

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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 43 and 44 respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as “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 commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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.

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.

NOTES

TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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%

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2004

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 2004

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, other than intangible asset that is not yet available for use, to determine whether there is any indication that these assets have suffered an impairment loss. For intangible assets that is not yet available for use, the Group reviews whether these assets have suffered an impairment at least at each financial year end even if there is no indication that the assets are impaired. 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 2004

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 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange 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 under the Company's share option schemes to the directors and employees of the Company or its subsidiaries 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.

For the goods or services received in a share-based payment transaction from counter parties other than directors and employees of the Company or its subsidiaries, the fair value of the share options granted will be recognised when the goods or services are received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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.

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

For the year ended 31 December 2004

	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	63,476	-	-	703	64,179
Result					
Segment results	21,259	-	-	(13)	21,246
Other operating income					3,383
Loss on disposal of beneficial rights to a drug under development					(400)
Loss arising on investments in securities					(41,293)
Unallocated corporate expenses					(40,927)
Loss from operations					(57,991)
Finance costs					(289)
Loss before taxation					(58,280)
Income tax expense					(2,504)
Loss before minority interests					(60,784)
Minority interests					(208)
Loss for the year					(60,992)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

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

At 31 December 2004

	PRC HK\$'000	Cambodia HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
Assets					
Segment assets	54,385	-	-	-	54,385
Unallocated corporate assets					202,979
Consolidated total assets					257,364
Liabilities					
Unallocated corporate liabilities					28,262
Consolidated total liabilities					28,262

For the year ended 31 December 2004

	PRC HK\$'000	Cambodia HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions in property, plant and equipment	-	-	-	-	1,679	1,679
Depreciation and amortisation of property, plant and equipment	-	-	-	-	1,013	1,013
Amortisation of goodwill	-	-	-	-	185	185
Amortisation of intangible assets	710	-	-	-	-	710
Allowance for doubtful debts	2,003	-	-	-	662	2,665
Equity-settled consultancy services	-	-	-	-	17,641	17,641

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

For the year ended 31 December 2003

	PRC HK\$'000	Cambodia HK\$'000 (Note)	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
Revenue					
External sales	28,988	28,080	33	112	57,213
Result					
Segment results	941	23,745	(26)	3	24,663
Other operating income					2,370
Gain arising on investments in securities					36,200
Unallocated corporate expenses					(26,690)
Profit from operations					36,543
Finance costs					(730)
Gain on partial disposal of subsidiaries					19,127
Loss on disposal of subsidiaries					(14,948)
Share of loss of an associate					(1,433)
Profit before taxation					38,559
Income tax expense					(7)
Profit before minority interests					38,552
Minority interests					(1,704)
Profit for the year					36,848

Note: The Group has granted an exclusive distribution right to an independent distributor in Cambodia to distribute a pharmaceutical product in 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 2004

4. SEGMENT INFORMATION (continued)

Geographical segments (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	9,436	28,080	–	–	37,516
Unallocated corporate assets					252,318
Consolidated total assets					289,834
Liabilities					
Segment liabilities	3,549	4,140	–	38	7,727
Unallocated corporate liabilities					22,818
Consolidated total liabilities					30,545

For the year ended 31 December 2003

	PRC HK\$'000	Cambodia HK\$'000	Hong Kong 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	1,000	–	–	–	5,268	6,268

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 2004

5. OTHER OPERATING INCOME

	2004	2003
	HK\$'000	HK\$'000
Interest income	1,834	265
Management fee income	379	435
Surplus on revaluation of investment property	280	–
Sales of mould	177	–
Gain on disposal of property, plant and equipment	44	5
Net exchange gain	13	533
Gain on disposal of investments in securities	–	847
Rental income	–	30
Sundry	656	255
	3,383	2,370

6. (LOSS) GAIN ARISING ON INVESTMENTS IN SECURITIES

	2004	2003
	HK\$'000	HK\$'000
Loss arising on disposal of investments in securities through:		
The Stock Exchange	(19,293)	–
Private dealing (note)	(22,000)	–
	(41,293)	–
Unrealised gain on revaluation of investments in securities (note)	–	36,200
	(41,293)	36,200

