



SANYUAN GROUP LIMITED
三元集團有限公司

(Stock Code: 0140)

Annual Report **2005**

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CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Wu Kwai Yung (*Chairman*)
Mr. Zhao Tie Liu (*Managing Director*)
Dr. Wan Kwong Kee

Independent Non-executive Directors:

Mr. Zhou Haijun
Mr. Ng Wai Hung
Mr. Xu Zhi

Company Secretary

Mr. Leung Hon Man

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank

Solicitors

Lovells
Kwok, Ng & Chan

Auditors

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Hong Kong

Registered Office

Suite 1429, 14/F
Ocean Centre
5 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Registrars and Transfer Office

Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

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NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Botticellis, 2/F, Langham Hotel, Hong Kong, 8 Peking Road, Tsimshatsui, Kowloon, Hong Kong, on Friday, 9 June 2006 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and reports of the directors and auditors for the year ended 31 December 2005;
2. To re-elect directors and to fix their remuneration;
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration;
4. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“**THAT** a general mandate be and is hereby unconditionally given to the directors of the Company to issue, allot and dispose of and to make or grant offers, agreements or options which might require the allotment, issue or disposal of shares not exceeding 20% of the issued share capital of the Company as at the date of the passing of this Resolution during the Relevant Period.

For the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (a) the conclusion of the next annual general meeting of the Company;
 - (b) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting; or
 - (c) the expiration of the period within which the next annual general meeting of the Company is required by law or the Company’s Articles of Association to be held.”; and
5. To transact any other ordinary business of the Company.

By order of the Board
Leung Hon Man
Company Secretary

Hong Kong, 28 April 2006

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his stead. A proxy needs not be a member of the Company.
2. To be valid, the form of proxy must be deposited at the Company's Share Registrars in Hong Kong, Secretaries Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong together with any power of attorney or other authority, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before that time for holding the meeting or adjourned meeting.
3. Concerning Resolution 2, Messrs. Zhou Haijun and Xu Zhi retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election in accordance with article 103 of the Company's Articles of Association. The following are the particulars of Mr. Zhou and Mr. Xu.

Mr. Zhou Haijin, aged 73, is an Independent Non-executive Director of the Company. He graduated from Suzhou Tung Wu University. He was formerly the Director of the National Institute for the Control of Pharmaceutical and Biological Products, the PRC from 1983 to 1999. At Present, Professor Zhou is a member of the Expert Committee on Biological Standardisation of the World Health Organisation, the Honorary President of National Institute for the Control of Pharmaceutical and Biological Products, the PRC and the Honorary President of Chinese Pharmaceutical Association. Professor Zhou, an acknowledged authority and source of information on pharmaceuticals and biopharmaceuticals in the PRC. He has made great contribution to the Company in the past and the Company believes that his particular skills and experience will allow him to continue to do so in the future. Mr. Zhou joined the Company in 2001.

Mr. Xu Zhi, aged 33, is an Independent Non-executive Director of the Company. Mr. Xu graduated from Hangzhou Institute of Electronic Engineering with a Bachelor degree in Economics in 1993. Mr. Xu is a certified public accountant and a certified public tax agent in the PRC as well as an international certified internal auditor. Mr. Xu has extensive experience in auditing PRC companies, both listed and unlisted. He is at present a department manager of a PRC consulting firm which provides quantitative surveying services for building materials. Mr. Xu joined the Company in 2004.

4. Concerning the matters set out in Resolution 4, a general mandate is being sought from members to authorise the allotment and issue of shares under the Listing Rules of the Stock Exchange of Hong Kong Limited in order to provide flexibility to the directors should it become desirable for the Company to exercise such powers.

As at the date of this notice, the Board comprises six Directors: Mr. Wu Kwai Yung, Mr. Zhao Tie Liu and Dr. Wan Kwong Kee are the Executive Directors; Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi are the Independent Non-executive Directors.

CHAIRMAN'S STATEMENT

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To the shareholders,

Dear Sir or Madam,

In the past few years, our business was hindered by heavy indebtedness. We had and were forced to dispose of most of our assets and part of our business to reduce this burden of indebtedness. Much efforts and resources were devoted to debt restructuring and very less was spent on business development.

