

# NOTES TO THE INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

## 1. BASIS OF PREPARATION

This unaudited 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 the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group had capital deficiency of HK\$21,173,000 at 30 June 2006. The interim financial report has been prepared on a going concern basis, the validity of which depends upon the continuous financial support by the Group's ultimate holding company at a level sufficient to finance the Group's current activities. The Group's ultimate holding company has confirmed its willingness to finance the Group's current activities. Moreover, as stated in note 8 to the interim financial report, the Group's ultimate holding company has extended the maturity date of the HK\$30,000,000 convertible note from 7 December 2006 to 7 December 2007.

Should the Group fail to prepare the interim financial report on a going concern basis, adjustments would have to be made to the interim financial report to adjust the value of the Group's assets to their recoverable amounts, to provide for any liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

## 2. SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

### 3. PROFIT BEFORE TAXATION

This is stated after crediting/(charging):

	<b>Six months ended 30 June 2006 HK\$'000 (unaudited)</b>	Six months ended 30 June 2005 HK\$'000 (unaudited)
(a) Turnover		
Sale and distribution of pharmaceutical products	<b>73,059</b>	–
Laboratory testing service income	<b>610</b>	465
	<b>73,669</b>	465
(b) Other income		
Interest income	<b>135</b>	–
Guarantee income earned	<b>1,333</b>	–
	<b>1,468</b>	–
Gain on adjustment of the amortised cost of the convertible note	<b>3,375</b>	–
Others	<b>235</b>	63
	<b>5,078</b>	63
(c) Finance cost		
Interest on bank overdrafts and borrowings	–	(90)
Imputed interest on convertible note	<b>(2,559)</b>	–
Interest on other borrowings	<b>(94)</b>	(96)
	<b>(2,653)</b>	(186)

### 4. TAXATION

(a) Taxation in the income statement represents:

	<b>Six months ended 30 June 2006 HK\$'000 (unaudited)</b>	Six months ended 30 June 2005 HK\$'000 (unaudited)
PRC enterprise income tax	<b>566</b>	–

- (b) No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the six months period ended 30 June 2006 and 2005.
- (c) The provision for the PRC enterprise income tax is based on a statutory tax rate of 33% of the assessable profit of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC for the six months ended 30 June 2006. No provision for PRC enterprise income tax for the six months period ended 30 June 2005 is required since the Group has no assessable profit in this period.

## 5. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2006 was based on the consolidated loss attributable to equity holders of the Company of approximately HK\$575,000 (*Six months ended 30 June 2005: profit of approximately HK\$17,016,000*) and the 953,906,963 shares (*Six months ended 30 June 2005: 953,906,963 shares*) in issue during the six months ended 30 June 2006.

Diluted loss per share for the six months ended 30 June 2006 has not been disclosed as the convertible note outstanding has an anti-dilutive effect on the basic loss per share during the six months ended 30 June 2006. No disclosure of diluted earnings per share for the six months ended 30 June 2005 has been made as there were no potential dilutive ordinary shares outstanding.

## 6. TRADE AND OTHER RECEIVABLES

		<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
Trade receivables	(a)	<b>35,399</b>	10,790
Other receivables			
Deposits, prepayment and other debtors		<b>7,596</b>	3,307
Due from minority shareholders of a subsidiary		–	1,416
		<b>7,596</b>	4,723
		<b>42,995</b>	15,513

Note:

- (a) The Group provides credit term to customers in accordance with the Group's established credit policies of 30 to 180 days (At 31 December 2005: 30 to 180 days). The ageing analysis of trade receivables is as follows:

	<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
Within 1 month	11,772	10,751
1 – 2 months	8,735	26
2 – 3 months	5,269	5
3 – 6 months	9,268	1
6 – 12 months	349	1
Over 1 year	6	6
	<u>35,399</u>	<u>10,790</u>

## 7. TRADE AND OTHER PAYABLES

	<i>Note</i>	<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
Trade payables	(a)	<u>26,667</u>	<u>11,680</u>
Other payables			
Accrued charges and other creditors		2,473	4,916
Due to directors		43	88
Due to a former related company		1,546	1,546
Due to minority shareholders of a subsidiary		<u>6,703</u>	<u>36</u>
		<u>10,765</u>	<u>6,586</u>
		<u>37,432</u>	<u>18,266</u>

Note:

(a) Trade payables

The ageing analysis of trade payables is as follows:

	<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
Within 1 month	<b>9,671</b>	11,486
1 – 2 months	<b>6,746</b>	4
2 – 3 months	<b>4,805</b>	1
3 – 6 months	<b>5,225</b>	24
6 – 12 months	<b>106</b>	63
Over 1 year	<b>114</b>	102
	<b>26,667</b>	11,680

