

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PRESENTATION

This interim financial report has been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and complies with the disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As at 30 June 2005, the Group had a net capital deficiency of approximately HK\$30,930,000. On 5 September 2005, the issue of a HK\$30,000,000 zero coupon convertible note and the formation of a Sino-foreign joint venture in Tianjin, the PRC (the "Transactions") were duly passed at the extraordinary general meeting of the Company.

In addition, pursuant to the undertaking letter dated 13 August 2005, Mr. Wu Kwai Yung, a director of the Company, has undertaken to provide an interest bearing loan of not more than HK\$32,500,000 to allow the Group to satisfy its liabilities when due.

Although the Transactions have not been completed as at the date of this report, the directors believe that the future operations of the Group will be successful and the additional funding will be made available to the Group so as to allow it to meet its obligations when due. Accordingly, the financial statements have been prepared on the going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

In the current period, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs did not result in substantial changes to the Group's accounting policies and has had no material effect on how the results of operations and financial position of the Group are prepared and presented for the current and prior periods. Accordingly, no prior period adjustment has been required.

The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interest and other disclosures. The changes in presentation have been applied retrospectively.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The adoption of HKAS 24 "Related Party Disclosures" has affected the disclosures of related-party transactions in which the transaction with key management personnel are disclosed.

The Group has not early applied the new HKFRSs that have been issued by the HKICPA before 30 June 2005 but are not yet effective for the accounting periods beginning on or after 1 January 2005. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

Other than the above, the interim financial report has been prepared on a basis consistent with the principal accounting policies adopted in the Company's 2004 annual report.

3. TURNOVER AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	Six months ended 30 June 2005 HK\$'000	Six months ended 30 June 2004 HK\$'000
Laboratory testing service income	465	560

4. REVERSAL OF LOSSES OF SUBSIDIARIES ON DECONSOLIDATION

According to the settlement agreements between the Group and Bank of China (Hong Kong) Limited (the "Bank") dated 30 June 2004 and 30 September 2004 (the "BOC Agreements"), the Bank shall not take out or proceed with any claims against the Company for recovering the indebtedness owed by three former subsidiaries of the Company ("Undischarged Debtors") on the condition that a court order for the winding up of the Undischarged Debtors would be obtained not later than 30 November 2005.

The winding-up orders were granted by the court and a provisional liquidator was appointed to take over the management of the Undischarged Debtors on 23 February 2005. Since then, the Group lost its influence over the affairs of the Undischarged Debtors and the financial statements of the Undischarged Debtors were deconsolidated from the Group's financial statements with effect from that date. On deconsolidation, the excess of liabilities over assets of the Undischarged Debtors as at 23 February 2005 of approximately HK\$13,021,000 has been reversed and credited as income for the period.

5. GAIN ON FORFEITURE OF DEPOSITS RECEIVED

The Company entered into agreements with China Union Pharmaceutical Company Limited ("China Union") for the issuance by the Company of convertible notes of HK\$100,000,000 and received a deposit of HK\$7,200,000 in 2001. On 14 March 2005, the Company entered into an agreement with China Union pursuant to which both parties agreed to release each other of all liabilities and obligations, on the condition that the repayment of the deposit of HK\$7,200,000 paid by China Union for the subscription under the supplemental agreement be waived.

On 27 March 2003, the Company entered into an agreement with an independent third party for the disposal of a subsidiary and the assignment of the shareholder's loan. On the signing of the agreement, a refundable deposit of HK\$1,500,000 was received by the Company. As the acquirer failed to obtain the necessary approvals, the sale could not be completed within the time prescribed and was terminated. On 17 March 2005, the Company received a letter from the acquirer proposing that it would waive its right for claiming a repayment of the deposit unconditionally and both parties would have to release each other of the liabilities and obligations under the agreement. The Company confirmed its acceptance of proposal on 24 March 2005.

As a result of the above, the total amount of the two deposits received of HK\$8,700,000 was forfeited and recorded by the Group as an income for the period.

6. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Six months ended 30 June 2005 HK\$'000	Six months ended 30 June 2004 HK\$'000
Finance costs		
Interest on bank overdrafts and borrowings wholly repayable within five years	90	8,799
Interest on other borrowings	96	217
	186	9,016

7. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred losses for taxation purposes for the period.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2005 was based on the consolidated profit of approximately HK\$17,016,000 (*Six months ended 30 June 2004: approximately HK\$18,804,000*) and the approximately 953,907,000 shares (*Six months ended 30 June 2004: approximately 310,071,000 shares*) in issue during the six months ended 30 June 2005.

