# Notes to the Financial Statements

For the year ended 31 December 2006

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda 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 principal associate are set out in notes 41 and 42 respectively.

## 2. ADOPTION OF NEW AND REVISED HKFRSs

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The directors anticipate that the adoption of these new and revised HKFRSs in future periods will not have material impact on the financial statements of the Group.

## 3. PRINCIPAL ACCOUNTING POLICIES

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

These financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity 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 has control.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (a) Consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

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 relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests 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. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

### (b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

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

Service income is recognised when the service is rendered.

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

### (d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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 income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

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 income statement.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are included in the income statement for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in the income statement.

### (f) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, except goodwill, inventories and receivables, 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 any impairment loss. 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 the income statement, 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 (net of amortization or depreciation) 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 the income statement, 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.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (g) 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. The costs are amortised on a straight line basis over their useful economic lives when the underlying drugs are ready for commercial production.

### (h) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated 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. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests 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 changed where necessary to ensure consistency with the policies adopted by the Group.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average basis. 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.

### (j) 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 receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

### (k) Cash and cash equivalents

For the purpose of the cash flow statement, 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. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) Leases

*(i) Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

*(ii) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the balance sheet as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

### (m) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset is recognised only if all of the following conditions are met:

– An asset is created that can be identified (such as software and new processes);

– It is probable that the asset created will generate future economic benefits; and

– The development cost of the asset can be measured reliably.

Internally generated intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Where no internally generated intangible asset can be recognised, development expenditure is charged to the income statement in the period in which it is incurred.

### (n) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost 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) Redeemable voting preference shares

The component of redeemable voting preference shares that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of redeemable voting preference shares, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion of redemption. The derivative component is measured at fair value with gains and losses recognised in the income statement.

### (q) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (r) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (s) 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 income statement.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (s) Foreign currencies translation (continued)

*(iii) Translation on consolidation*

The results and financial position of all the Group entities 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 exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the translation reserve. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (t) Employee benefits

*(i) Employee leave entitlements*

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

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

*(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

*(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (u) Share-based payments

The Group issues equity-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

### (v) 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.

### (w) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

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, unused tax losses or unused tax credits 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.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (w) Taxation (continued)

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 profits 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, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (x) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### (y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### (y) Segment reporting (continued)

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

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

### (z) Events after the balance sheet date

Events after the balance sheet date 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. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

## 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.

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

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

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 and payments for investments*

In connection with the carrying amount 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 carrying amount of each drug. For this reason, the Group believes that there is no impairment for the carrying amount of intangible assets and payments for investments.

*Impairment loss for doubtful debts*

The Group assesses impairment loss for doubtful debts 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 and the other debtors were to deteriorate, additional impairment may be required.

*Impairment of property, plant and equipment*

The management of the Group tests annually whether property, plant and equipment have suffered any impairment. The recoverable amounts of cash-generating units in connection with the property, plant and equipment have been determined on the value-in-use calculation and estimated net selling price. These calculations require uses of estimate.

## 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.

### (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.

### (d) Interest rate risk

As the Group has no significant interest income or expenses from or for its interest-bearing assets or liabilities respectively, the Group's income, expense and operating cash flows are substantially independent of changes in market interest rates.

### (e) Fair values

Except for the redeemable voting preference shares as disclosed in note 28, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

## 6. TURNOVER

The Group's turnover which represents the amounts received and receivable for goods sold, net of discounts and returns to outside customers and revenue from share of net gaming win from the operation of electronic gaming system during the year are as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Sales of biopharmaceutical products | **91,716** | 83,730 |
| Sales of polyurethane products | **934** | 1,748 |
| Revenue from share of net win from the operation of electronic gaming system | **2,019** | – |
| | **94,669** | 85,478 |

## 7. OTHER OPERATING INCOME

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Interest income | **678** | 899 |
| Management fee income | **120** | 248 |
| Fair value gain on investment properties | **150** | – |
| Fair value gain on derivative component of redeemable voting preference shares (note 28) | **724** | – |
| Net exchange gains | **4,364** | 2,211 |
| Sundry income | **567** | 1,356 |
| | **6,603** | 4,714 |

## 8. SEGMENT INFORMATION

### (a) Primary reporting format – business segments

The Group is organised into two main business segments:

| | | |
|---|---|---|
| Biopharmaceutical | – | research, development and sale of biopharmaceutical products |
| Gaming | – | development and operation of electronic gaming system |

## 8. SEGMENT INFORMATION (continued)

### (a) Primary reporting format – business segments (continued)

**For the year ended 31 December 2006**

| | Biophar-maceutical HK$'000 | Gaming HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Revenue | 91,716 | 2,019 | 1,621 | 95,356 |
| Segment results | (12,860) | (5,565) | 222 | (18,203) |
| Unallocated operating income | | | | 5,916 |
| Unallocated corporate expenses | | | | (39,326) |
| Loss from operations | | | | (51,613) |
| Finance costs | | | | (229) |
| Gain on disposal of subsidiaries | | | | 4,097 |
| Loss before taxation | | | | (47,745) |

**At 31 December 2006**

| | Biophar-maceutical HK$'000 | Gaming HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Segment assets | 261,543 | 29,581 | 4,893 | 296,017 |
| Unallocated corporate assets | | | | 5,699 |
| Consolidated total assets | | | | 301,716 |
| **Liabilities** | | | | |
| Segment liabilities | 37,709 | 26,567 | 32 | 64,308 |
| Unallocated corporate liabilities | | | | 23,390 |
| Consolidated total liabilities | | | | 87,698 |