Note: During the year, the Group disposed of its entire investment in Mexan Limited, the Group's investment in listed securities as set out in note 24, to an independent third party for cash at a consideration of HK\$1.50 per share, representing an approximately 31% discount to the closing price on the date of disposal, resulting in a loss of HK\$22,000,000. An unrealised gain of HK\$36,200,000 on revaluation of the shares in Mexan Limited was recognised in last year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. ALLOWANCE FOR DOUBTFUL DEBTS

	2004 HK\$'000	2003 HK\$'000
Allowance for doubtful debts is analysed as follows:		
Allowance for amount due from an associate	632	5,258
Allowance for trade debtors	2,003	1,000
Allowance for amount due from a former subsidiary	–	10
Allowance for other debtors	30	–
	2,665	6,268
Recovery from trade debtors	(85)	–
Recovery from other debtors	(189)	(2,312)
	2,391	3,956

8. (LOSS) PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Staff cost		
– Directors' remuneration (note 9)	6,060	6,469
– Other staff		
– Salaries and allowances	5,504	6,831
– Retirement benefit scheme contributions	182	186
	11,746	13,486
Amortisation of goodwill (included in administrative expenses)	185	410
Amortisation of intangible assets (included in administrative expenses)	710	1,176
Auditors' remuneration	740	795
Depreciation and amortisation	1,013	5,573
Equity-settled consultancy services (note 31)	17,461	–
Operating lease rentals paid in respect of rented premises (note)	1,839	1,855

Note: The amount includes the accommodation benefits provided to a director amounting to HK\$840,000 (2003: HK\$840,000) as set out in note 9.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

9. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Directors' remuneration

The directors' remuneration is analysed as follows:

	2004	2003
	HK\$'000	HK\$'000
Fee paid to:		
Executive directors	–	–
Independent non-executive directors	280	240
	280	240
Other emoluments paid to executive directors:		
Salaries and other benefits	4,928	5,377
Accommodation benefits	840	840
Retirement benefit scheme contributions	12	12
	5,780	6,229
Total directors' remuneration	6,060	6,469

The remunerations of the directors were within the following bands:

	2004	2003
	Number of Directors	Number of Directors
Nil to HK\$1,000,000	4	4
HK\$2,000,001 – HK\$2,500,000	2	2

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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

Highest paid employees

The five highest paid employees of the Group included three directors (2003: 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:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,164	1,700
Retirement benefit scheme contributions	24	22
	1,188	1,722

Their emoluments were within the following bands:

	2004 Number of employees	2003 Number of employees
Nil to HK\$1,000,000	2	2

10. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	269	676
Interest on other loan	19	14
Finance charges on finance leases	1	40
	289	730

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For the year ended 31 December 2004

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

	2004	2003
	HK\$'000	HK\$'000
The charge represents:		
Current taxation		
Profits tax outside Hong Kong	2,504	7

Profits tax outside Hong Kong represents PRC Income Tax which is calculated at 33% (2003: 33%).

Details of the deferred taxation are set out in note 29.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

12. INCOME TAX EXPENSE (continued)

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

	2004 HK\$'000	2003 HK\$'000
(Loss) profit before taxation	(58,280)	38,559
Tax at PRC income tax rate of 33% (2003: 33%)	(19,232)	12,724
Tax effect of expenses not deductible for tax purpose	16,126	6,041
Tax effect of income not taxable for tax purpose	(765)	(11,825)
Tax effect of tax losses not recognised	12,613	3,690
Utilisation of tax losses previously not recognised	(3,758)	(9,163)
Effect of tax exemptions granted to a subsidiary in the PRC	–	(1,480)
Income tax on concessionary rate	(3,004)	–
Others	524	20
Tax expense for the year	2,504	7

13. (LOSS) EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
(Loss) earnings:		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share:		
– (Loss) profit for the year	(60,992)	36,848
Number of shares:		
Weighted average number of shares for the purposes of basic (loss) earnings per share	2,567,413,269	2,157,477,143
Effect of dilutive potential shares in respect of share options		26,545,096
Weighted average number of shares for the purposes of diluted earnings per share		2,184,022,239

As the exercise of the Company's outstanding share options during the year ended 31 December 2004 would be anti-dilutive, no diluted loss per share was presented in the current year.