However, in 2005 the situation changed. When you read the financial statements, you may find the Group's turnover increased, its assets size enlarged and most importantly was that the Group regained momentum in its business operation.

Based on the performance of Tianjin Jinshun Pharmaceutical Co., Ltd. in the past few months, we are optimistic that this Sino-foreign joint venture, a 60% owned subsidiary of the Company engaging in pharmaceutical distribution business will contribute a lot to the Group's income and results in 2006. GenePro Medical Biotechnology Ltd, a wholly owned subsidiary of the Company specializing in R&D and service in nucleic acid diagnostics, with the advantage of its less costly in-house-developed versions of tests will continue to grow steadily. Following the launching of its products, its income and profit will increase substantially.

While the trading of the Company's shares remain suspended, we believe that if we follow our business model and direction in pharmaceutical/healthcare and properties, our operation level and assets size will warrant the Company to resume trading of its shares in the near future.

Lastly, we would like to sincerely thank our customers, shareholders and staff for their understanding and support to the Company.

Yours sincerely,

Wu Kwai Yung

Chairman

Hong Kong, 21 April 2006

MANAGEMENT DISCUSSION & ANALYSIS

Overview

The financial position, performance and level of operations of the Group improved considerably in 2005 as the Group recorded a significant increase in turnover and a consolidated net profit. The balance of total assets also increased substantially during the year under review.

Financial Results

The Group recorded a turnover of approximately HK\$11,207,000 and a profit for the year attributable to equity holders of the Company of approximately HK\$12,278,000 for the year ended 31 December 2005. An increase of 858.7% in turnover as compared to 2004 was due to the operation of the pharmaceutical business of the 60% owned subsidiary in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") commenced at the end of November 2005.

The net profit of the Group dropped in 2005 by 94.3% to approximately HK\$12,278,000 as there was a gain on discharge of bank and other indebtedness of HK\$217,415,000 recorded in 2004 but not in 2005.

There were three subsidiaries of the Company being wound up by the Group in February 2005 pursuant to the settlement agreements entered into between the Group and Bank of China (Hong Kong) Limited ("BOC") in 2004. As such, the Group recorded a reversal of losses of subsidiaries on deconsolidation of approximately HK\$13,021,000. Besides, the Group also recorded a gain on forfeitures of two deposits received in previous years in a total sum of HK\$8,700,000 as the Group reached settlements with the respective creditors in March 2005.

Staff cost of the Group kept on dropping and decreased by 25.2% to approximately HK\$4,057,000. However, other operating expenses increased by approximately 28.7% or HK\$1,467,000 mainly due to non-recurrent expenses including professional fees incurred by the Group and setting-up expenses of Tianjin Jinshun during the year.

Review of Operations

Hong Kong

In 2005, the operation in Hong Kong accounted for approximately 8.7% (2004: 100.0%) of the total turnover of the Group. It was the turnover contributed by the pharmaceutical and healthcare unit of the Group – GenePro Medical Biotechnology Ltd. ("GenePro"). The absolute turnover of GenePro decreased by 16.6% to approximately HK\$975,000 when GenePro started to market lower-price, but less costly in-house-developed versions of its test, instead of the higher-priced import versions. Nonetheless, the segment results of the Hong Kong segment has actually improved, at the same level of operation, as the cost control of GenePro in 2005 was more effective than in 2004. The Group expects GenePro's revenue and profit will greatly increase when its products are launched.

The PRC

Approximately 91.3% (2004: nil) of the turnover of the Group was generated by the Group's pharmaceutical distribution business in the PRC. In September 2005, the Group established Tianjin Jinshun with three independent third parties and owned as to 60% and 40% in the interests of Tianjin Jinshun respectively. This 60% owned PRC subsidiary commenced operation at the end of November 2005 and engaged principally in distribution of pharmaceutical products. Within the month of December in 2005, this subsidiary generated a turnover of approximately HK\$10,232,000.

MANAGEMENT DISCUSSION & ANALYSIS

Although Tianjin Jinshun recorded a minimal profit in the year 2005 as a whole, based on only one month's revenue and as a result of setting-up expenses, the Group's share of profit from this subsidiary was compensated by the profit guaranteed by the other two equity partners. In the long term, however, the Group expects that Tianjin Jinshun will provide the Group with steady income.