## 8. SEGMENT INFORMATION (continued)

### (a) Primary reporting format – business segments (continued)

**For the year ended 31 December 2006**

| | Biophar-maceutical HK$'000 | Gaming HK$'000 | Others HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Capital expenditure | 57,965 | 21,164 | 1,324 | 535 | 80,988 |
| Depreciation of property, plant and equipment | 1,355 | 1,226 | 548 | 16 | 3,145 |
| Impairment loss for doubtful debts | 2,000 | – | – | 867 | 2,867 |
| Share-based payments | – | – | – | 19,582 | 19,582 |

For the year ended 31 December 2005

| | Biophar-maceutical HK$'000 | Gaming HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Revenue | 83,730 | – | 3,352 | 87,082 |
| Segment results | (4,934) | (383) | 477 | (4,840) |
| Unallocated operating income | | | | 3,110 |
| Unallocated corporate expenses | | | | (21,365) |
| Loss from operations | | | | (23,095) |
| Finance costs | | | | (108) |
| Loss before taxation | | | | (23,203) |

## 8. SEGMENT INFORMATION (continued)

### (a) Primary reporting format – business segments (continued)

At 31 December 2005

| | Biopharmaceutical HK$'000 | Gaming HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Segment assets | 220,872 | 1,912 | 5,483 | 228,267 |
| Unallocated corporate assets | | | | 28,955 |
| Consolidated total assets | | | | 257,222 |
| **Liabilities** | | | | |
| Segment liabilities | 18,408 | 274 | 255 | 18,937 |
| Unallocated corporate liabilities | | | | 15,717 |
| Consolidated total liabilities | | | | 34,654 |

For the year ended 31 December 2005

| | Biopharmaceutical HK$'000 | Gaming HK$'000 | Others HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Capital expenditure | 18,513 | 781 | 36 | 594 | 19,924 |
| Depreciation of property, plant and equipment | 372 | – | 115 | 369 | 856 |
| Inventories written off | 179 | – | – | – | 179 |
| Impairment of goodwill | – | – | – | 555 | 555 |
| Impairment loss for doubtful debts | 2,021 | – | – | 852 | 2,873 |

## 8. SEGMENT INFORMATION (continued)

### (b) Secondary reporting format – geographical segments

| | Revenue | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| The People's Republic of China ("PRC") and Hong Kong | **93,334** | 87,082 | **269,717** | 254,598 | **59,289** | 19,143 |
| Macau | **2,022** | – | **31,999** | 2,624 | **21,699** | 781 |
| | **95,356** | 87,082 | **301,716** | 257,222 | **80,988** | 19,924 |

## 9. IMPAIRMENT LOSS FOR DOUBTFUL DEBTS

Impairment loss for doubtful debts is analysed as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Impairment loss for amount due from an associate | **867** | 852 |
| Impairment loss for trade debtors | **2,000** | 2,021 |
| | **2,867** | 2,873 |

## 10. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Staff cost | | |
| – Directors' remuneration (note 11) | **6,102** | 5,935 |
| – Other staff | | |
| – Salaries and allowances | **8,108** | 6,393 |
| – Employee share option benefits (equity-settled) (note 33) | **600** | – |
| – Retirement benefit scheme contributions | **487** | 238 |
| | **15,297** | 12,566 |
| Auditors' remuneration | | |
| – current | **942** | 700 |
| – underprovision in previous year | **–** | 336 |
| Cost of inventories | **77,725** | 59,568 |
| Depreciation | **3,145** | 856 |
| Direct operating expenses in respect of investment properties that did not generate rental income | **4** | 26 |
| Equity-settled consultancy fees (note 33) | **18,909** | – |
| Impairment of goodwill | **–** | 555 |
| Loss on disposal of property, plant and equipment | **136** | 269 |
| Operating lease rentals paid in respect of rented premises (note) | **3,353** | 2,301 |

Note: The amount includes the accommodation benefits provided to a director amounting to HK$921,000 (2005: HK$840,000) as set out in note 11.

## 11. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

### Directors' remuneration

The remuneration of every director for the year ended 31 December 2006 is set out below:

| Name | Fees HK$'000 | Salaries and other benefit HK$'000 | Accommodation benefit HK$'000 | Employee share option benefits HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Mr. Jay Chun | – | 2,160 | 921 | – | 12 | 3,093 |
| Mr. Shan Shiyong, alias, Mr. Sin Sai Yung | – | 2,400 | – | – | – | 2,400 |
| Dr. Ma Xianming, alias, Dr. Ma Yin Ming | – | 176 | – | 73 | – | 249 |
| **Independent non-executive directors** | | | | | | |
| Mr. Frank Hu | 120 | – | – | – | – | 120 |
| Mr. Wang Faqi | 120 | – | – | – | – | 120 |
| Ms. Ma Shiwei | 120 | – | – | – | – | 120 |
| Total | 360 | 4,736 | 921 | 73 | 12 | 6,102 |

## 11. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES (continued)

### Directors' remuneration (continued)

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

| Name | Fees | Salaries and other benefit | Accom-modation benefit | Employee share option benefits | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'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 |

## 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 33. 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 (2005: two 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:

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Salaries and other benefits | **1,596** | 1,793 |
| Retirement benefit scheme contributions | **37** | 24 |
| | **1,633** | 1,817 |

Their emoluments were within the following band:

| | **2006 Number of employees** | 2005 Number of employees |
|---|---|---|
| Nil to HK$1,000,000 | **3** | 3 |

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.

