NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The activities of its subsidiaries and a principal associate are set out in notes 42 and 43 respectively.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

(i) HKAS 1 Presentation of financial statements and HKAS 27 Consolidated and separate financial statements

In previous years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the loss attributable to the equity holders of the Company.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to the presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity holders of the Company. Further details of the new policy are set out in note 3(a). These changes in presentation have been applied retrospectively with comparatives restated as shown in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(ii) HKAS 17 Leases

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively.

In the opinion of the directors, the leasehold land and buildings of the Group cannot be allocated reliably between the land and buildings elements, therefore, the entire lease payments of land and buildings are still included in property, plant and equipment and are amortised over the lease terms. Save as disclosed above, this change in accounting policy has had no effect on the financial statements.

(iii) HKFRS 3 Business Combinations

In the current year, the Group has applied HKFRS 3 which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. The amortisation of goodwill in year 2004 was HK$185,000. Comparative figures for year 2004 have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(iii) HKFRS 3 Business Combinations (continued)

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the year in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. Negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill of HK$93,000 previously recorded in goodwill reserve with a corresponding credit to accumulated losses at 1 January 2005.

At the date of authorisation of these financial statements, HKICPA has issued certain new and revised standards and interpretations that are not yet effective to the financial statements. The directors anticipate that the adoption of these new and revised standards and interpretations in future periods will have no material impact on the financial statements of the Group.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties.

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Subsidiaries are those entities in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All significant intercompany transactions, balances and unrealised profits on transactions within the Group have been 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 goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

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

(b) Turnover

Turnover represents the amounts received and receivable for goods sold, net of discounts and returns to outside customers during the year.

(c) Revenue recognition

Sales of goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has passed to the customers.

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 recognised on a time-proportion basis using the effective interest method.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost over the estimated useful lives and after taking into account their estimated residual value, where appropriate, using the straight line method. The principal annual rates are as follows:

	Residual value	**Annual depreciation rate**
Leasehold land and buildings	–	Over the remaining terms of the leases
Plant and machinery	0 – 10%	10 – 15%
Furniture, fixtures and office equipment	0 – 10%	10 – 20%
Motor vehicles	0 – 10%	10 – 20%

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

The residual values and useful lives of the assets are reviewed and adjusted, if necessary, at each balance sheet date.

Leasehold land and building comprises land held under operating lease and buildings held under finance lease. As it is not possible to measure the land and buildings element reliably, the lease of land and buildings are accounted for together as a finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and related buildings.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the consolidated income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets (except goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, 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) Goodwill

As mentioned in note 2, negative goodwill previously recognised in reserves has been transferred to the Group's accumulated losses at 1 January 2005.

Capitalised goodwill arising on acquisitions prior to 1 January 2005

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Capitalised goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(g) Goodwill (continued)

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(h) 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.

(i) Investments in associates

Associates are all entities over which the Group has significant influence but not controls, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Investments in associates (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been charged where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average cost method and includes all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

(l) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. For the purpose of the cash flow statement, bank overdrafts which are repayable on demand and form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents.

(m) 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. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the consolidated income statement on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Research and development expenditure

Research expenditure is expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Foreign currencies translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(p) Foreign currencies translation (continued)

(iii) Translation on consolidation

The results and financial position of all the group entities (none of which has the currency of hyperinflationary economy) that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

(q) Employee benefits

(i) Pension obligation

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the consolidated income statement as incurred.

In addition, the Group contributes on a monthly basis to defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees payable under these plans. Contributions to these plans are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits (continued)

(ii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(s) 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 consolidated 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Taxation (continued)

Deferred tax is recognised 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 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 consolidated 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.

(t) Related parties

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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Event after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group will account for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. The Group considers each property separately in making its judgement.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment for intangible assets

In connection with the book value of intangible assets and payments for investments, the Group performs ongoing evaluation of status of the drug projects concerned. An independent valuer has also issued a valuation report for the drug projects. The valuation of each drug project as stated in the respective valuation report is no less than the respective book value of each drug. For this reason, the Group believes that there is no impairment for the book value of intangible assets and payments for investments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty (continued)

Impairment loss for doubtful debts

The Group assesses impairment loss for doubtful debtors based upon evaluation of the recoverability of the trade and other debtors at each balance sheet date. The estimates are based on the ageing of the trade and other debtors balances and the historical write-off experience, net of recoveries. If the financial condition of the customers were to deteriorate, additional impairment may be required.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax liability of these matters is different from the amounts that were initially recorded, such differences will impact the profits tax and deferred tax provisions in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi ("RMB"). It did not have significant exposure to foreign exchange risk. Nevertheless, the exchange rate of RMB to Hong Kong dollar is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

During the year, the Group had not entered into any forward exchange contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to increase the proportion of cash sales and to ensure that credit sales are made to customers with an appropriate credit history or background.