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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 2004	9,126	4,294	3,201	1,874	18,495
Additions	–	–	380	1,299	1,679
Disposals	–	–	(24)	(389)	(413)
At 31 December 2004	9,126	4,294	3,557	2,784	19,761
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES					
At 1 January 2004	8,031	3,889	1,751	1,270	14,941
Provided for the year	25	89	501	398	1,013
Eliminated on disposals	–	–	(13)	(344)	(357)
At 31 December 2004	8,056	3,978	2,239	1,324	15,597
NET BOOK VALUES					
At 31 December 2004	1,070	316	1,318	1,460	4,164
At 31 December 2003	1,095	405	1,450	604	3,554
			2004		2003
			HK\$'000		HK\$'000
The net book value of the Group's leasehold land and buildings represents property situated in Hong Kong held under long lease			1,070		1,095
The net book value of property, plant and equipment held under finance leases			–		238

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15. INVESTMENT PROPERTY

	THE GROUP HK\$'000
VALUATION	
At beginning of the year	3,200
Surplus on revaluation	280
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At end of the year	3,480
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The investment property, which is rented out for rental income, was revalued as at 31 December 2004 by Dudley Surveyors Limited, an independent firm of professional valuers, on an open market value basis.

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

16. GOODWILL

	THE GROUP HK\$'000
COST	
At 1 January and 31 December 2004	925
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AMORTISATION	
At 1 January 2004	185
Provided for the year	185
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At 31 December 2004	370
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NET BOOK VALUE	
At 31 December 2004	555
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At 31 December 2003	740
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

17. INTANGIBLE ASSETS

	Patent HK\$'000	Beneficial rights to drugs under development HK\$'000	Total HK\$'000
THE GROUP			
COST			
At 1 January and 31 December 2004	4,705	46,744	51,449
AMORTISATION			
At 1 January 2004	3,995	–	3,995
Provided for the year	710	–	710
At 31 December 2004	4,705	–	4,705
NET BOOK VALUES			
At 31 December 2004	–	46,744	46,744
At 31 December 2003	710	46,744	47,454

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.

No amortisation will be provided for drug under development not yet available for use. 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

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18. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	–	–
Amount due from an associate	6,890	6,258
	6,890	6,258
Less: Allowance for amount due from an associate	(6,890)	(6,258)
	–	–

Particulars of the Group's associate at 31 December 2004 are set out in note 44.

19. PAYMENTS FOR INVESTMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Deposits paid for the acquisition of subsidiaries (note a)	34,132	14,143
Deposits paid for the acquisition of beneficial rights to drugs under development (note b)	34,697	7,000
Consultancy fees for soliciting the drugs under development projects capitalised	1,126	–
	69,955	21,143

Notes:

- (a) On 27 December 2003, LifeTec (Holdings) Limited (“LifeTec Holdings”), a wholly-owned subsidiary of the Company, 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 and 31 December 2004, the deposits paid by the Group for the acquisition of LGH Limited amounted to RMB15,000,000 (equivalent to HK\$14,143,000).

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).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

19. PAYMENTS FOR INVESTMENTS (continued)

Notes: (continued)

- (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 2003 represents the partial consideration paid under the agreement. On 28 March 2004, the Group transferred of its beneficial rights to this drug development project to be acquired with carrying value of HK\$7,000,000 for a consideration of RMB7,000,000 (equivalent to HK\$6,600,000), resulting in a loss on disposal of HK\$400,000.

On 2 June 2004, Hainan Kangwei Medicine Co. Ltd., a subsidiary of the Company, entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB15,000,000 (equivalent to HK\$14,143,000). The amount paid by the Group amounting to RMB14,000,000 (equivalent to HK\$13,200,000) at 31 December 2004 represents the partial consideration paid under the agreement.

On 8 October 2004, Hainan Kangwei Medicine Co. Ltd. entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB12,000,000 (equivalent to HK\$11,314,000). The amount paid by the Group amounting to RMB11,000,000 (equivalent to HK\$10,371,000) at 31 December 2004 represents the partial consideration paid under the agreement.

On 2 November 2004, Hainan Kangwei Medicine Co. Ltd. entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB12,800,000 (equivalent to HK\$12,087,000). The amount paid by the Group amounting to RMB11,800,000 (equivalent to HK\$11,126,000) at 31 December 2004 represents the partial consideration paid under the agreement.