## 12. FINANCE COSTS

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Interest on bank borrowings | **9** | 108 |
| Finance charges on finance leases | **74** | – |
| Interest on liability component of redeemable voting preference shares (note 28) | **146** | – |
| | **229** | 108 |

## 13. TAXATION

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| The (credit)/charge represents: | | |
| Profits tax outside Hong Kong | | |
| – current | **–** | 103 |
| – (over)/underprovision in previous year | **(73)** | 1,094 |
| | **(73)** | 1,197 |

No provision for Hong Kong Profits Tax has been made in the financial statements since the Group has no assessable profit for the year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

PRC Income Tax is calculated at the rate of 33% prevailing in the PRC with certain tax preference.

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

## 13. TAXATION (continued)

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

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Loss before taxation | **(47,745)** | (23,203) |
| Tax at PRC income tax rate of 33% | **(15,756)** | (7,657) |
| Tax effect of expenses not deductible for tax purpose | **10,688** | 5,375 |
| Tax effect of income not taxable for tax purpose | **(2,979)** | (904) |
| Tax effect of tax losses not recognised | **8,144** | 3,560 |
| Utilisation of tax losses previously not recognised | **–** | (127) |
| Tax effect of temporary differences not recognised | **(97)** | (144) |
| (Over)/underprovision in previous year | **(73)** | 1,094 |
| Tax (credit)/charge for the year | **(73)** | 1,197 |

## 14. DIVIDEND

No dividend has been paid or declared by the Company during the year (2005: HK$Nil). The directors do not recommend the payment of a final dividend for the year (2005: Nil).

## 15. LOSS PER SHARE

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

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| **Loss:** | | |
| Loss for the purposes of basic loss per share | **(47,704)** | (24,095) |

**Number of shares:**

| | **2006** | 2005 |
|---|---|---|
| Weighted average number of shares for the purposes of basic loss per share | **2,894,739,015** | 2,679,944,426 |

As the exercise of the Company's outstanding share options and warrants during the years ended 31 December 2005 and 2006 would be anti-dilutive, no diluted loss per share was presented in both years.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, Fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2005 | 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 |
| Additions | – | 2,401 | 51,761 | 115 | 1,304 | 55,581 |
| Disposals | – | (325) | – | (7) | (907) | (1,239) |
| Disposal of a subsidiary | (8,059) | – | (3,276) | (216) | – | (11,551) |
| Exchange realignment | 78 | 39 | 671 | 23 | 50 | 861 |
| At 31 December 2006 | 1,300 | 2,115 | 53,093 | 3,179 | 3,255 | 62,942 |
| **Depreciation and impairment loss** | | | | | | |
| At 1 January 2005 | 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 |
| Provided for the year | 25 | 71 | 2,168 | 452 | 429 | 3,145 |
| Disposals | – | – | – | (1) | (907) | (908) |
| Disposal of a subsidiary | (8,059) | – | (3,276) | (119) | – | (11,454) |
| Exchange realignment | 78 | 1 | 63 | 12 | 18 | 172 |
| At 31 December 2006 | 281 | 72 | 2,479 | 1,554 | 1,144 | 5,530 |
| **Carrying amount** | | | | | | |
| At 31 December 2006 | 1,019 | 2,043 | 50,614 | 1,625 | 2,111 | 57,412 |
| At 31 December 2005 | 1,044 | – | 413 | 2,054 | 1,204 | 4,715 |

## 16. PROPERTY, PLANT AND EQUIPMENT (continued)

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| The carrying amount of the Group's leasehold land and buildings represents property situated in Hong Kong held under long lease | **1,019** | 1,044 |

At 31 December 2006, the carrying amount of leasehold land and buildings pledged as security for the Group's bank loans amounted to approximately HK$1,019,000 (2005: HK$1,044,000).

At 31 December 2006, the carrying amount of motor vehicles held by the Group under finance lease amounted to HK$1,130,000 (2005: Nil).

## 17. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| **Fair value** | |
| At 1 January 2005 and 31 December 2005 | 3,480 |
| Increase in fair value during year 2006 | 150 |
| At 31 December 2006 | 3,630 |

The investment properties were revalued as at 31 December 2006 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.

## 18. INTANGIBLE ASSETS

| | Patent HK$'000 | Beneficial rights to drugs under development HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2005 | 4,705 | 46,744 | 51,449 |
| Acquired on acquisition of a subsidiary | – | 18,280 | 18,280 |
| Exchange realignments | – | 13 | 13 |
| At 31 December 2005 and at 1 January 2006 | 4,705 | 65,037 | 69,742 |
| Acquired on acquisition of a subsidiary | – | 25,407 | 25,407 |
| Exchange realignments | – | 27 | 27 |
| At 31 December 2006 | 4,705 | 90,471 | 95,176 |
| **Amortisation** | | | |
| At 1 January 2005, 31 December 2005 and 31 December 2006 | 4,705 | – | 4,705 |
| **Carrying amount** | | | |
| At 31 December 2006 | – | 90,471 | 90,471 |
| At 31 December 2005 | – | 65,037 | 65,037 |

Patent represents the acquired exclusive rights to use certain technologies for the manufacture of certain biopharmaceutical products.

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.