## 8. CONVERTIBLE NOTE

On 28 September 2005, the Company issued a zero-coupon convertible note in the principal amount of HK\$30,000,000 (the "Note") to Hong Jin Holdings Limited ("Hong Jin") in which Mr. Wu Kwai Yung, a director of the Company held 70% interest of Hong Jin. The Note is due on 7 December 2006 and the maturity date may be extended for further 12 months by Hong Jin at its sole discretion. On 7 April 2006 Hong Jin exercised its discretion to extend the maturity date of the Note to 7 December 2007. The Note will be mandatory and automatically converted either on (i) the day on which the trading of the shares of the Company on the Stock Exchange resumes; or (ii) the day on which the Stock Exchange grants the listing of and permission to deal in the Conversion Shares (subject to conditions that neither Hong Jin nor the Company may reasonably object); or (iii) 1 December 2005, whichever comes last. If the Note is to be converted, the conversion price will be HK\$0.17 per share and 176,470,588 new shares will be allotted by the Company upon full conversion.

As at 30 June 2006, the Note had not been converted.

The directors estimated the fair value of the Note at 30 June 2006 to be approximately HK\$24,537,000 (At 31 December 2005: HK\$25,663,000). This fair value has been calculated by discounting the future cash flows at the market rate. The equity element of the Note amounted to HK\$4,337,000 (At 31 December 2005: HK\$4,337,000) was recognised in the capital reserve.

## 9. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions/information disclosed elsewhere in this interim financial report, during the period, the Group had the following transactions with ReliaLab Medical Laboratory & X-Ray Centre Limited.

	<b>Six months ended 30 June 2006 HK\$'000 (unaudited)</b>	Six months ended 30 June 2005 HK\$'000 (unaudited)
Rental expenses recharged ( <i>Note (i)</i> )	–	(19)
Salaries received for shared staff ( <i>Note (i)</i> )	–	(14)
Salaries paid for shared staff ( <i>Note (i)</i> )	–	2
Management fee recharged ( <i>Note (i)</i> )	–	(6)
Electricity fee recharged ( <i>Note (i)</i> )	–	(1)
Laboratory testing service income ( <i>Note (ii)</i> )	–	(4)
	<u>–</u>	<u>–</u>

### Notes:

- (i) These expenses were recharged/shared with reference to the actual expense incurred.
- (ii) These transactions were carried out at market prices.
- (iii) The above transactions did not fall under the definition “connected transaction” or “continuing connected transaction” in Chapter 14A of the Listing Rules.
- (b) 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, and director of such wholly-owned subsidiary 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. On 31 March 2006, this wholly-owned subsidiary of the Company entered into another tenancy agreement for the same property on normal commercial terms with Dr. Wan Kwong Kee for a period of six months from 1 April 2006 to 30 September 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.
- (c) During the period, the office premises occupied by a subsidiary of the Company was provided by a key management personnel and a spouse of another key management personnel of the subsidiary. The open market rental value of the office premises for the period ended 30 June 2006 estimated by the key management personnel of this subsidiary was HK\$116,000 (*Six months ended 30 June 2005: HK\$Nil*).

(d) During the period, the Group have transactions with the following related parties:

	<b>Six months ended 30 June 2006 HK\$'000 (unaudited)</b>	Six months ended 30 June 2005 HK\$'000 (unaudited)
Sales to two minority shareholders of a subsidiary	89	–
Purchases from a minority shareholder of a subsidiary	1,996	–
Purchases from a branch company of a minority shareholder of a subsidiary which operated by the other two minority shareholders of this subsidiary	<u>579</u>	<u>–</u>

(e) Key management compensation

The key management compensation for the six months ended 30 June 2006 and 2005 is detailed as follows:

	<b>Six months ended 30 June 2006 HK\$'000 (unaudited)</b>	Six months ended 30 June 2005 HK\$'000 (unaudited)
Salaries	660	873
Retirement scheme contributions	<u>15</u>	<u>21</u>
	<u>675</u>	<u>894</u>

## 10. SEGMENT INFORMATION

### By business segments

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

	<b>Property investment HK\$'000</b>	<b>Pharmaceutical and healthcare HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Six months ended 30 June 2006 (unaudited)</b>			
Sales revenue from external customers	<u>–</u>	<u>73,669</u>	<u>73,669</u>
Segment result	<u>–</u>	<u>2,295</u>	<u>2,295</u>
<b>Six months ended 30 June 2005 (unaudited)</b>			
Sales revenue from external customers	<u>–</u>	<u>465</u>	<u>465</u>
Segment result	<u>(8)</u>	<u>(278)</u>	<u>(286)</u>

## 11. CONTINGENT LIABILITIES

There has been no material change in contingent liabilities since the publication of the Company's 2005 Annual Report.