Save for the formation of Tianjin Jinshun and the winding up of three former subsidiaries, there were no significant changes in respect of other activities of the Group as compared to 2004 and no material acquisitions and disposals of subsidiaries and associates during 2005.

Liquidity and Financial Resources

As at 31 December 2005, the Group had total assets of approximately HK\$38,461,000 (2004: HK\$2,729,000), among which, HK\$37,861,000 (2004: HK\$2,086,000) were current assets comprised mainly of trade and other receivables of HK\$15,513,000, bank balance and cash of HK\$17,369,000.

After the deconsolidation of the three former subsidiaries, the Group had borrowings of HK\$1,244,000 as at the end of 2005. Total liabilities of the Group amounted to approximately HK\$64,023,000 were all classified as current liabilities. Among the total liabilities, approximately HK\$25,663,000 was the fair value of the liability component of a zero-coupon convertible note in the principal amount of HK\$30 million (the "Note"). The Note was issued to the controlling shareholder of the Company which will be mandatorily and automatically converted into ordinary shares of the Company upon, *inter alia*, the trading of the shares of the Company resumes. Although the Note was regarded as current liabilities as at 31 December 2005, the maturity date of the Note has been extended by the Note holder further to 7 December 2007 after the year end date. The other current liabilities included mainly other borrowings of HK\$1,244,000, trade and other payables of HK\$18,266,000 and provisions of HK\$18,850,000.

The financial position of the Group as at 31 December 2005 significantly improved as compared to that of 31 December 2004. It is evidenced by: (i) the decrease in gearing ratio (total liabilities as a percentage of total assets) from 1,856.9% of the corresponding period to 166.5% at the end of 2005; and (ii) the improvement in current ratio from 4.1% as at 31 December 2004 to 59.1% as at 31 December 2005. Should the Note of HK\$30,000,000 mentioned above be converted, the Group would probably improve from net liabilities position to net assets position.

Most of the sales, sales-related costs and expense, and a portion of the assets and liabilities of the Group are denominated in Renminbi. Renminbi revenue and profit generated are applied to meet the Renminbi obligations of the Group. Other cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars. As such, no financial instruments had been used for hedging purpose. During the year, the Group had not been exposed to any material exchange rate fluctuation.

Charges on Assets

As at 31 December 2005, certain assets of the Group with aggregate carrying value of approximately HK\$266,000 were pledged to secure the Group's borrowing as compared to HK\$525,000 as at 31 December 2004.

MANAGEMENT DISCUSSION & ANALYSIS

Employee Remuneration Policy and Number of Employees

As at 31 December 2005, the Group employed 70 employees in Hong Kong and the PRC. The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and will be reviewed annually by the Remuneration Committee.

Contingent Liabilities

Details of the Group's contingent liabilities as at 31 December 2005 are set out in note 28 to the financial statements.

Prospects

In 2006, the Group will operate in full gear to elevate its operation level and increase its assets. The business development of Tianjin Jinshun, as planned, would be benefited from the continuing growth of the pharmaceutical industry and products in the PRC and the government policies on improving healthcare. To capitalise these factors and opportunities in the market, the management will focus on:—

- (i) expanding the sales network in the Tianjin area and its geographical coverage;
- (ii) adjusting product mix to increase profitability;
- (iii) launching new products/services from GenePro;
- (iv) establishing a marketing/sales network based on GenePro and Tianjin Jinshun; and
- (v) seeking opportunities to collaborate with drug manufacturers/suppliers to achieve vertical integration.

With the expertise and personnel the Group possessed, the management is optimistic that the business plans will be materialised and the current operation of the Group will provide it with steady income and achieve a sustainable growth in the coming year.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Wu Kwai Yung, aged 55, is an Executive Director and the Chairman of the Company. Mr. Wu is also the president of Sanyuan Yinghui Investment Development Limited, a property development and investment company in the PRC, which is developing a large-scale property project in Dongguan, including one of the largest shopping malls in the PRC, the "South China Mall". Mr. Wu is very experienced in property investment and management. Moreover, Mr. Wu is also an entrepreneur and investor in other businesses that include properties, food manufacturing, and healthcare products. He has been a director of Weida Medical Applied Technology Company Limited ("Weida"), a company that is principally engaged in the manufacturing and sales of medical equipments, Weida is listed on the Shenzhen Stock Exchange. Mr. Wu resigned from Weida's board of directors in 2003, but he has kept a keen interest in biotechnology, in particular, biopharmaceuticals. Mr. Wu has been indispensable to the Company during its recovery phase and in its new development phase. He joined the Company in 2004.