## 19. INTERESTS IN AN ASSOCIATE

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted investment: | | |
| Share of net assets | **–** | – |
| Amount due from an associate | **8,609** | 7,742 |
| | **8,609** | 7,742 |
| Less: Impairment loss for amount due from an associate | **(8,609)** | (7,742) |
| | **–** | – |

Particulars of the Group's principal associate at 31 December 2006 are set out in note 42.

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:

| | **2006** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| Total assets | **6,791** | 7,316 |
| Total liabilities | **(10,178)** | (9,199) |
| Net liabilities | **(3,387)** | (1,883) |
| Revenue | **141** | 196 |
| Loss for the year | **(1,064)** | (1,409) |

The Group has not recognised losses amounting to HK$505,000 (2005: HK$669,000) for the Group's associates during the year. The accumulated losses of the Group's associates not recognised were HK$1,277,000 (2005: HK$772,000) as at 31 December 2006.

## 20. PAYMENTS FOR INVESTMENTS

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Deposits paid for the acquisition of a subsidiary (note a) | – | 19,989 |
| Deposits paid for the acquisition of beneficial rights to drugs under development (note b) | 55,800 | 53,654 |
| Consultancy fees for soliciting the drugs under development projects capitalised | 1,194 | 1,148 |
| | 56,994 | 74,791 |

Notes:

(a) On 1 March 2004, LifeTec Holdings entered into a conditional sale and purchase agreement with an independent party to acquire entire issued share capital share of Anica Limited for a cash consideration of RMB22,200,000 (equivalent to HK$20,932,000). Anica Limited is a limited liability company incorporated in the British Virgin Islands and holds the rights of a new drug project. As at 31 December 2005 the deposit paid by the Group for the acquisition of Anica Limited amounted to RMB21,200,000 (equivalent to HK$19,989,000).

Anica Limited became a subsidiary of the Company during the year and the deposits paid of HK$19,989,000 was transferred to cost of acquisition for Anica Ltd. Details of the assets and liabilities of Anica Limited acquired by the Group during the year are set out in note 34(a).

(b) On 2 June 2004, Hainan Kangwei Medicine Co., Ltd ("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$15,000,000 (2005: HK$14,423,000)). The amount paid by the Group amounting to RMB14,000,000 (equivalent to HK$14,000,000 (2005: HK$13,462,000)) at 31 December 2005 and 31 December 2006 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$12,000,000 (2005: HK$11,538,000)). The amount paid by the Group amounting to RMB11,000,000 (equivalent to HK$11,000,000 (2005: HK$10,577,000)) at 31 December 2005 and 31 December 2006 represents the partial consideration paid under the agreement.

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$12,800,000 (2005: HK$12,308,000)). The amount paid by the Group amounting to RMB11,800,000 (equivalent to HK$11,800,000 (2005: HK$11,346,000)) at 31 December 2005 and 31 December 2006 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 HK$10,000,000 (2005: HK$9,615,000)). The amount paid by the Group amounting to RMB9,000,000 (equivalent to HK$9,000,000 (2005: HK$8,654,000)) at 31 December 2005 and 31 December 2006 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$11,000,000 (2005: (HK$10,577,000)). The amount paid by the Group amounting to RMB10,000,000 (equivalent to HK$10,000,000 (2005: HK$9,615,000)) at 31 December 2005 and 2006 represents the partial consideration paid under the agreement.

## 21. INVENTORIES

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Finished goods | **1,526** | 37 |

## 22. DEBTORS AND PREPAYMENTS

The aging analysis of the trade debtors, based on date of invoice and net of allowance, is as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Trade debtors | | |
| Within 30 days | **14,337** | 6,105 |
| 31–60 days | **4,308** | 2,135 |
| 61–90 days | **2,060** | 1,344 |
| 91–180 days | **3,295** | 2,964 |
| 181–365 days | **2,883** | 3,275 |
| Over 365 days | **1,365** | 171 |
| | **28,248** | 15,994 |
| Amount due from a former subsidiary | **–** | 10,745 |
| Other debtors and prepayments | **3,109** | 4,060 |
| | **31,357** | 30,799 |

The amount due from a former subsidiary was secured by certain plant and equipment of the former subsidiary, interest-free and fully settled during the year.

As at 31 December 2006, an allowance was made for estimated irrecoverable trade receivables of approximately HK$7,001,000 (2005: HK$5,001,000).

The Group normally allows a credit period of 90 to 180 days to its trade customers. The credit policy is consistent with the pharmaceutical industry practice in China.

## 23. ADVANCES TO CONSULTING COMPANIES

The amount represents the outstanding receivables from four (2005: five) 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 RMB48,281,000 (equivalent to HK$48,281,000) have been settled after the balance sheet date.

## 24. BANK AND CASH BALANCES

As at 31 December 2006, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,613,000 (2005: HK$25,383,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 25. CREDITORS AND ACCRUED CHARGES

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| The ageing analysis of trade creditors is as follows: | | |
| Within 30 days | **13,718** | 2,096 |
| 31–60 days | **4,810** | 598 |
| 61–90 days | **330** | – |
| 91–180 days | **132** | 205 |
| More than 365 days | **402** | – |
| | **19,392** | 2,899 |
| Value added tax payable | **7,284** | 7,155 |
| Other creditors and accrued charges | **26,327** | 10,418 |
| | **53,003** | 20,472 |

## 26. BANK BORROWINGS

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Mortgage loan, secured | **36** | 171 |

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

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Within one year or on demand | **36** | 135 |
| More than one year, but not exceeding two years | **–** | 36 |
| | **36** | 171 |
| Less: Amount due within one year shown under current liabilities | **(36)** | (135) |
| Amount due after one year | **–** | 36 |

The mortgage loan is secured by a charge over the Group's leasehold land and buildings.