In view of advances to consulting companies, the Group performs ongoing credit evaluations of consulting companies' financial conditions. After the balance sheet date, most advances to consulting companies have been repaid on demand, there is no significant exposure to the credit risk as regards advances to consulting companies.

(c) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents to meet its liquidity requirements. In view of the bank and cash balances of the Group as at 31 December 2005, the Group has no liquidity risk in the foreseeable future.

(d) Cash flow interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6. TURNOVER AND 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 2005

	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	83,742	–	1,502	234	85,478
Result					
Segment results	(5,327)	–	58	2	(5,267)
Other operating income					4,714
Unallocated corporate expenses					(22,542)
Loss from operations					(23,095)
Finance costs					(108)
Loss before taxation					(23,203)
Taxation					(1,197)
Loss for the year					(24,400)

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 from November 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

Geographical segments (continued)

At 31 December 2005

	PRC HK$'000	Cambodia HK$'000	Hong Kong HK$'000	Other regions HK$'000	Total HK$'000
Assets					
Segment assets	15,994	–	–	–	15,994
Unallocated corporate assets					241,228
Consolidated total assets					257,222
Liabilities					
Segment liabilities	2,899	–	–	–	2,899
Unallocated corporate liabilities					31,755
Consolidated total liabilities					34,654

For the year ended 31 December 2005

	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	–	–	–	–	1,644	1,644
– Intangible assets	–	–	–	–	18,280	18,280
Depreciation of property, plant and equipment	–	–	–	–	856	856
Loss on disposal of property, plant and equipment	–	–	–	–	269	269
Inventories written off	179	–	–	–	–	179
Impairment of goodwill	–	–	–	–	555	555
Impairment loss for doubtful debts	2,021	–	–	–	852	2,873

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

Geographical segments (continued)

For the year ended 31 December 2004

	PRC HK$'000	Cambodia HK$'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 on disposal of investments in securities					(41,293)
Unallocated corporate expenses					(40,927)
Loss from operations					(57,991)
Finance costs					(289)
Loss before taxation					(58,280)
Taxation					(2,504)
Loss for the year					(60,784)

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 from November 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

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					
Segment 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 of property, plant and equipment	–	–	–	–	1,013	1,013
Amortisation of goodwill	–	–	–	–	185	185
Amortisation of intangible assets	710	–	–	–	–	710
Impairment loss for doubtful debts	2,003	–	–	–	662	2,665
Equity-settled consultancy services	–	–	–	–	17,641	17,641

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 2005

7. OTHER OPERATING INCOME

	2005 HK$'000	2004 HK$'000
Interest income	899	1,834
Management fee income	248	379
Increase in fair value of investment properties	–	280
Sales of mould	–	177
Gain on disposal of property, plant and equipment	–	44
Net exchange gain	2,211	13
Sundry income	1,356	656
	4,714	3,383

8. LOSS ON DISPOSAL OF INVESTMENTS IN SECURITIES

	2005 HK$'000	2004 HK$'000
Loss on disposal of investments in securities through:		
The Stock Exchange	–	(19,293)
Private dealing (note)	–	(22,000)
	–	(41,293)

Note: During the year 2004, the Group disposed of its entire investment in Mexan Limited, the Group's investment in listed securities, to an independent third party for cash at a consideration of HK$1.50 per share, representing a 31% discount to the closing price on the date of disposal, resulting in a loss of HK$22,000,000.

9. IMPAIRMENT LOSS FOR DOUBTFUL DEBTS

	2005 HK$'000	2004 HK$'000
Impairment loss for doubtful debts is analysed as follows:		
Impairment loss for amount due from an associate	852	632
Impairment loss for trade debtors	2,021	2,003
Impairment loss for other debtors	–	30
	2,873	2,665
Recovery from trade debtors	–	(85)
Recovery from other debtors	–	(189)
	2,873	2,391

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

10. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	2005 HK$'000	2004 HK$'000
Staff cost		
– Directors' remuneration (note 11)	**5,935**	6,060
– Other staff		
– Salaries and allowances	**6,393**	5,504
– Retirement benefit scheme contributions	**238**	182
	12,566	11,746
Amortisation of goodwill (included in administrative expenses)	**–**	185
Amortisation of intangible assets (included in administrative expenses)	**–**	710
Auditors' remuneration		
– current	**700**	740
– underprovision in previous year	**336**	–
Cost of inventories	**59,568**	12,575
Depreciation	**856**	1,013
Direct operating expenses in respect of investment properties that did not generate rental income	**26**	5
Equity-settled consultancy services (note 32)	**–**	17,461
Impairment of goodwill	**555**	–
Loss on disposal of property, plant and equipment	**269**	–
Operating lease rentals paid in respect of rented premises (note)	**2,301**	1,839