No diluted earnings per share is presented as there were no dilutive potential ordinary shares in issue for the six months ended 30 June 2004 and 30 June 2005.

9. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value as at 1 January 2005	643
Additions	7
Depreciation charge for the period	(195)
Net book value as at 30 June 2005	455

10. OTHER INVESTMENTS

	At	At
	30 June	31 December
	2005	2004
	HK\$'000	HK\$'000
At fair value:		
Equity securities listed in Hong Kong	545	581

11. TRADE AND OTHER RECEIVABLES

	Note	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Trade receivables	<i>11(a)</i>	137	136
Other receivables			
Deposits, prepayment and other debtors		288	644
Due from a related company	<i>11(b)</i>	–	5
		288	649
		425	785

11(a) TRADE RECEIVABLES

The Group provides term credit to customers in accordance with the Group's established credit policies of 30 days (*31 December 2004: 30 days*). The ageing analysis of trade receivables is as follows:

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Within 1 month	93	110
1 – 2 months	27	7
2 – 3 months	10	3
3 – 6 months	1	–
6 – 12 months	1	5
Over 1 year	5	11
	137	136

11(a) TRADE RECEIVABLES *(Continued)*

The carrying value of trade receivables of the Group amounted to HK\$137,000 (31 December 2004: HK\$136,000) are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Such allowances are estimated by the directors by reference to a number of factors such as past default experience, the relationship with customers and the actual settlement subsequent to the balance sheet date.

11(b) DUE FROM A RELATED COMPANY

In 2004, the amount was due from ReliaLab Medical Laboratory & X-Ray Centre Limited ("ReliaLab"). Dr. Wan Kwong Kee, a director of the Company, and Mr. Chow Wing Cho, a director of a wholly-owned subsidiary of the Company, were also directors and indirect minority shareholders of ReliaLab. The amount due was unsecured, interest-free and had no fixed repayment terms.

12. BORROWINGS

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Bank borrowings		
Other bank borrowings, unsecured	–	9,570
Other borrowings (note 12(a))	1,451	1,355
	1,451	10,925

12(a) OTHER BORROWINGS

The amount represented an amount due to a securities broker which bore interest at 14% per annum (31 December 2004: 14% per annum) and was secured by the Group's other investments with a net book value of approximately HK\$490,000 (31 December 2004: HK\$525,000).

13. TRADE AND OTHER PAYABLES

	<i>Note</i>	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Trade payables	<i>13(a)</i>	212	239
Other payables			
Accrued charges and other creditors		6,855	8,114
Accrued interest expenses		–	3,406
Convertible note deposit received		–	7,200
Due to directors	<i>13(b)</i>	4,181	395
Due to a former related company		1,546	1,546
		12,582	20,661
		12,794	20,900

13(a) TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Within 1 month	40	44
1 – 2 months	15	8
2 – 3 months	1	5
3 – 6 months	25	78
6 – 12 months	67	28
Over 1 year	64	76
	212	239

13(b) DUE TO DIRECTORS

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Mr. Wu Kwai Yung (Note (i))	4,140	354
Dr. Wan Kwong Kee	41	41
	4,181	395

Notes:

- (i) During the six months ended 30 June 2005, cash advances of approximately HK\$3,786,000 were received from Mr. Wu Kwai Yung and were used as working capital of the Group.
- (ii) The amounts due to directors are unsecured, interest-free and have no fixed repayment terms.

14. PROVISIONS

The provisions comprise principally provisions in respect of legal claims. Up to the date of approval of these financial statements by the directors, no action has been taken by both the plaintiffs and the Group. The directors consider that disclosure of further details of these claims would seriously prejudice the Company's negotiation position and accordingly further information on the nature of the obligations has not been provided.

15. RESERVES

	Share premium HK\$'000	General reserve HK\$'000	Special capital reserve HK\$'000	Total HK\$'000
At 1 January 2005 and 30 June 2005	34,123	200	22,853	57,176