The effective interest rates on bank borrowings were 8.5% (2005: 6.7%).

## 27. OBLIGATION UNDER FINANCE LEASE

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Within one year | **279** | – | **227** | – |
| In the second to fifth years, inclusive | **814** | – | **748** | – |
| | **1,093** | – | **975** | – |
| Less: Future finance charges | **(118)** | – | **N/A** | N/A |
| Present value of lease obligations | **975** | – | **975** | – |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | | | **(227)** | – |
| Amount due for settlement after 12 months | | | **748** | – |

## 27. OBLIGATION UNDER FINANCE LEASE (continued)

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 4.5 years. As at 31 December 2006, the effective borrowing rate was 7.1% (2005: Nil). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of the lease term, the Group has the option to purchase the motor vehicles at nominal prices.

All finance lease payables are denominated in Hong Kong dollars.

The Group's finance lease payables are secured by the lessor's title to the leased assets and the personal guarantee executed by a director of the Company.

## 28. REDEEMABLE VOTING PREFERENCE SHARES

Pursuant to a subscription agreement dated 1 December 2006 (the "Subscription Agreement"), LT Game Limited ("LT Game"), a subsidiary of the Company, issued 900 redeemable voting preference shares of US$1.00 each (the "Preference Shares") to an independent third party (the "Subscriber") at a subscription price of US$2,222.22 each. Total subscription price amounting to US$2,000,000 (equivalent to HK$15,600,000) (the "Subscription Price") was paid by the Subscriber in cash on 1 December 2006.

The Preference Shares rank pari passu in all respects with the existing ordinary shares of LT Game.

Pursuant to the Subscription Agreement, if LT Game report net profit before tax of less than HK$32 million for the financial year ending 31 December 2007, the holder of the Preference Shares shall be entitled to redeem the Preference Shares at the Subscription Price at any time between the date of issue of the audited financial statements of LT Game for the year ending 31 December 2007 and the date falling 6 months after the date of issue of the audited financial statements of LT Game for the year ending 31 December 2007 (the "Conversation Date"). Corporate guarantee was granted to the Subscriber for the redemption by the Company.

Pursuant to the Subscription Agreement, unless previously redeemed, each Preference Shares shall automatically be converted into an ordinary share of LT Game on the Conversion Date.

## 28. REDEEMABLE VOTING PREFERENCE SHARES (continued)

The fair value of the derivative component was estimated at the issuance date using an option pricing model and the change in fair value of that component is recognised in the income statement. The residual amount is assigned as the liability component.

The net proceeds received from the issue of the Preference Shares have been split between the derivative and liability components, as follows:

| | | HK$'000 |
|---|---|---|
| Nominal value of the Preference Shares issued during the year | | 15,600 |
| Derivative component at the issuance date (note (a)) | | (3,671) |
| Liability component at the issuance date (note (b)) | | 11,929 |
| (a) | Derivative component at the issuance date | 3,671 |
| | Fair value gain recognised in current year (note 7) | (724) |
| | Derivative component at 31 December 2006 | 2,947 |
| (b) | Liability component at the issuance date | 11,929 |
| | Interest charged for the year (note 12) | 146 |
| | Liability component at 31 December 2006 | 12,075 |

The interest charged for the year is calculated by applying an effective interest rate of 14.75% to the liability component for the 1 month period since the Preference Shares were issued.

The directors estimate the fair value of the liability component of the Preference shares at 31 December 2006 to be approximately HK$13,451,000. This fair value has been calculated by discounting the future cash flows at the market rate.

## 29. DEFERRED TAX LIABILITIES

| | HK$'000 |
|---|---|
| At 1 January 2005 | 6,912 |
| Addition on acquisition of a subsidiary | 2,742 |
| At 31 December 2005 | 9,654 |
| Addition on acquisition of a subsidiary | 3,753 |
| At 31 December 2006 | 13,407 |

The balances as at 31 December 2005 and 31 December 2006 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 2006, the Group has unused tax losses of HK$65,602,000 (2005: HK$53,875,000) and other temporary differences of HK$7,001,000 (2005: HK$5,001,000) available to offset against future taxable profits. No deferred tax asset has been recognised in respect of such losses and other temporary differences due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$10,491,000 (2005: HK$3,912,000) that will be expired from 2010 to 2011. Other losses and temporary differences may be carried forward indefinitely.

## 30. SHARE CAPITAL

| | **2006 Number of shares** | 2005 Number of shares | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|---|---|
| Ordinary 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 | **2,763,297,919** | 2,574,552,919 | **27,633** | 25,745 |
| Issue of shares upon exercise of share options (note 33) | **275,000,000** | 114,325,000 | **2,750** | 1,144 |
| Issue of shares upon exercise of warrants | **–** | 74,420,000 | **–** | 744 |
| At end of the year | **3,038,297,919** | 2,763,297,919 | **30,383** | 27,633 |

Note: All the new shares issued during the years 2005 and 2006 rank pari passu in all respects with the existing shares.