Note: The amount includes the accommodation benefits provided to a director amounting to HK$840,000 (2004: HK$840,000) as set out in note 11.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

11. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Directors' remuneration

The remuneration of every director for the year ended 31 December 2005 is set out below:

Name	Fees	Salaries and other benefit	Accommodation benefit	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Mr. Jay Chun	–	2,160	840	12	3,012
Mr. Shan Shiyong, alias, Mr. Sin Sai Yung	–	2,400	–	–	2,400
Dr. Ma Xianming, alias, Dr. Ma Yin Ming	–	172	–	–	172
Independent non-executive directors					
Mr. Frank Hu	120	–	–	–	120
Mr. Wang Faqi	120	–	–	–	120
Ms. Ma Shiwei	111	–	–	–	111
Total	351	4,732	840	12	5,935

The remuneration of every director for the year ended 31 December 2004 is set out below:

Name	Fees	Salaries and other benefit	Accommodation benefit	Retirement benefit scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Mr. Jay Chun	–	2,160	840	12	3,012
Mr. Shan Shiyong, alias, Mr. Sin Sai Yung	–	2,400	–	–	2,400
Dr. Ma Xianming, alias, Dr. Ma Yin Ming	–	368	–	–	368
Independent non-executive directors					
Mr. Frank Hu	120	–	–	–	120
Mr. Wang Faqi	120	–	–	–	120
Ms. Ma Shiwei	40	–	–	–	40
Total	280	4,928	840	12	6,060

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

11. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES (CONTINUED)

Details of share options granted to the executive and independent non-executive directors are set out in note 32 to the financial statements. None of the directors has waived any emoluments during the year.

Highest paid employees

The five highest paid employees of the Group included two directors (2004: 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:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**1,793**	1,164
Retirement benefit scheme contributions	**24**	24
	1,817	1,188

Their emoluments were within the following band:

	2005 Number of employees	2004 Number of employees
Nil to HK$1,000,000	**3**	2

During the year, no emoluments have been paid or payable by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

The Group remunerates its employees mainly based on industry's practices and individual's performance and experience. On top of regular remuneration, share options may be granted to eligible staff under the share option scheme adopted by the Company on 15 July 2002 by reference to the Group's performance as well as individual's performance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

12. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank borrowings	108	269
Interest on other loan	–	19
Finance charges on finance leases	–	1
	108	289

13. TAXATION

	2005 HK$'000	2004 HK$'000
The charge represents:		
Profits tax outside Hong Kong		
– current	103	2,504
– underprovision in previous year	1,094	–
	1,197	2,504

No provision for Hong Kong profits tax has been made in the financial statements since the Group has sufficient tax losses brought forward to set off against current year's assessable profits.

Profits tax outside Hong Kong represents PRC Income Tax which is calculated at the rate of 33% (2004: 33%) prevailing in the PRC with certain tax preference.

Details of the deferred taxation are set out in note 30.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. TAXATION (CONTINUED)

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

	2005 HK$'000	2004 HK$'000
Loss before taxation	**(23,203)**	(58,280)
Tax at PRC income tax rate of 33% (2004: 33%)	**(7,657)**	(19,232)
Tax effect of expenses not deductible for tax purpose	**5,375**	16,126
Tax effect of income not taxable for tax purpose	**(904)**	(765)
Underprovision in previous year	**1,094**	–
Tax effect of tax losses not recognised	**3,560**	12,613
Utilisation of tax losses previously not recognised	**(127)**	(3,758)
Tax effect of temporary differences not recognised	**(144)**	–
Income tax on concessionary rate	**–**	(3,004)
Others	**–**	524
Tax charge for the year	**1,197**	2,504

14. DIVIDEND

No dividend has been paid or declared by the Company during the year (2004: HK$Nil).

15. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of HK$23,385,000 (2004: HK$13,078,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

16. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2005	2004
	HK$'000	HK$'000
Loss:		
Loss for the purposes of basic loss per share:		
– Loss for the year	**(24,095)**	(60,992)

Number of shares:

	2005	2004
Weighted average number of shares for the purposes of basic loss per share	**2,679,944,426**	2,567,413,269

As the exercise of the Company's outstanding share options and warrants during the years ended 31 December 2004 and 2005 would be anti-dilutive, no diluted loss per share was presented in both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. 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
Additions	–	188	1,456	–	1,644
Disposals	–	(618)	(1,763)	–	(2,381)
Exchange realignment	155	73	14	24	266
At 31 December 2005	9,281	3,937	3,264	2,808	19,290
Depreciation and impairment loss					
At 1 January 2004	8,031	3,889	1,751	1,270	14,941
Provided for the year	25	89	501	398	1,013
Disposals	–	–	(13)	(344)	(357)
At 31 December 2004	8,056	3,978	2,239	1,324	15,597
Provided for the year	25	97	459	275	856
Disposals	–	(618)	(1,494)	–	(2,112)
Exchange realignment	156	67	6	5	234
At 31 December 2005	8,237	3,524	1,210	1,604	14,575
Net book values					
At 31 December 2005	1,044	413	2,054	1,204	4,715
At 31 December 2004	1,070	316	1,318	1,460	4,164

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2005 HK$'000	2004 HK$'000
The net book value of the Group's leasehold land and buildings represents property situated in Hong Kong held under long lease	**1,044**	1,070

At 31 December 2005, the net book value of leasehold land and buildings pledged as security for the Group's bank loans amounted to approximately HK$1,044,000 (2004: HK$1,070,000).

18. INVESTMENT PROPERTIES

	THE GROUP HK$'000
Fair value	
At 1 January 2004	3,200
Increase in fair value during year 2004	280
At 31 December 2004 and 31 December 2005	3,480

The investment properties, which are rented out for rental income, were revalued as at 31 December 2005 by Dudley Surveyors Limited, an independent firm of professional valuers, on an open market value basis.

The investment properties are situated in Hong Kong and are held under long lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

19. GOODWILL

	THE GROUP HK$'000
Cost	
At 1 January 2004 and 31 December 2004	925
Elimination of accumulated amortisation upon the adoption of HKFRS 3 (note 2)	(370)
At 31 December 2005	555
Amortisation	
At 1 January 2004	185
Charge for the year	185
At 31 December 2004	370
Elimination of accumulated amortisation upon the adoption of HKFRS 3 (note 2)	(370)
At 31 December 2005	–
Impairment	
Impairment loss recognised in the year ended 31 December 2005	555
Net book value	
At 31 December 2005	–
At 31 December 2004	555

As Hainan Kangwei Medicine Co., Ltd. ("Hainan Kangwei") recorded an operating loss during the year, the directors evaluated the business activity and future performance of Hainan Kangwei and considered that the goodwill arising from the acquisition of Hainan Kangwei was impaired. Accordingly, the Group has recognised in the consolidated income statement an impairment loss of HK$555,000 for goodwill attributable to the Group's equity interest in Hainan Kangwei.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

20. INTANGIBLE ASSETS

	Patent	Beneficial rights to drugs under development	Total
	HK$'000	HK$'000	HK$'000
THE GROUP			
Cost			
At 1 January 2004 and 31 December 2004	4,705	46,744	51,449
Acquired on acquisition of a subsidiary	–	18,280	18,280
Exchange realignments	–	13	13
At 31 December 2005	4,705	65,037	69,742
Amortisation			
At 1 January 2004	3,995	–	3,995
Charge for the year	710	–	710
At 31 December 2004 and 31 December 2005	4,705	–	4,705
Net book values			
At 31 December 2005	–	65,037	65,037
At 31 December 2004	–	46,744	46,744

Patent represents the acquired exclusive rights 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 was provided for beneficial rights to drugs under development not yet available for use during the year. The amortisation of the cost of the beneficial rights to drugs under development will commence when the underlying drugs are fully developed and are ready for commercial production.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

21. INTERESTS IN AN ASSOCIATE

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Share of net assets	**–**	–
Amount due from an associate	**7,742**	6,890
	7,742	6,890
Less: Impairment loss for amount due from an associate	**(7,742)**	(6,890)
	–	–

Particulars of the Group's principal associate at 31 December 2005 are set out in note 43.

The amount due from an associate is unsecured, interest free and has no fixed terms of repayment.

Summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	HK$'000	HK$'000
Total assets	**7,316**	8,110
Total liabilities	**(9,199)**	(8,325)
Net liabilities	**(1,883)**	(215)
Revenue	**196**	9,808
Loss for the year	**(1,409)**	(215)

The Group has not recognised losses amounting to HK$669,000 (2004: HK$103,000) for the Group's associates during the year. The accumulated losses of the Group's associates not recognised were HK$772,000 (2004: HK$103,000) as at 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

22. PAYMENTS FOR INVESTMENTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Deposits paid for the acquisition of subsidiaries (note a)	**19,989**	34,132
Deposits paid for the acquisition of beneficial rights to drugs under development (note b)	**53,654**	34,697
Consultancy fees for soliciting the drugs under development projects capitalised	**1,148**	1,126
	74,791	69,955

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 2004, the deposits paid by the Group for the acquisition of LGH Limited amounted to RMB15,000,000 (equivalent to HK$14,143,000). LGH Limited became a subsidiary of the Company during the year and the deposits paid of HK$14,143,000 was transferred to cost of acquisition for LGH Limited. Details of the assets and liabilities of LGH Limited acquired by the Group during the year are set out in note 35.

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. As at 31 December 2004 and 31 December 2005, the deposit paid by the Group for the acquisition of Anica Ltd. amounted to RMB21,200,000 (equivalent to HK$19,989,000).

(b) On 2 June 2004, Hainan Kangwei, 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$14,423,000 (2004: HK$14,143,000)). The amount paid by the Group amounting to RMB14,000,000 (equivalent to HK$13,462,000 (2004: HK$13,200,000)) at 31 December 2004 and 31 December 2005 represents the partial consideration paid under the agreement.

On 8 October 2004, Hainan Kangwei 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$11,538,000 (2004: HK$11,314,000)). The amount paid by the Group amounting to RMB11,000,000 (equivalent to HK$10,577,000 (2004: HK$10,371,000)) at 31 December 2004 and 31 December 2005 represents the partial consideration paid under the agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

22. PAYMENTS FOR INVESTMENTS (CONTINUED)

Notes: (continued)

(b) (continued)

On 2 November 2004, Hainan Kangwei 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$12,308,000 (2004: HK$12,087,000)). The amount paid by the Group amounting to RMB11,800,000 (equivalent to HK$11,346,000 (2004: HK$11,126,000)) at 31 December 2004 and 31 December 2005 represents the partial consideration paid under the agreement.

On 5 January 2005, Hainan Kangwei entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB10,000,000 (equivalent to HK9,615,000). The amount paid by the Group amounting to RMB9,000,000 (equivalent to HK$8,654,000) at 31 December 2005 represents the partial consideration paid under the agreement.

On 18 February 2005, Hainan Kangwei entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB11,000,000 (equivalent to HK$10,577,000). The amount paid by the Group amounting to RMB10,000,000 (equivalent to HK$9,615,000) at 31 December 2005 represents the partial consideration paid under the agreement.

23. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	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	**220,588**	226,101
	220,588	226,101

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

23. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries as at 31 December 2005 are set out in note 42.

The amount due from a subsidiary is unsecured and interest free. The directors expect that the amount will not be repayable within the next twelve months.

24. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Finished goods, at cost	**37**	–

25. DEBTORS AND PREPAYMENTS

The Group normally allows a credit period of 90 to 180 days to its trade debtors. The ageing analysis of the trade debtors, based on date of invoice, is as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Trade debtors		
Within 30 days	**6,105**	2,633
31 – 60 days	**2,135**	1,303
61 – 90 days	**1,344**	1,915
91 – 180 days	**2,964**	9,370
181 – 365 days	**3,275**	36,112
Over 365 days	**171**	3,052
	15,994	54,385
Amount due from a former subsidiary	**10,745**	4,330
Loan to an independent third party	**–**	3,133
Balance of consideration receivable resulting from disposal of beneficial rights to a drug under development	**–**	943
Other debtors and prepayments	**4,060**	3,436
	30,799	66,227

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. DEBTORS AND PREPAYMENTS (CONTINUED)

The directors consider that the carrying amount of debtors and prepayments approximates their fair value.

The loan to an independent third party is unsecured, carries interest at 3% per annum and fully settled during the year.

26. PROMISSORY NOTES

The promissory notes are secured by a first mortgage over the entire issued share capital of Goldstone International Holdings Limited ("Goldstone"), a former subsidiary of the Company, and the assignment of the benefit of all the shareholders' loan to Goldstone after the disposal and before the full repayment of the promissory notes. The promissory notes bear interest at the rate of 3% per annum and is repayable in four equal installments each following the maturity dates on 30 December 2003, 30 May 2004, 30 October 2004 and 30 March 2005.

During the year, the final installment of the promissory notes has been fully settled.

27. ADVANCES TO CONSULTING COMPANIES

The amount represents the outstanding receivables from five (2004: four) consulting companies established in the PRC. Pursuant to the agreements entered into between these consulting companies and Shanghai Youheng Biotechnology Limited ("Youheng"), a subsidiary of the Company, 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 Youheng; and

(b) to make payment of earnest money for potential investment projects or cost of investment on behalf of the Group after obtaining the approval from Youheng.