20. PROMISSORY NOTES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Maturity dates of the promissory notes are as follows:		
30 December 2003	–	10,260
30 May 2004	–	10,260
30 October 2004	–	10,259
30 March 2005	10,259	10,259
	10,259	41,038
Less: Amount due within one year classified as current assets	(10,259)	(30,779)
Amount due after one year	–	10,259

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

20. PROMISSORY NOTES (continued)

The promissory notes represent the partial consideration receivable resulting from the disposal of certain subsidiaries during the year ended 31 December 2003. Details of the disposal of subsidiaries are set out in note 35. 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 outstanding amount has been fully settled after the balance sheet date.

21. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$’000	HK\$’000
Unlisted shares, at cost	48,726	48,726
Impairment loss	(48,726)	(48,726)
	-	-
Amount due from a subsidiary less allowance	226,101	208,315
	226,101	208,315

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 2004 are set out in note 43.

22. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$’000	HK\$’000
Finished goods, at cost	-	38

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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	
	2004	2003
	HK\$'000	HK\$'000
Trade debtors		
Within 30 days (note a)	2,633	32,157
31 – 60 days	1,303	2,221
61 – 90 days	1,915	1,535
91 – 180 days	9,370	1,603
181 – 365 days	36,112	–
Over 365 days	3,052	–
	54,385	37,516
Balance of consideration receivable resulting from disposal of subsidiaries (note b)	–	1,300
Amount due from a former subsidiary (note 26)	4,330	14,543
Loan to an independent third party (note c)	3,133	–
Balance of consideration receivable resulting from disposal of beneficial rights to a drug under development	943	–
Other debtors and prepayments	3,436	4,486
	66,227	57,845

Notes:

- (a) Included in the balance at 31 December 2003 was an amount of HK\$28,080,000, representing the trade debt due from a distributor in Cambodia, which was fully settled during the year.
- (b) The amount was unsecured, interest free and fully settled during the year.
- (c) The amount is unsecured, carries interest at 3% per annum and has been fully repaid after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

24. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Other investments:		
Equity securities listed in Hong Kong, at market value	–	73,243

Included in the equity securities at 31 December 2003 was 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 represented a 1.53% of the issued share capital of Mexan Limited at 31 December 2003. The Group disposed of all the equity securities during the year.

25. ADVANCES TO CONSULTING COMPANIES

The amount represents the outstanding receivables from four consulting companies established in the PRC. Pursuant to an agreement entered into between one of these consulting companies and Shanghai Youheng in July 2003 and three other agreements entered into between each of the remaining three consulting companies and Shanghai Youheng in July 2004, Shanghai Youheng has appointed these consulting companies:

- (a) to solicit potential biopharmaceutical investments 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
- (b) to make payment of earnest money for potential investment projects or cost of investment from the outstanding receivables after obtaining the approval from Shanghai Youheng.

All the above agreements will expire on 30 June 2006. The outstanding receivables are unsecured, carry interests at 1% per annum and have been fully settled after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
The aging analysis of trade creditors is as follows:		
Within 30 days	–	5,343
31 – 60 days	–	876
61 – 90 days	–	660
More than 90 days	–	848
	–	7,727
Value added tax payable	6,611	1,191
Other creditors and accrued charges	8,970	7,604
	15,581	16,522

The Group's major supplier during the year ended 31 December 2004 was a former subsidiary disposed of in last year as set out in note 35. The purchases during the year from this former subsidiary were settled by crediting the amount receivable from this former subsidiary. As at 31 December 2004, the amount receivable from this former subsidiary amounted to HK\$4,330,000 (2003: HK\$14,543,000) as set out in note 23.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

27. BANK BORROWINGS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Mortgage loans	298	420
Bank loans	2,597	6,276
	2,895	6,696
<hr/>		
Of which:		
Secured	298	621
Unsecured	2,597	6,075
	2,895	6,696
<hr/>		
The terms of repayment of the bank borrowings are analysed as follows:		
Within one year or on demand	2,725	2,696
More than one year, but not exceeding two years	135	2,719
More than two years, but not exceeding five years	35	1,281
	2,895	6,696
Less: Amount due within one year shown under current liabilities	(2,725)	(2,696)
	170	4,000
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum		Present value	
	lease payments		of minimum	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Amount payable under finance leases				
due within one year	–	46	–	44
Less: Future finance charges	–	(2)	–	–
<hr/>				
Present value of lease obligations –				
Amount due within one year	–	44	–	44
<hr/> <hr/>				

29. DEFERRED TAX LIABILITY

The balance as at 31 December 2003 and 31 December 2004 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 34). There was no movement in deferred tax liability during the year.