## 31. BALANCE SHEET OF THE COMPANY

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Investments in subsidiaries | **263,958** | 220,588 |
| Prepayment | **73** | 363 |
| Bank and cash balances | **9** | 9 |
| Other payables and accruals | **(8,628)** | (798) |
| Amount due to directors | **(874)** | (1,109) |
| NET ASSETS | **254,538** | 219,053 |
| Share capital | **30,383** | 27,633 |
| Reserves | **224,155** | 191,420 |
| TOTAL EQUITY | **254,538** | 219,053 |

## 32. RESERVES

### (a) The Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

### (b) The Company

| | **Share premium** HK$'000 | **Contributed surplus** HK$'000 | **Warrant reserve** HK$'000 | **Option reserve** HK$'000 | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2005 | 306,214 | 110,223 | 20,058 | 17,461 | (254,391) | 199,565 |
| Issue of shares on exercise of share options and warrants | 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 |
| Issue of shares on exercise of share options | 32,079 | – | – | (12,429) | – | 19,650 |
| Recognition of share-based payments | – | – | – | 19,582 | – | 19,582 |
| Loss for the year | – | – | – | – | (6,497) | (6,497) |
| At 31 December 2006 | 366,164 | 110,223 | – | 17,360 | (269,592) | 224,155 |

## 33. 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 annual general meetings held on 18 July 2005 and 29 May 2006, 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, 18 July 2005 and 29 May 2006 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.

## 33. 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 2006 are set out as follows:

| | | | Number of share options | | | |
|---|---|---|---|---|---|---|
| Date of grant | Exercisable period | Exercise price per share HK$ | Outstanding at 1.1.2006 | Granted during the year | Exercised during the year | Outstanding at 31.12.2006 |
| **Category: Directors** | | | | | | |
| 27.11.2003 | 27.11.2003 to 26.11.2008 | 0.0880 | 3,500,000 | – | – | 3,500,000 |
| 30.11.2006 | 30.11.2006 to 29.11.2011 | 0.0950 | – | 1,900,000 | – | 1,900,000 |
| **Category: Employees** | | | | | | |
| 13.08.2004 | 01.09.2004 to 12.08.2009 | 0.0810 | 4,000,000 | – | – | 4,000,000 |
| 03.01.2006 | 03.01.2006 to 02.01.2011 | 0.0810 | – | 12,000,000 | – | 12,000,000 |
| 20.02.2006 | 20.02.2006 to 19.02.2011 | 0.0810 | – | 4,000,000 | – | 4,000,000 |
| **Category: Consultants** | | | | | | |
| 27.11.2003 | 27.11.2003 to 26.11.2008 | 0.0880 | 23,375,000 | – | – | 23,375,000 |
| 13.08.2004 | 01.09.2004 to 12.08.2009 | 0.0810 | 125,000,000 | – | (125,000,000) | – |
| 01.11.2004 | 01.11.2004 to 31.10.2009 | 0.0860 | 50,000,000 | – | (25,000,000) | 25,000,000 |
| 20.02.2006 | 20.02.2006 to 19.02.2011 | 0.0810 | – | 250,000,000 | (125,000,000) | 125,000,000 |
| 31.07.2006 | 31.07.2006 to 30.07.2011 | 0.0910 | – | 280,000,000 | – | 280,000,000 |
| Total all categories | | | 205,875,000 | 547,900,000 | (275,000,000) | 478,775,000 |
| Weighted average exercise price (HK$) | | | 0.0831 | 0.0862 | 0.0815 | 0.0876 |

## 33. SHARE OPTIONS (continued)

| Date of grant | Exercisable period | Exercise price per share HK$ | Number of share options Outstanding at 1.1.2005 | Granted during the year | Exercised during the year | Outstanding at 31.12.2005 |
|---|---|---|---|---|---|---|
| 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 | 39,325,000 | – | (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 | 23,375,000 | – | – | 23,375,000 |
| 13.08.2004 | 01.09.2004 to 12.08.2009 | 0.0810 | 200,000,000 | – | (75,000,000) | 125,000,000 |
| 01.11.2004 | 01.11.2004 to 31.10.2009 | 0.0860 | 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 |

## 33. SHARE OPTIONS (continued)

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.0952.

The share options outstanding at the end of the year have a weighted average remaining contractual life of 4.2 years (2005: 3.6 years).

In 2006, share options were granted by the Company to employees of the Group on 3 January and 20 February and to Directors of the Company on 30 November. The estimated fair values of the share options on those dates are HK$470,000, HK$130,000 and HK$73,000 respectively.

The Group recognised the total employee share option benefits (including directors' remuneration) of HK$673,000 for the year ended 31 December 2006.

In 2006, the Company has granted share options to certain consultants pursuant to the consultancy agreements entered into between LifeTec (Holdings) Limited, a subsidiary of the Company, and each of the consultants for a period of five years commencing from the respective dates of the consultancy agreements. Pursuant to the consultancy agreements, the consultants agreed to:

(a) identify potential strategic investors and financial investors for the Group;

(b) assist the Group in negotiating with the potential strategic investors and financial investors;

(c) provide consultancy services in relation to the drug development business of the Group; and

(d) carry out other duties as appropriate and as agreed with LifeTec Holdings.

The fair values of the 250,000,000 share options and 280,000,000 share options granted by the Company to the consultants on 20 February 2006 and 31 July 2006 amounted to HK$8,123,000 and HK$10,786,000 respectively. 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$18,909,000 had been charged to the income statement for the year.

