,049)	(13,049)
At 31 December 2003	<u>318,267</u>	<u>726,699</u>	<u>(1,187,416)</u>	<u>(142,450)</u>
At 1 January 2004	318,267	726,699	(1,187,416)	(142,450)
Issue of shares	(1,872)	–	–	(1,872)
Issue of bonus shares	(252,000)	–	–	(252,000)
Profit for the year	–	–	17,834	17,834
At 31 December 2004	<u>64,395</u>	<u>726,699</u>	<u>(1,169,582)</u>	<u>(378,488)</u>

At 31 December 2004 the aggregate amount of reserves available for distribution to shareholders of the Company was HK\$Nil (2003: HK\$Nil)

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

The application of the special capital reserve is subject to the court order granted by the High Court of Hong Kong SAR (Note 27(a)).

Notes to the Financial Statements

For the year ended 31 December 2004

28. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of profit/(loss) before taxation to net cash from/(used in) operating activities

	2004 HK\$'000	2003 HK\$'000
Profit/(Loss) before taxation	133,821	(36,722)
Adjustments for:		
Finance costs	3,419	28,420
Interest income	(6)	–
Depreciation	59	251
Impairment losses on goodwill	–	367
Net loss on disposal of fixed assets	–	101
Bad and doubtful debts	359	17,006
Gain on debts restructuring arrangements	(144,843)	–
Gain on deconsolidation of subsidiaries	(44)	(16,551)
Write back of other payables	–	(3,074)
Operating loss before working capital changes	(7,235)	(10,202)
Decrease in properties held for resale	3,620	1,400
Decrease in properties under development for resale	–	11,000
Increase in inventories	(890)	–
(Increase)/Decrease in trade and other receivables	(5,188)	2,652
(Decrease)/Increase in trade and other payables	(2,655)	1,218
Cash (used in)/generated from operations	(12,348)	6,068
Interest paid	(1,363)	(1,466)
PRC taxation paid	(177)	–
Hong Kong profits tax refunded	–	560
Net cash (outflow)/inflow from operating activities	(13,888)	5,162

Notes to the Financial Statements

For the year ended 31 December 2004

28. Notes to the Consolidated Cash Flow Statement (continued)

(b) Purchase of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Properties under development	-	5,556
Bank and cash balances	-	1
Trade and other payables	-	(350)
Other loans	-	(5,528)
	-	(321)
Goodwill	-	367
	-	46

(c) Analysis of net outflow of cash and cash equivalents in respect of the purchase of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Cash consideration	-	10
Acquisition expenses	-	36
Bank and cash balances acquired	-	(1)
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	-	45

Notes to the Financial Statements

For the year ended 31 December 2004

28. Notes to the Consolidated Cash Flow Statement (continued)

(d) Deconsolidation of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net liabilities disposed of:		
Trade and other receivables	-	183
Trade and other payables	(44)	(4,279)
Bank loan	-	(12,277)
Exchange reserve	-	(178)
	(44)	(16,551)
Net gain on deconsolidation	44	16,551
	-	-

Notes to the Financial Statements

For the year ended 31 December 2004

28. Notes to the Consolidated Cash Flow Statement (continued)

(e) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Loan from a director HK\$'000	Loan notes HK\$'000	Debentures HK\$'000	Minority interests HK\$'000
At 1 January 2003	348,680	68,325	10,816	5,289	16,025	2,047	-
Issue of shares	5,866	-	-	-	-	-	-
New loans raised	-	-	6,000	1,711	-	-	-
Interest for the year	-	5,129	901	-	2,032	-	-
Additions through acquisition of a subsidiary	-	-	5,528	-	-	-	-
Discharge of bank loan on deconsolidation of a subsidiary	-	(12,277)	-	-	-	-	-
Transfer to other payables and accruals	-	-	(156)	-	-	-	-
Repayment of loans/debentures	-	(6,150)	(1,594)	-	-	(2,047)	-
Interest paid	-	-	(466)	-	(1,000)	-	-
At 31 December 2003	354,546	55,027	21,029	7,000	17,057	-	-
Issue of shares	48,128	-	-	-	-	-	-
Capitalisation of loans	34,000	-	(10,000)	(7,000)	(17,000)	-	-
New loans raised	-	5,000	8,116	500	-	-	1,500
Interest/profit for the year	-	698	234	-	371	-	955
Repayment of loans/interest	-	(32,379)	(13,235)	-	(428)	-	-
Waiver of loan	-	(23,853)	-	-	-	-	-
At 31 December 2004	436,674	4,493	6,144	500	-	-	2,455

Notes to the Financial Statements

For the year ended 31 December 2004

29. Pending Litigation

At 31 December 2004, the pending litigations of the Group are as follows:

- (a) On 11 November, 2004, an independent third party issued a writ of summons against the Company claiming a sum of HK\$2,483,000 together with interest and costs.
- (b) On 15 November, 2004, a winding up petition against the Company was served by a former executive director ("FED"). The FED demanded payment by the Company of a sum of HK\$1,178,000 for allegedly arrears of wages, end of year payment, director's fees and disbursements.
- (c) The Group was involved in a District Court civil jurisdiction action. The plaintiff claims against a subsidiary of the Company a payment of allegedly outstanding management fees of approximately HK\$219,000 together with further management fees. The total allegedly outstanding management fees accrued amounted to approximately HK\$1,710,000. The Group has duly filed a defence and counterclaim and the parties are currently attending to interlocutory matters.

The Company is currently seeking legal advice on the litigations mentioned above. The directors believe that appropriate provisions have been made in the financial statements and the Company has valid defence against the above and consider that these would not have material adverse impact on the Group.

30. Capital Commitment

	The Group	
	2004 HK\$'000	2003 HK\$'000
Commitments in respect of capital injection in an indirectly owned subsidiary in the PRC		
Contracted but not provided for	3,500	—

Notes to the Financial Statements

For the year ended 31 December 2004

31. Commitments under Operating Leases

At 31 December 2004, the future aggregate minimum lease payments under non-cancellable operating leases of the Group and the Company are as follows:

Operating leases payable for the office premises

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	283	149	243	149
In the second to fifth years inclusive	131	–	131	–
	414	149	374	149

32. Operating Lease Arrangements

At 31 December 2004, the future aggregate minimum lease receipts under non-cancellable operating leases of the Group and the Company are as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	105	1,487	–	–
In the second to fifth years inclusive	–	1,080	–	–
	105	2,567	–	–

Notes to the Financial Statements

For the year ended 31 December 2004

33. Related Party Transactions

- (a) In the normal course of business the Group entered into the following transactions with its related parties during the year:

	2004 HK\$'000	2003 HK\$'000
Sales of health products to a related company	1,466	–
Marketing and distribution expenses to a related company	566	–

- (b) At 31 December 2004, included in trade receivables as stated in Note 20 of the financial statements is an amount due from a related company of HK\$552,000 (2003: HK\$Nil). The amount due from a related company is unsecured and payable in normal trading terms as stated in Note 20.

34. Events after the Balance Sheet Date

Subsequent to the balance sheet date, properties held for resale with carrying value of HK\$8,380,000 (Note 18(ii)) were disposed of at HK\$8,380,000.

35. Comparative Figures

Certain comparative figures in the consolidated income statement have been reclassified to conform with the current year's presentation. The presentation of consolidated income statement has changed from by nature format to by function format. It is considered that the new format of consolidated income statement provides a more appropriate presentation of the Group's operating results.