At 31 December 2004, the Group has unused tax losses of HK\$105,762,000 (2003: HK\$85,227,000) available to offset against future taxable profits. During the year, additional tax loss of HK\$2,905,000 of a subsidiary of the Company relating to prior year was agreed with the tax authority and tax loss of HK\$9,204,000 of the Company relating to prior year was disagreed by the tax authority. 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\$2,393,000 (2003: HK\$842,000) that will be expired from 2005 to 2009. Other losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

30. SHARE CAPITAL

	2004	2003	2004	2003
	Number	Number	HK\$'000	HK\$'000
	of shares	of shares		
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	2,576,618,919	1,717,745,946	25,766	17,177
Rights issue (note a)	-	858,872,973	-	8,589
Issue of shares upon exercise of share options (note 31)	105,500,000	-	1,055	-
Issue of shares upon exercise of warrants (note 32)	40,440,000	-	404	-
Repurchase of shares (note b)	(148,006,000)	-	(1,480)	-
At end of the year	2,574,552,919	2,576,618,919	25,745	25,766

Notes:

- (a) 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 respect.
- (b) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
March 2004	36,506,000	0.157	0.146	5,549
April 2004	530,000	0.167	0.167	89
May 2004	49,654,000	0.169	0.155	8,093
June 2004	13,200,000	0.171	0.166	2,232
July 2004	48,116,000	0.170	0.144	7,556
	148,006,000			23,519

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

30. SHARE CAPITAL (continued)

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

All the new shares issued during the year rank pari passu in all respects with the existing shares.

31. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. SHARE OPTIONS *(continued)*

New Share Option Scheme *(continued)*

Initially, 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. Pursuant to an ordinary resolution passed by the shareholders at a special general meeting held on 19 April 2004, the number of shares in respect of which options may be granted has been refreshed to 10% of the number of shares in issue as at 19 April 2004. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. SHARE OPTIONS (continued)

New Share Option Scheme (continued)

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 2004 are set out as follows:

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			Outstanding at 31.12.2004
			Outstanding at 1.1.2004	Granted during the year	Exercised during the year	
Category: Directors						
<i>New Share Option Scheme</i>						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	3,500,000	-	-	3,500,000
Category: Employees						
<i>New Share Option Scheme</i>						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	76,825,000	-	(37,500,000)	39,325,000
13.08.2004	01.09.2004 to 12.08.2009	0.08100	-	4,000,000	-	4,000,000
Category: Consultants						
<i>New Share Option Scheme</i>						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	91,375,000	-	(68,000,000)	23,375,000
13.08.2004	01.09.2004 to 12.08.2009	0.08100	-	200,000,000	-	200,000,000
01.11.2004	01.11.2004 to 31.10.2009	0.08600	-	50,000,000	-	50,000,000
Total all categories			171,700,000	254,000,000	(105,500,000)	320,200,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. SHARE OPTIONS (continued)

New Share Option Scheme (continued)

Date of grant	Exercisable period	Rights Issue	Exercise price per share prior to the Rights Issue	Exercise price adjusted for the effect of the Rights Issue	Number of share options				
					Outstanding at 1.1.2003	Granted during the year	Adjustment due to the 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	N/A		43,600,000	-	-	(43,600,000)	-
<i>New Share Option Scheme</i>									
27.11.2003	27.11.2003 to 26.11.2008	N/A	0.08800		-	3,500,000	-	-	3,500,000
					43,600,000	3,500,000	-	(43,600,000)	3,500,000
Category: Employees									
<i>Old Share Option Scheme</i>									
19.04.2000	19.04.2000 to 18.04.2003	0.24000	N/A		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	N/A	0.08800		-	76,825,000	-	-	76,825,000
					11,500,000	76,825,000	5,000,000	(16,500,000)	76,825,000
Category: Consultants									
<i>New Share Option Scheme</i>									
27.11.2003	27.11.2003 to 26.11.2008	N/A	0.08800		-	91,375,000	-	-	91,375,000
Total all categories					55,100,000	171,700,000	5,000,000	(60,100,000)	171,700,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. SHARE OPTIONS *(continued)*