15. RESERVES *(Continued)*

- (a) As part of the capital reorganisation (details of which are set out in the Company's circular dated 1 August 2002), an Order on Petition dated 15 October 2002 (the "Order") was issued by the High Court of the Hong Kong Special Administrative Region in connection with the reduction of the capital and the utilisation of the share premium account of the Company pursuant to which the Company undertook to the Court that any future recoveries by the Company in respect of certain provision for diminution in value beyond their written down value in the Company's audited accounts for the period ended 31 December 2001 up to an overall aggregate amount of approximately HK\$990,320,000 will be credited to a special capital reserve. So long as there remains outstanding any debt of or claim against the Company which, if the date on which the reduction of capital and cancellation of the share premium account became effective (the "Effective Date") were the date of the commencement of the winding up of the Company would have been admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, 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:
- (i) 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;
 - (ii) The overall aggregate limit of special capital reserve of approximately HK\$990,320,000 may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount of the share premium account of the Company as the result of the issue of shares for new consideration or the capitalisation of distributable profits;
 - (iii) The overall aggregate limit of special capital reserve of approximately HK\$990,320,000 may be reduced upon the realisation, after the Effective Date, of any of the assets identified in the Court Order by the amount of the total provision made in relation to each such asset as at 31 December 2001 less such amount (if any) as is credited to the said special capital reserve as a result of such realisation; and

15. RESERVES (Continued)

- (iv) When the credit amount of the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (ii) and/or (iii) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.
- (b) Up to 30 June 2005, the balance of the special capital reserve was approximately HK\$898,764,000 (31 December 2004: HK\$898,764,000).
- (c) The Company did not have any reserves available for distribution to shareholders as at 30 June 2005 (31 December 2004: Nil).

16. RELATED PARTY TRANSACTIONS

(a) Related party transactions

On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, a director of the Company, as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with monthly rental of HK\$11,250. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.

(b) Key management compensation

The key management compensation for the six months ended 30 June 2005 and 2004 is detailed as follows:

	Six months ended 30 June 2005 HK\$'000	Six months ended 30 June 2004 HK\$'000
Salaries	873	750
Retirement scheme contributions	21	12
	894	762

17. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases payable as follows:

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Within one year	569	622
In second to fifth years inclusive	429	697
	998	1,319

18. CONTINGENT LIABILITIES

There has been no material change in contingent liabilities since the publication of the Company's 2004 Annual Report.

19. SEGMENT INFORMATION

The analysis of the principal activities of the operations of the Group during the period is as follows:

(a) By business segments

The Group comprises the following main business segments:

	Property investment	Pharmaceutical and healthcare	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30 June 2004			
Sales from external customers	–	560	560
Segment result	(278)	(413)	(691)
Unallocated operating income and expenses			27,224
Profit from operations			26,533
Finance costs			(9,016)
Profit from ordinary activities before taxation			17,517
Taxation			–
Profit for the period			17,517
OTHER INFORMATION			
Capital expenditures	–	268	
Depreciation	–	72	
Other non-cash revenue	–	–	

19. **SEGMENT INFORMATION** (Continued)

(a) **By business segments** (Continued)

	Property investment	Pharmaceutical and healthcare	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30 June 2005			
Sales from external customers	–	465	465
Segment result	(8)	(278)	(286)
Unallocated operating income and expenses			17,488
Profit from operations			17,202
Finance costs			(186)
Profit from ordinary activities before taxation			17,016
Taxation			–
Profit for the period			17,016
OTHER INFORMATION			
Capital expenditures	–	5	
Depreciation	–	118	
Other non-cash revenue	–	(16)	

19. **SEGMENT INFORMATION** (Continued)

(a) **By business segments** (Continued)

	Property investment	Pharmaceutical and healthcare	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2004			
Assets			
Segment assets	45	589	634
Unallocated assets			2,095
Total assets			2,729
Liabilities			
Segment liabilities	(12,977)	(398)	(13,375)
Unallocated liabilities			(37,300)
Total liabilities			(50,675)
As at 30 June 2005			
Assets			
Segment assets	–	446	446
Unallocated assets			1,719
Total assets			2,165
Liabilities			
Segment liabilities	(12)	(432)	(444)
Unallocated liabilities			(32,651)
Total liabilities			(33,095)

19. SEGMENT INFORMATION *(Continued)*

(b) By geographic segments

For the six months ended 30 June 2004 and 30 June 2005, all sales revenue and result generated from the business activities were derived from Hong Kong.

All the segment assets of the Group as at 31 December 2004 and as at 30 June 2005 were located in Hong Kong.

20. CAPITAL COMMITMENTS

On 28 April 2005, the Group entered into a joint-venture agreement with three independent PRC parties for the establishment of a Sino-foreign equity joint venture in Tianjin, the PRC ("JV Company") for the sale and distribution of pharmaceutical products. The Group's capital commitment in respect of the investment in the JV Company contracted but not provided for amounting to RMB18 million.