Mr. Zhao Tie Liu, aged 48, is an Executive Director and the Managing Director of the Company. Mr. Zhao graduated from Tianjin University of Finance and Economics with a Bachelor degree of Economics in 1984 and obtained a Master degree in Business Administration from Oklahoma City University, the United States of America in 1990. Since then, Mr. Zhao had held positions in Tianjin University of Finance and Economics as lecturer, the Department of Accounting as deputy dean, and as division director of the Futures Supervision Division and Intermediary Supervision Division of China Securities Regulatory Commission at the Tianjin Regulatory Bureau. From early 2001 to the end of 2003, Mr. Zhao was the president of Weida. Mr. Zhao was responsible for overseeing the operation of Weida and formulating its overall corporate strategy. Mr. Zhao has witnessed the rapid growth of the pharmaceutical market, which was a result of the improvement of living standard of the people, modernization of the pharmaceutical industry, as well as the healthcare reforms in the PRC. He joined the Company in 2004 and was responsible for the successful establishment of the subsidiary of the Company, Tianjin Jinshun Pharmaceutical Co. Ltd. ("Tianjin Jinshun") in 2005, as well as the upgrading and expansion of its business.

Dr. Wan Kwong Kee, aged 60, is an Executive Director of the Company. Dr. Wan was a graduate of the University of Toronto and Queen's University in Canada. Following his post-doctoral research at the Salk Institute in California, he held professionships in Clinical Biochemistry at the University of Toronto Medical School, Biochemistry at the Toronto Sick Children Hospital Research Institute, Pharmacology at Northwestern University Medical School in Chicago, as well as lectureship in biology at the Hong Kong University of Science & Technology. Dr. Wan specialized in pharmacology and molecular biology, and he has taught and researched in these areas for the last 30 years. Before going back to studies in 1978, Dr. Wan was a licensed pharmacist in Canada and worked in retail drug stores, pharmaceutical factory and hospital pharmacies. In 1976, he was the Acting Chief Pharmacist at Whitby Hospital in Ontario, Canada. Through his involvement with drugs in the past 40 years, he is familiar with the pharmaceutical industry both in the PRC and abroad. In 1999, he left academia and established GenePro Laboratory (GenePro Medical Biotechnology Limited in 2001), which focuses on biotechnology and biopharmaceuticals. In 2000-2004, he was the Chairman of Bio-medical Group Limited (which changed its name to Sanyuan Group Limited in 2004). In 2000, China Bio-medical Group Limited formed a JV Company with Beijing Institute of Virology targeting on vaccines and biopharmaceuticals. In the same year, Dr. Wan led China Bio-medical Group Limited's ultimately unsuccessful negotiation with Nanjing Pharmaceutical Factory, in Nanjing, the PRC, but unsuccessfully, for a controlling interest in their drug manufacturing facilities. Dr. Wan and his group also provide the necessary link between pharmaceutical manufacturers abroad and Tianjin Jinshun in the PRC, which is part of the Group's plan to enhance the business of Tianjin Jinshun. They also furnish the much-needed knowledge in modern pharmaceuticals and biopharmaceuticals that are invaluable to Tianjin Jinshun and its expansion plans. Dr. Wan joined the Company in 2000.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Zhou Haijin, aged 73, is an Independent Non-executive Director of the Company. He graduated from Suzhou Tung Wu University. He was formerly the Director of the National Institute for the Control of Pharmaceutical and Biological Products, the PRC from 1983 to 1999. At Present, Professor Zhou is a member of the Expert Committee on Biological Standardisation of the World Health Organisation, the Honorary President of National Institute for the Control of Pharmaceutical and Biological Products, the PRC and the Honorary President of Chinese Pharmaceutical Association. Professor Zhou, an acknowledged authority and source of information on pharmaceuticals and biopharmaceuticals in the PRC. He has made great contribution to the Company in the past and the Company believes that his particular skills and experience will allow him to continue to do so in the future. Mr. Zhou joined the Company in 2001.