New Share Option Scheme *(continued)*

The Company has granted share options to certain consultants pursuant to the consultancy agreements entered into between LifeTec Holdings and each of the consultants for a period of five years commencing from the respective dates of the consultancy agreements. Pursuant to the consultancy agreements, the consultants agreed to:

- (a) identify potential strategic investors and financial investors for the Group;
- (b) assist the Group in negotiating with the potential strategic investors and financial investors;
- (c) provide consultancy services in relation to the drug development business of the Group; and
- (d) carry out other duties as appropriate and as agreed with LifeTec Holdings.

The fair values of the 91,375,000 share options and 250,000,000 share options granted by the Company to the consultants during the years ended 31 December 2003 and 31 December 2004 amounted to HK\$3,718,000 and HK\$13,743,000 respectively. An amount of HK\$17,461,000 was credited to option reserve of the Company and the Group during the year. In the opinion of the directors of the Company, as the future economic benefits in relation to the services to be provided by these consultants are uncertain, the whole amount of HK\$17,461,000 has been charged to the income statement for the current year.

Total consideration received during the year from directors, employees and consultants for accepting the options granted amounted to HK\$12 (2003: HK\$15).

The fair value of the Company's share at the respective dates of the exercise of the 105,500,000 share options during the year ended 31 December 2004 was HK\$20,268,000 in aggregate.

32. WARRANTS

	Warrants in registered form	
	Number	Value HK\$'000
Issued on 23 February 2004 (note a)	340,000,000	26,520
Expenses incurred in connection with the issue of warrants	–	(1,953)
Exercise of warrants (note b)	(40,440,000)	(2,922)
Repurchase of warrants (note c)	(21,960,000)	(1,587)
At 31 December 2004	277,600,000	20,058

NOTES TO THE FINANCIAL STATEMENTS

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32. WARRANTS (continued)

Notes:

- (a) On 23 February 2004, the Company issued, by way of private placement, 340,000,000 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 of HK\$0.01 each in the Company at an initial subscription price of HK\$0.102 per share (subject to adjustments) 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.

Exercise in full of the warrants would result in an issue of 340,000,000 shares of HK\$0.01 each in the Company and the shares to which the warrants relate represent approximately 13.2% of the then existing issued share capital of the Company and approximately 11.7% of the enlarged issued share capital of the Company if the subscription rights attached to the warrants have been exercised in full.

The net proceeds from the issue of warrants of approximately HK\$24,567,000 have been used as general working capital for the Group.

- (b) During the year, the registered holders of 40,440,000 warrants exercised their rights to subscribe for 40,440,000 shares of HK\$0.01 each in the Company at HK\$0.102 per share. These shares rank pari passu with the existing shares in all respect.
- (c) During the year, the Company repurchased 21,960,000 warrants and cancelled such warrants upon repurchase.

Details of which are as follows:

Month of repurchase	Number of warrants repurchased	Price per warrant		Aggregate consideration paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
June 2004	1,960,000	0.074	0.070	142
July 2004	20,000,000	0.066	0.054	1,179
	21,960,000			1,321

- (d) Subsequent to the balance sheet date, the registered holders of 74,420,000 warrants exercised their rights to subscribe for 74,420,000 shares of HK\$0.01 each in the Company at HK\$0.102 per share. All the remaining warrants lapsed after 26 February 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

33. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note)	Warrant reserve HK\$'000	Option reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY						
At 1 January 2003	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)
At 31 December 2003	313,381	110,223	–	–	(241,579)	182,025
Issue of warrants	–	–	26,520	–	–	26,520
Expenses incurred in connection with the issue of warrants	–	–	(1,953)	–	–	(1,953)
Issued of shares	14,872	–	(2,922)	–	–	11,950
Repurchase of warrants	–	–	(1,587)	–	–	(1,587)
Surplus arising on repurchase of warrants	–	–	–	–	266	266
Repurchase of shares	(22,039)	–	–	–	–	(22,039)
Equity-settled consultancy services	–	–	–	17,461	–	17,461
Loss for the year	–	–	–	–	(13,078)	(13,078)
At 31 December 2004	306,214	110,223	20,058	17,461	(254,391)	199,565

Note: 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

33. RESERVES (continued)

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 2003 and 31 December 2004.