The outstanding receivables are unsecured, carry interests at 1% per annum and RMB53,499,000 (equivalent to HK$51,441,000) have been settled after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

28. CREDITORS AND ACCRUED CHARGES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
The ageing analysis of trade creditors is as follows:		
Within 30 days	**2,096**	–
31 – 60 days	**598**	–
More than 90 days	**205**	–
	2,899	–
Value added tax payable	**7,155**	6,611
Other creditors and accrued charges	**10,418**	8,970
	20,472	15,581

The directors consider that the carrying amount of creditors and accrued charges approximates their fair value.

29. BANK BORROWINGS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Mortgage loans	**171**	298
Bank loans	**–**	2,597
	171	2,895
Of which:		
Secured	**171**	298
Unsecured	**–**	2,597
	171	2,895

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. BANK BORROWINGS (CONTINUED)

The terms of repayment of the bank borrowings are analysed as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year or on demand	135	2,725
More than one year, but not exceeding two years	36	135
More than two years, but not exceeding five years	–	35
	171	2,895
Less: Amount due within one year shown under current liabilities	(135)	(2,725)
Amount due after one year	36	170

The effective interest rates on bank borrowings were 6.7% (2004: 5.8%).

The directors consider that the carrying amount of non-current bank borrowings approximates their fair value.

30. DEFERRED TAX LIABILITIES

	THE GROUP
	HK$'000
At 1 January 2004 and 31 December 2004	6,912
Addition on acquisition of a subsidiary	2,742
At 31 December 2005	9,654

The balances as at 31 December 2004 and 31 December 2005 represent the deferred tax liabilities recognised in respect of the temporary difference attributable to the intangible assets acquired through the acquisition of interests in certain subsidiaries.

At 31 December 2005, the Group has unused tax losses of HK$53,875,000 (2004: HK$43,450,000) available to offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$3,912,000 (2004: HK$1,656,000) that will be expired from 2008 to 2010. Other losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

31. SHARE CAPITAL

	2005 Number of shares	2004 Number of shares	**2005 HK$'000**	2004 HK$'000
Shares of HK$0.01 each				
Authorised:				
At beginning and at end of the year	**10,000,000,000**	10,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of the year	**2,574,552,919**	2,576,618,919	**25,745**	25,766
Issue of shares upon exercise of share options (note 32)	**114,325,000**	105,500,000	**1,144**	1,055
Issue of shares upon exercise of warrants (note 33)	**74,420,000**	40,440,000	**744**	404
Repurchase of shares (note (a))	**–**	(148,006,000)	**–**	(1,480)
At end of the year	**2,763,297,919**	2,574,552,919	**27,633**	25,745

Notes:

(a) During the year 2004, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	**Number of shares repurchased**	**Price per share Highest** HK$	**Lowest** HK$	**Aggregate consideration paid** HK$'000
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

The above shares were cancelled upon repurchase.

(b) All the new shares issued during the years 2004 and 2005 rank pari passu in all respects with the existing shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

32. SHARE OPTIONS

The existing share option scheme was adopted by the Company on 15 July 2002 (the "Share Option Scheme") for the purpose of providing 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 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.

Initially, the total number of shares in respect of which options may be granted under the 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 Share Option Scheme, without prior approval from the Company's shareholders. Pursuant to ordinary resolutions passed by the shareholders at a special general meeting held on 19 April 2004 and at an annual general meeting held on 18 July 2005, the numbers of shares in respect of which options may be granted have been refreshed to 10% of the numbers of shares in issue as at 19 April 2004 and 18 July 2005 respectively. 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 fifth 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 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 2005

32. SHARE OPTIONS (CONTINUED)

Details of the movements in share options granted under the Share Option Scheme during each of the two years ended 31 December 2005 are set out as follows:

Date of grant	Exercisable period	Exercise price per share	Number of share options: Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
		HK$				
Category: Directors						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	3,500,000	–	–	3,500,000
Category: Employees						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	39,325,000	–	(39,325,000)	–
13.08.2004	01.09.2004 to 12.08.2009	0.08100	4,000,000	–	–	4,000,000
Category: Consultants						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	23,375,000	–	–	23,375,000
13.08.2004	01.09.2004 to 12.08.2009	0.08100	200,000,000	–	(75,000,000)	125,000,000
01.11.2004	01.11.2004 to 31.10.2009	0.08600	50,000,000	–	–	50,000,000
Total all categories			320,200,000	–	(114,325,000)	205,875,000
Weighted average exercise price (HK$)			0.0832	–	0.0834	0.0831