Mr. Ng Wai Hung Thomas, aged 42, is an Independent Non-executive Director of the Company. He is a practicing solicitor in Hong Kong and a partner in the Hong Kong law firm of Lu, Lai & Li. Mr. Ng joined the Company in 2000.

Mr. Xu Zhi, aged 33, is an Independent Non-executive Director of the Company. Mr. Xu graduated from Hangzhou Institute of Electronic Engineering with a Bachelor degree in Economics in 1993. Mr. Xu is a certified public accountant and a certified public tax agent in the PRC as well as an international certified internal auditor. Mr. Xu has extensive experience in auditing PRC companies, both listed and unlisted. He is at present a department manager of a PRC consulting firm which provides quantitative surveying services for building materials. Mr. Xu joined the Company in 2004.

Secretary

Mr. Leung Hon Man, aged 39, is the Company Secretary of the Company. He obtained a Master degree in Accounting from Central Queensland University, Australia and a Master degree in Business Administration from Andrews University, USA. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia. Mr. Leung has extensive experience in financial management, accounting and banking. He joined the Company in 2000.

Senior management

Dr. Chow Wing Cho, aged 52, is the director of the subsidiary of the Company, GenePro. Dr. Chow graduated from the Faculty of Medicine at Hong Kong University in 1977. He has obtained the diploma of child health (London) and is a member of the Royal College of Physicians of Ireland. He is also a fellow of the Hong Kong Academy of Medicine (Paediatrics). He has been a director of GenePro Laboratory since 1999. At present, he is a general practitioner and paediatrician in private practice and is also involved in the management of a private medical group (Humphrey & Partners Medical Services Limited) in Hong Kong. Dr. Chow joined the Group in 2001.

Mr. Zeng Chi Liang, aged 34, is the director of Tianjin Jinshun. Mr. Zeng graduated from South China University of Science and Technology with a Diploma in Computer and Application. Mr. Zeng also holds a Diploma in Business Administration from Huazhong University of Science and Technology in 2004. Before joining the Group, Mr. Zeng was the chief accountant in the business department, a financial officer in the suburban business department of the Dongguan branch of the Agricultural Bank of China, as well as a deputy manager of the customer service department of the Hotung branch of the Agricultural Bank of China. Mr. Zeng has extensive experiences in bank accounting, money management and customer service. Mr. Zeng's primary responsibility in Tianjin Jinshun will be to assist in bank affairs and finance related matters, as well as with investor and customer relationships. He joined the Group in 2005.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report together with the audited financial statements of Sanyuan Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment and pharmaceutical/healthcare business.

The analysis of the principal activities of the operations of the Group during the year are set out in note 30 to the accompanying financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2005, the five largest suppliers of the Group accounted for approximately 50.2% of the Group's total purchases while the five largest customers of the Group accounted for approximately 42.8% of the Group's total turnover. In addition, the largest supplier of the Group accounted for approximately 25.9% of the Group's total purchases whilst the largest customer of the Group accounted for approximately 12.7% of the Group's total turnover. None of the Directors, their associates, or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or the five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2005 are set out in the consolidated income statement on page 26 of this annual report.

No interim dividend was paid to the equity holders of the Company during the year.

The board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2005 (2004: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