NOTES

TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

34. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2003, 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:

	2004	2003
	HK\$'000	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)
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Net assets acquired	–	41,958
Goodwill arising on acquisition	–	943
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Total consideration	–	42,901
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Satisfied by:		
Cash	–	4,715
Deposits paid in 2002	–	38,186
<hr/>		
	–	42,901
<hr/>		
Net cash outflow arising on acquisition:		
Cash consideration	–	(4,715)
Bank balances and cash acquired	–	2,074
<hr/>		
	–	(2,641)
<hr/>		

The subsidiaries acquired during the year ended 31 December 2003 contributed HK\$12,434,000 to the Group's turnover and HK\$1,407,000 to the Group's profit from operations for the year ended 31 December 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

35. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2003, the Group disposed of its entire interest 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:

	2004 HK\$'000	2003 HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	–	45,586
Goodwill	–	1,553
Inventories	–	2,393
Debtors and prepayments	–	22,928
Bank balances and cash	–	2,527
Creditors and accrued charges	–	(26,035)
Amount due to immediate holding company	–	(80,296)
Minority interests	–	(17,428)
Net liabilities disposed of	–	(48,772)
Assignment of amount due from Goldstone	–	80,296
Attributable goodwill	–	38,571
Translation reserve realised	–	(147)
Loss on disposal of subsidiaries	–	(14,948)
Total consideration	–	55,000
Satisfied by:		
Cash	–	13,962
Promissory notes (note 20)	–	41,038
	–	55,000
Net cash inflow arising on disposal:		
Cash consideration	–	13,962
Bank balances and cash disposed of	–	(2,527)
	–	11,435

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

35. DISPOSAL OF SUBSIDIARIES (continued)

The subsidiaries disposed of during the year ended 31 December 2003 contributed HK\$16,548,000 to the Group's turnover and HK\$2,403,000 to the Group's profit from operations for the year ended 31 December 2003.

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	629

36. PLEDGE OF ASSETS

At 31 December 2004, the Group's bank borrowings were secured by charges over properties of the Group with aggregate net book value of approximately HK\$1,070,000 (2003: HK\$4,295,000).

At 31 December 2003, 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. All the securities were disposed of during the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

37. 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 2004 amounted to approximately HK\$2,597,000 (2003: HK\$6,276,000).

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 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.

38. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	1,665	1,983	736	1,227
In the second to fifth year inclusive	101	7	–	–
	1,766	1,990	736	1,227

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 2004

39. CAPITAL AND OTHER COMMITMENTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of subsidiaries	1,886	943
Acquisition of the beneficial rights to drugs under development	2,828	609
	4,714	1,552
Research and development expenditure contracted for but not provided in the financial statements	12,925	13,571

40. 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\$109,000 (2003: HK\$123,000).

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\$85,000 (2003: HK\$75,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

41. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, Hainan Kangwei Medicine Co. Ltd., a subsidiary of the Company, entered into two agreements with independent third parties to acquire the beneficial rights to two drug development projects for an aggregate cash consideration of RMB21,000,000 (equivalent to HK\$19,800,000).

42. RELATED PARTY TRANSACTIONS

During the year, the Group and the Company entered into the following related party transactions:

	Directors		Associate	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
THE GROUP				
Management fee income (note a)	–	–	240	240
Maintenance expenses paid (note a)	–	–	120	120
<hr/>				
Amount due from related party (note b)	–	–	6,890	6,258
Amount due to related party (note b)	524	364	–	–
<hr/>				
THE COMPANY				
Amount due to related party (note b)	524	364	–	–
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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 2004

43. SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2004 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
CTI Limited	Hong Kong	HK\$10	70%	General trading
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
LT Game Limited	British Virgin Islands	US\$1	100%	Investment holding
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

43. 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
Shanghai Youheng Biotechnology Limited (Note d)	PRC	HK\$5,600,000	95%	Research and development of biopharmaceutical products
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 subsidiary is established in the PRC as cooperative joint venture.
- (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., Shanghai Youheng Biotechnology Limited 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 2004 or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

44. ASSOCIATE

Particulars of the Group's associate as at 31 December 2004 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