## 33. SHARE OPTIONS (continued)

The fair values of share options granted to the employees, directors and consultants on the below grant date are determined using the Black-Scholes valuation model. The significant inputs into the model were as follows:

| | Share option grant date | | | |
|---|---|---|---|---|
| | **3 January 2006** | **20 February 2006** | **31 July 2006** | **30 November 2006** |
| Share price at the grant date | HK$0.0800 | HK$0.0800 | HK$0.0910 | HK$0.0940 |
| Exercise price | HK$0.0810 | HK$0.0810 | HK$0.0910 | HK$0.0950 |
| Expected volatility based on historical volatility of share prices | 71.26% | 62.73% | 65.07% | 56.81% |
| Expected annual dividend yield, based on historical dividend | – | – | – | – |
| Expected life of options | 3 years | 3 years | 3 years | 3 years |
| Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant | 4.06% | 4.06% | 4.33% | 3.68% |

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 250 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 from directors, employees and consultants for accepting the options granted amounted to HK$26 (2005: Nil).

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of a subsidiary

On 31 July 2006, the Group acquired 100% of the issued share capital of Anica Limited for a consideration of approximately HK$21,654,000. Anica Limited was engaged in research and development of biopharmaceutical products. Details of the net assets of the subsidiary acquired were as follows:

| | Acquiree's carrying amount HK$'000 | Fair value HK$'000 |
|---|---|---|
| **Net assets acquired:** | | |
| Intangible assets | 390 | 25,407 |
| Deferred tax liability | – | (3,753) |
| | 390 | 21,654 |
| **Satisfied by:** | | |
| Cash | | 1,665 |
| Deposits paid in year 2004 (note 20(a)) | | 19,989 |
| Total consideration | | 21,654 |
| **Net cash outflow arising on acquisition:** | | |
| Cash consideration paid | | (1,665) |

The subsidiary contributed a loss of HK$7,000 to the Group's loss for the period between the date of acquisition and the balance sheet date. There are no material changes to the amounts of the Group's turnover and loss for the year if the acquisition had been completed on 1 January 2006.

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Disposal of subsidiaries

During the year, the Group disposed of its subsidiaries, Lone San Enterprise Limited and Longkou Sunny Link Leathering Co., Ltd.

Net liabilities at the date of disposal were as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 97 |
| Inventories | 287 |
| Prepayments, deposits and other receivables | 167 |
| Bank and cash balances | 34 |
| Tax recoverable | 1 |
| Accruals and other payables | (1,711) |
| | (1,125) |
| Shared by minority interest | (3,558) |
| Amount due from a disposed subsidiary | 1,165 |
| Net liabilities disposed of | (3,518) |
| Release of translation reserve | (561) |
| Gain on disposal of subsidiaries | 4,097 |
| Total consideration – satisfied by cash | 18 |
| Net cash outflow arising on disposal: | |
| Cash consideration received | 18 |
| Cash and cash equivalents disposed of | (34) |
| | (16) |

### (c) Major non-cash transaction

Additions to plant and machinery during the year amounted to HK$30,597,000 (2005: Nil) were supplied by the consulting companies and a former subsidiary. Consideration payable for the additions were settled by offsetting the advances to consulting companies of HK$23,538,000 and amount due from the former subsidiary of HK$7,059,000.

Addition to a motor vehicle during the year of HK$1,304,000 (2005: Nil) were financed by finance leases.

Included in creditors and accrued charges as at 31 December 2006 was an amount of HK$9,781,000 (2005: Nil) in respect of the purchase of property, plant and equipment during the current year not yet paid at the balance sheet date.

## 35. 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.

## 36. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Within one year | **2,411** | 1,736 |
| In the second to fifth year inclusive | **1,296** | 1,306 |
| | **3,707** | 3,042 |

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

## 37. CAPITAL AND OTHER COMMITMENTS

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Capital expenditure contracted for but not provided in the financial statements in respect of: | | |
| Acquisition of the beneficial rights to drugs under development | **5,000** | 5,770 |
| Acquisition of property, plant and equipment | **55** | 1,721 |
| | **5,055** | 7,491 |
| Research and development expenditure contracted for but not provided in the financial statements | **14,488** | 13,153 |

## 38. 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$117,000 (2005: HK$119,000).

### 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$382,000 (2005: HK$131,000).

## 39. POST BALANCE SHEET EVENTS

**(a)** Pursuant to the consultancy agreement entered into between LifeTec Holdings and a consultant dated 14 March 2007, 3,000,000 options were granted to the consultant on the same date at an exercise price of HK$0.14 per share in relation to the scope of services as set out in note 33.

**(b)** On 3 April 2007, the Company issued 300,000,000 warrants (the "Warrants") at a placing price of HK$0.02 per warrant pursuant to a placing agreement entered into between the Company and an independent placing agent as detailed in the Company's announcement published on 21 March 2007. The Warrants carry the rights to subscribe up to HK$63,000,000 in aggregate in cash for shares in the Company at subscription price of HK$0.21 per share up to the maturity date on 2 April 2008.

**(c)** On 21 March 2007, the Group agreed to purchase a computerised system in relation to the operation and development of electronic gaming system from an independent third party amounted to US$344,000 (equivalent to HK$2,684,000).

**(d)** On 14 March 2007, the Company issued 2% convertible note in the aggregate principal amount of HK$33,000,000 (the "Note") pursuant to a subscription agreement entered into between the Company and an independent third party (the "Noteholder") as detailed in the Company's announcement published on 6 March 2006. The Note is convertible into fully paid ordinary shares with a par value of HK$0.01 each of the Company at subscription price of HK$0.12 per share at any time on or after 14 March 2007 and up to the maturity date on 14 March 2008.