	As at /For the year ended 31 December				
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
Results					
Turnover	<u>11,207</u>	<u>1,169</u>	<u>1,355</u>	<u>6,785</u>	<u>25,215</u>
Profit (Loss) from operations	12,544	225,898	125,949	(115,781)	(265,731)
Finance costs	(266)	(9,641)	(29,450)	(24,875)	(37,518)
Share of results of associates	<u>-</u>	<u>-</u>	<u>31</u>	<u>16</u>	<u>-</u>
Profit (Loss) before taxation	12,278	216,257	96,530	(140,640)	(303,249)
Taxation	<u>-</u>	<u>-</u>	<u>6</u>	<u>806</u>	<u>771</u>
Profit (Loss) for the year	<u>12,278</u>	<u>216,257</u>	<u>96,536</u>	<u>(139,834)</u>	<u>(302,478)</u>
Profit (Loss) attributable to equity holders of the Company	<u>12,278</u>	<u>217,547</u>	<u>96,232</u>	<u>(139,393)</u>	<u>(298,211)</u>
Assets and liabilities					
Property, plant and equipment	600	643	424	29,560	135,591
Goodwill	-	-	-	1,548	1,548
Interest in associates	-	-	45	12,010	23,074
Investment securities	-	-	-	1	1
Net current liabilities	(26,162)	(48,589)	(308,101)	(447,287)	(423,742)
Deferred taxation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(806)</u>
Net liabilities	<u>(25,562)</u>	<u>(47,946)</u>	<u>(307,632)</u>	<u>(404,168)</u>	<u>(264,334)</u>
Capital and reserves					
Share capital	19,078	19,078	6,201	6,201	1,240,285
Reserves	61,513	57,176	3,789	3,789	479,279
Accumulated losses	(111,922)	(124,200)	(318,912)	(415,144)	(1,985,325)
Total equity attributable to equity holders of the Company	<u>(31,331)</u>	<u>(47,946)</u>	<u>(308,922)</u>	<u>(405,154)</u>	<u>(265,761)</u>
Minority interests	<u>5,769</u>	<u>-</u>	<u>1,290</u>	<u>986</u>	<u>1,427</u>
	<u>(25,562)</u>	<u>(47,946)</u>	<u>(307,632)</u>	<u>(404,168)</u>	<u>(264,334)</u>

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of share capital of the Company are set out in note 22 to the accompanying financial statements.

CONVERTIBLE NOTE

Details of the convertible note issued by the Company are set out in note 20 to the accompanying financial statements.

SHARE OPTION SCHEME

A new Company's share option scheme (the "Scheme") was approved by shareholders of the Company on 29 June 2004. The Scheme is yet to take effect and is subject to the Listing Committee of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the approval of listing of and permission to deal in the shares of the Company which may be issued pursuant to the exercise of the options under the Scheme up to 10 per cent. of the total issued share capital of the Company as at the date of adoption of the Scheme. The following is a summary of the major terms of the Scheme:

- (i) The purpose of the Scheme is to provide the eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage the eligible participants to work towards enhancing the value of the Company and its shares of the Company for the benefit of the Company and the shareholders of the Company as a whole.
- (ii) Eligible participants of the Scheme include employees, directors (including executive, non-executive and independent non-executive directors), shareholders, advisors and consultants of the Group.
- (iii) The Scheme, unless otherwise cancelled or amended, shall be valid and effective for a period of ten years commencing on the adoption date of the Scheme.
- (iv) The overall limit on the number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30 per cent. of the shares of the Company in issue from time to time.
- (v) The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to any one eligible participant in any 12-month period must not exceed 1 per cent. of the shares of the Company in issue from time to time.
- (vi) The subscription price shall be determined by the Board of the Company in its absolute discretion and shall be no less than the highest of:
 - (a) the closing price of the share of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant;

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- (b) the average closing price of the share of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the 5 trading days immediately preceding the date of grant; or
 - (c) the nominal value of the share of the Company on the date of grant.
- (vii) The options must be taken up within 30 days from the date on which the letter containing the offer to the eligible participant to take up an option is delivered to the eligible participant upon payment of HK\$1 and are exercisable over a period to be determined and notified by the Board to each grantee.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in statement of changes in equity to the accompanying financial statements.

In the opinion of the Directors, the Company had no reserves available for distribution to equity holders at 31 December 2005 (2004: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2005.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 12 to the accompanying financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 11 to the accompanying financial statements.

BORROWINGS

Particulars of borrowings as at 31 December 2005 are set out in note 17 to the accompanying financial statements.

BORROWING COST CAPITALIZATION

No borrowing cost was capitalized by the Group during the year (2004: HK\$Nil).