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

32. SHARE OPTIONS (CONTINUED)

Date of grant	Exercisable period	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2004	Granted during the year	Exercised during the year	Outstanding at 31.12.2004
Category: Directors						
27.11.2003	27.11.2003 to 26.11.2008	0.0880	3,500,000	–	–	3,500,000
Category: Employees						
27.11.2003	27.11.2003 to 26.11.2008	0.0880	76,825,000	–	(37,500,000)	39,325,000
13.08.2004	01.09.2004 to 12.08.2009	0.0810	–	4,000,000	–	4,000,000
Category: Consultants						
27.11.2003	27.11.2003 to 26.11.2008	0.0880	91,375,000	–	(68,000,000)	23,375,000
13.08.2004	01.09.2004 to 12.08.2009	0.0810	–	200,000,000	–	200,000,000
01.11.2004	01.11.2004 to 31.10.2009	0.0860	–	50,000,000	–	50,000,000
Total all categories			171,700,000	254,000,000	(105,500,000)	320,200,000
Weighted average exercise price (HK$)			0.0880	0.0820	0.0880	0.0832

The options outstanding at the end of the year have a weighted average remaining contractual life of 3.6 years (2004: 4.5 years).

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

32. SHARE OPTIONS (CONTINUED)

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 2004. 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 had been charged to the consolidated income statement for the year 2004.

The fair values of options granted to the consultants on 13 August 2004 and 1 November 2004 determined using the Black-Scholes valuation model were HK$11,966,000 and HK$1,777,000 respectively. The significant inputs into the model were as follows:

	Share option grant date	
	13 August 2004	1 November 2004
Share price at the grant date	HK$0.070	HK$0.085
Exercise price	HK$0.081	HK$0.086
Expected volatility based on historical volatility of share prices	144.87%	42.32%
Expected annual dividend yield, based on historical dividend	–	–
Expected life of options	5 years	5 years
Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant	3.18%	3.18%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 30 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Total consideration received during the year 2004 from directors, employees and consultants for accepting the options granted amounted to HK$12.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

33. 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
Exercise of warrants (note b)	(74,420,000)	(5,377)
Lapse of warrants (note d)	(203,180,000)	(14,681)
At 31 December 2005	–	–

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 were in registered form, which entitled 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 had 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 are exercised in full.

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

(b) During the year, the registered holders of 74,420,000 (2004: 40,440,000) warrants exercised their rights to subscribe for 74,420,000 (2004: 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, no warrants were repurchased by the Company and were cancelled upon repurchase (2004: 21,960,000).

(d) After 26 February 2005, 203,180,000 warrants were expired. On expiry, the balance of warrant reserve in sum of approximately HK$14,681,000 was transferred and credited to the accumulated losses in reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

34. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000 (Note)	Warrant reserve HK$'000	Option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY						
At 1 January 2004	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)
Issue 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
Issue of shares	27,871	–	(5,377)	(7,254)	–	15,240
Movement in equity on expiry of warrants	–	–	(14,681)	–	14,681	–
Loss for the year	–	–	–	–	(23,385)	(23,385)
At 31 December 2005	334,085	110,223	–	10,207	(263,095)	191,420

Note: Contributed surplus represents the aggregate of:

(i) the difference between the consolidated shareholders' funds of LifeTec Holdings 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 accumulated losses, took place in 1999.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

34. 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 2004 and 31 December 2005.

35. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired the entire interest in the share capital of LGH Limited for a consideration of approximately HK$15,538,000. Details of the net assets of the subsidiary acquired were as follows:

	Acquiree's carrying amount	**Fair value**
	HK$	HK$'000
Net assets acquired:		
Intangible assets	8	18,280
Deferred tax liability	–	(2,742)
Total consideration	8	15,538
Satisfied by:		
Cash		1,395
Deposits paid in year 2003 (note 22)		14,143
		15,538
Net cash outflow arising on acquisition:		
Cash consideration paid		(1,395)

The subsidiary acquired during the year did not contribute any turnover and profit from operations to the Group for the period between the date of acquisition and the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

36. CONTINGENT LIABILITIES

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 judgement 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, 14 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.

37. 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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,736**	1,665	**1,187**	736
In the second to fifth year inclusive	**1,306**	101	**593**	–
	3,042	1,766	**1,780**	736

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

38. CAPITAL AND OTHER COMMITMENTS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of the beneficial rights to drugs under development	**5,770**	4,714
Acquisition of property, plant and equipment	**1,721**	–
	7,491	4,714
Research and development expenditure contracted for but not provided in the financial statements	**13,153**	12,925

39. RETIREMENT BENEFIT SCHEMES

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$119,000 (2004: HK$109,000).