## 40. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

| | Directors | | Associate | | A related party | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Management fee income from (note b) | **–** | – | **120** | 240 | **–** | – |
| Maintenance expenses paid to (note b) | **–** | – | **60** | 120 | **–** | – |
| Salaries and allowances (note a & b) | **–** | – | **–** | – | **50** | – |
| Amount due from (note c & d) | **–** | – | **8,609** | 7,742 | **–** | – |
| Amounts due to (note c) | **1,383** | 1,124 | **–** | – | **663** | – |

Notes:

(a) The related party is the spouse of a director, Mr. Jay Chun.

(b) The transactions were charged at predetermined amount agreed between the parties involved.

(c) The amounts due are unsecured, interest free and have no fixed terms of repayment. No guarantees have been given or received.

(d) HK$867,000 (2005: HK$852,000) impairment has been made for the year for the amount due from an associate set out in note 19.

## 41. SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2006 are as follows:

| Name of subsidiary | Place of incorporation/ registration | Issued and fully paid share capital/ registered capital | Class of shares | Proportion of ownership interest | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | | Group's effective interest | Held by the Company | Held by subsidiaries | |
| Anica Limited | British Virgin Island | US$50,000 | Ordinary | 100% | – | 100% | Research and development of biopharmaceutical products |
| Asset Manager Enterprises Limited | Hong Kong | HK$100 | Ordinary | 100% | – | 100% | Property holding |
| CTI Limited | Hong Kong | HK$10 | Ordinary | 70% | – | 70% | Design and trading of home appliances |
| Gold Corner International Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Investment holding |
| Gold Eagle Technology Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Research and development of biopharmaceutical products |
| Golden Butterfly Investments Limited | British Virgin Islands | US$100 | Ordinary | 95% | – | 95% | Investment holding |
| Hainan Kangwei Medicine Co., Ltd. (note a) | PRC | RMB2,000,000 | Registered capital | 98.5% | – | 100% | Trading of biopharmaceutical products |
| Hop Fu (Hong Kong) Trading Company Limited | Hong Kong | HK$10,000 | Ordinary | 100% | – | 100% | Inactive |

## 41. SUBSIDIARIES (continued)

Particulars of the Group's subsidiaries as at 31 December 2006 are as follows: (continued)

| Name of subsidiary | Place of incorporation/ registration | Issued and fully paid share capital/ registered capital | Class of shares | Proportion of ownership interest: Group's effective interest | Proportion of ownership interest: Held by the Company | Proportion of ownership interest: Held by subsidiaries | Principal activities |
|---|---|---|---|---|---|---|---|
| LGH Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Research and development of biopharmaceutical products |
| LifeTec Enterprise Limited | Hong Kong | HK$100 | Ordinary | 100% | – | 100% | General trading and provision of management services |
| LifeTec Group (China) Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Inactive |
| LifeTec (Holdings) Limited | British Virgin Islands | HK$141,176 | Ordinary | 100% | 100% | – | Investment holding |
| LifeTec Pharmaceutical Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Investment holding |
| LT Card Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Investment holding |
| LT Capital Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Investment holding |
| LT Finance Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Investment holding |
| LT Game Limited | British Virgin Islands | US$4,100<br>US$900 (note 28) | Ordinary<br>Redeemable voting preference | 100% (note 28) | – | 100% (note 28) | Development of electronic gaming system |

## 41. SUBSIDIARIES (continued)

Particulars of the Group's subsidiaries as at 31 December 2006 are as follows: (continued)

| Name of subsidiary | Place of incorporation/ registration | Issued and fully paid share capital/ registered capital | Class of shares | Proportion of ownership interest Group's effective interest | Held by the Company | Held by subsidiaries | Principal activities |
|---|---|---|---|---|---|---|---|
| LT (Macau) Limited | Macau | MOP25,000 | Ordinary | 100% | – | 100% | Membership card service |
| LT Union Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Investment holding |
| Master Mind Technology Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Research and development of biopharmaceutical products |
| Shanghai Youheng Biotechnology Limited (note b) | PRC | HK$5,600,000 | Ordinary | 95% | – | 100% | Research and development of biopharmaceutical products |
| Sino Flow Investments Limited | British Virgin Islands | US$1 | Ordinary | 100% | – | 100% | Inactive |
| Sunny Link Trading Limited | Hong Kong | HK$2 | Ordinary | 100% | – | 100% | General trading |
| Weihai Genen Biotech Limited (note b) | PRC | US$2,000,000 | Registered capital | 100% | – | 100% | Research and development of biopharmaceutical products |
| Yip Hing Toys Manufactory Limited | Hong Kong | HK$100,000 | Ordinary | 100% | – | 100% | Inactive |

## 41. SUBSIDIARIES (continued)

Notes:

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

(b) The subsidiaries are established in the PRC as wholly owned foreign enterprises.

Apart from Hainan Kangwei Medicine 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.

## 42. ASSOCIATE

Particulars of the Group's principal associate as at 31 December 2006 are as follows:

| Name of associate | Issued and fully paid share capital | Place of incorporation | Proportion of ownership interest | Principal activities |
|---|---|---|---|---|
| LT3000 Online Limited | 3,023,314 ordinary shares of US$0.1 each | British Virgin Islands | 47.47% | Development and trading of computer hardware & software and provision of business consultancy |

## 43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2007.