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were:

Executive:

Mr. Wu Kwai Yung (*Chairman*)

Mr. Zhao Tie Liu (*Managing Director*)

Dr. Wan Kwong Kee

Independent Non-executive:

Mr. Zhou Haijun

Mr. Ng Wai Hung

Mr. Xu Zhi

In accordance with article 103 of the Company's Articles of Association, Messrs. Zhou Haijun and Xu Zhi retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The appointments of two of the Independent Non-executive Directors are not for specific terms. They are subject to retirement by rotation in accordance with the Company's Articles of Association.

None of the Directors has an unexpired contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

INTERESTS IN EQUITY SECURITIES OF THE DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2005, the interests of the Directors and the Company's chief executive in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Future Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), or which were recorded in the register required to be kept under section 352 of the SFO, were as follows:

Name of Director/ Chief Executive	Number of ordinary shares held	Nature of interest	Percentage of issued share capital
Wu Kwai Yung	643,835,616	Corporate (<i>Note 1</i>)	67.5%
Wu Kwai Yung	176,470,588	Corporate (<i>Notes 1,2</i>)	15.6%
Leung Hon Man	54	Nominee (<i>Note 3</i>)	0.0%

REPORT OF THE DIRECTORS

Note:

- (1) The corporate interest is held by Hong Jin Holdings Limited ("Hong Jin"), the controlling shareholder of the Company, which is owned as to 70% and 30% by Mr. Wu Kwai Yung and Mr. Wu Lui Yip, the son of Mr. Wu Kwai Yung, respectively.
- (2) These shares represent the number of new shares to be issued to Hong Jin upon full conversion of a zero coupon mandatory convertible note issued by the Company in the principal amount of HK\$30,000,000 which is convertible into new shares at an initial conversion price of HK\$0.17 per share.
- (3) Mr. Leung was authorised to hold the fractions of the consolidated Shares arising from the share consolidation effective on 18 October 2002.

Save as disclosed above, as at 31 December 2005, none of the Directors or their associates had any personal, family, corporate or other interest in the equity securities or debentures of, or has a short position in shares in the relevant share capital of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including the interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to herein.

INTEREST OF SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2005, the following interests (whether direct or indirect) of 5% or more of the Shares comprised in the share capital of the Company were recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Number of shares held	Approximate percentage of existing issued share capital of the Company
Hong Jin Holdings Limited	643,835,616 (Note 1)	67.5%
Hong Jin Holdings Limited	176,470,588 (Note 2)	15.6%

Note:

- (1) Hong Jin Holdings Limited, the controlling shareholder of the Company, which is owned as to 70% and 30% by Mr. Wu Kwai Yung and Mr. Wu Lui Yip, the son of Mr. Wu Kwai Yung, respectively.
- (2) These shares represent the number of new shares to be issued to Hong Jin upon full conversion of a zero coupon mandatory convertible note issued by the Company in the principal amount of HK\$30,000,000 which is convertible into new shares at an initial conversion price of HK\$0.17 per share.

REPORT OF THE DIRECTORS

According to the register of interests in shares and short positions kept by the Company under section 336 of the SFO and so far as was known to the Directors, other than the interests disclosed above, there was no other person (other than a director or chief executive of the Company) who, as at 31 December 2005, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in any options in respect of such capital.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

- (a) During the year, the Group had the following transactions with ReliaLab Medical Laboratory & X-Ray Centre Limited ("ReliaLab"). Dr. Wan Kwong Kee, a Director of the Company, and Mr. Chow Wing Cho, a director of a wholly-owned subsidiary of the Company, are also directors and indirect minority shareholders of ReliaLab.

	2005	2004
	HK\$'000	HK\$'000
Rental expenses recharged (note i)	(19)	(45)
Salaries received for shared staff (note i)	(14)	(52)
Salaries paid for shared staff (note i)	2	59
Management fee recharged (note i)	(6)	(12)
Electricity fee recharged (note i)	(1)	(6)
Testing fee expenses (note ii)	-	26
Laboratory testing service income (note ii)	(4)	(43)

Note:

- (i) These expenses were recharged/shared with reference to the actual expenses incurred.
- (ii) These transactions were carried out at market prices.
- (iii) The above transactions did not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.
- (b) On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, Director of the Company and director of the wholly-owned subsidiary of the Company, as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with monthly rental of HK\$11,250. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.