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$131,000 (2004: HK$85,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

40. POST BALANCE SHEET EVENTS

On 3 January 2006 and 20 February 2006, 12,000,000 share options and 254,000,000 share options were granted to employees and consultants at exercise price of HK$0.081 per share option with the expiry dates on 2 January 2011 and 19 February 2011 respectively.

41. RELATED PARTY TRANSACTIONS

Trading transactions

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

	Directors		Associate	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
THE GROUP				
Management fee income from (note a)	**–**	–	**240**	240
Maintenance expenses paid to (note a)	**–**	–	**120**	120
Amount due from (note b & c)	**–**	–	**7,742**	6,890
Amounts due to (note b)	**1,124**	524	**–**	–
THE COMPANY				
Amounts due to (note b)	**1,109**	524	**–**	–

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. No guarantees have been given or received.

(c) HK$852,000 (2004: HK$632,000) impairment has been made for the year for the loan made to an associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

41. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

The remuneration of directors and other key management personnel during the year was as follows:

	2005 HK$'000	2004 HK$'000
Directors' fees	**351**	280
Salaries and allowances		
– Directors	**5,572**	5,768
– Other staff	**2,176**	1,798
Retirement benefit scheme contributions	**63**	53
	8,162	7,899

The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

42. SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Asset Manager Enterprises Limited	Hong Kong	HK$100	100%	–	100%	Property holding
CTI Limited	Hong Kong	HK$10	70%	–	70%	Design and trading of home appliances
Gold Corner International Limited	British Virgin Islands	US$1	100%	–	100%	Investment holding
Gold Eagle Technology Limited	British Virgin Islands	US$1	100%	–	100%	Research and development of biopharmaceutical products
Golden Butterfly Investments Limited	British Virgin Islands	US$100	95%	–	95%	Investment holding
Hainan Kangwei Medicine Co., Ltd. (note a)	PRC	RMB2,000,000	98.5%	–	100%	Trading of biopharmaceutical products
Hop Fu (Hong Kong) Trading Company Limited	Hong Kong	HK$10,000	100%	–	100%	Inactive
LGH Limited	British Virgin Islands	US$1	100%	–	100%	Research and development of biopharmaceutical products
LifeTec Enterprise Limited	Hong Kong	HK$100	100%	–	100%	General trading and provision of management services
LifeTec Group (China) Limited	British Virgin Islands	US$1	100%	–	100%	Inactive
LifeTec (Holdings) Limited	British Virgin Islands	HK$141,176	100%	100%	–	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

42. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
LifeTec Pharmaceutical Limited	British Virgin Islands	US$1	100%	–	100%	Investment holding
LT Card Limited	British Virgin Islands	US$1	100%	–	100%	Investment holding
LT Capital Limited	British Virgin Islands	US$1	100%	–	100%	Investment holding
LT Finance Limited	British Virgin Islands	US$1	100%	–	100%	Investment holding
LT Game Limited	British Virgin Islands	US$1	100%	–	100%	Development of electronic gaming system
LT (Macau) Limited	Macau	MOP25,000	100%	–	100%	Membership card service
LT Union Limited	British Virgin Islands	US$1	100%	–	100%	Investment holding
Loan San Enterprise Limited	Hong Kong	HK$50,000	36%	–	52%	General trading
Longkou Sunny Link Leathering Co., Ltd. (note b)	PRC	US$3,100,000	68%	–	68%	Manufacture and sale of PVC products
Master Mind Technology Limited	British Virgin Islands	US$1	100%	–	100%	Research and development of biopharmaceutical products
Shanghai Youheng Biotechnology Limited (note c)	PRC	HK$5,600,000	95%	–	100%	Research and development of biopharmaceutical products
Sino Flow Investments Limited	British Virgin Islands	US$1	100%	–	100%	Inactive
Sunny Link Trading Limited	Hong Kong	HK$2	100%	–	100%	General trading
Weihai Genen Biotech Limited (note c)	PRC	US$2,000,000	100%	–	100%	Research and development of biopharmaceutical products
Yip Hing Toys Manufactory Limited	Hong Kong	HK$100,000	100%	–	100%	Inactive

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

42. SUBSIDIARIES (CONTINUED)

Notes:

(a) The subsidiary is established in the PRC as a domestic enterprise.

(b) The subsidiary is established in the PRC as cooperative joint venture.

(c) The subsidiaries are established in the PRC as wholly owned foreign 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; and LT Game Limited and LT (Macau) Limited which carry out their principal activities in Macau, 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 2005 or at any time during the year.

43. ASSOCIATE

Particulars of the Group's principal associate as at 31 December 2005 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 & software and provision of business consultancy services