REPORT OF THE DIRECTORS

Apart from the foregoing, no contract of significance to which the Company or any of its subsidiaries was a party, in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained a sufficient public float as required by the Listing Rules.

AUDITORS

Moores Rowland were appointed as auditors of the Company on 22 February 2002. Messrs. Moores Rowland merged with Messrs. Mazars on 1 October 2003 and are now practicing under the name of Moores Rowland Mazars. Moores Rowland Mazars acted as auditors of the Company for the financial years ended 31 December 2003 and 31 December 2004 respectively and resigned on 9 February 2006.

RSM Nelson Wheeler were appointed as auditors of the Company on 10 February 2006.

The accompanying financial statements were audited by Messrs. RSM Nelson Wheeler. A resolution for the appointment of Messrs. RSM Nelson Wheeler as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board,

Wu Kwai Yung

Chairman

Hong Kong, 21 April 2006

CORPORATE GOVERNANCE REPORT

Corporate Governance

The Company and its Directors are committed to maintaining high standards of corporate governance practices. To comply with the code provisions of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix I4 of the Listing Rules and to enhance the corporate governance practices of the Group, two committees, namely Remuneration Committee and Audit Committee were established under the Board within the structure of corporate governance.

During the year, the Company has complied with most of the provisions of the CG Code with deviations from code provision A4.1 of the CG Code that two of the Independent Non-executive directors of the Company are not appointed for specific terms. However, all directors (executive and independent non-executive) are subject to retirement by rotation in accordance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less than exactly those in the CG Code.

Board of Directors

As at and throughout the year ended 31 December 2005, the Board consists of six Directors. Three of them were Executive Directors, namely Mr. Wu Kwai Yung, Mr. Zhao Tie Liu and Dr. Wan Kwong Kee and the remaining three were Independent Non-executive Directors, namely Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi.

Biographical details of the Directors are set out in the section headed "Profile of Directors and Senior Management" in the Report of the Directors.

The Board is responsible for setting corporate strategies and policies of the Group. Business operation and daily management are delegated by the Board to the two Executive Directors, Mr. Zhao Tie Liu and Dr. Wan Kwong Kee. Under the supervision and direction of the Executive Directors, the business plans and strategies are being implemented and executed.

Board meetings are called and convened as required to discuss Group's business and transactions. During the year, board meetings held and attendance record are set out as follows:—

Executive Directors	Attended
Mr. Wu Kwai Yung	3(4)
Mr. Zhao Tie Liu	3(4)
Dr. Wan Kwong Kee	3(4)
Independent Non-executive Directors	
Mr. Zhou Haijun	4(4)
Mr. Ng Wai Hung	1(4)
Mr. Xu Zhi	4(4)

In the Board, there are three Independent Non-executive directors with very much experience in legal and pharmaceutical industry and one of them has accounting and financial management expertise. As such, the Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules from each of the Independent Non-executive Directors and considers each of the Independent Non-executive Directors to be independent.

None of the Directors has any financial, business, family relationships with each other.

Roles of Chairman and Managing Director

Mr. Wu Kwai Yung is the Chairman of the Board and Mr. Zhao Tie Liu is the Managing Director of the Company. There is a clear distinction between the responsibilities of the Chairman and the Managing Director. The primary responsibilities of the Chairman are leading the Board and ensuring the Board operates effectively. The Managing Director is responsible for managing the business of the Group and overseeing the day-to-day operation of the Group.

Remuneration Committee

The Remuneration Committee was established in April 2005 and comprises three Independent Non-executive Directors and two Executive Directors. The members of the Remuneration Committee are as follows:

Mr. Zhou Haijun	<i>(Member, Independent Non-executive Director)</i>
Mr. Ng Wai Hung	<i>(Member, Independent Non-executive Director)</i>
Mr. Xu Zhi	<i>(Member, Independent Non-executive Director)</i>
Mr. Zhao Tie Lie	<i>(Member, Executive Director)</i>
Dr. Wan Kwong Kee	<i>(Member, Executive Director)</i>

The Remuneration Committee has adopted a set of terms of reference which is in line with the CG Code. The duties of the Remuneration Committee include the following: –

- (i) to make recommendations on the Group's policy and structure for the remuneration of the Directors and senior management;
- (ii) to determine the remuneration packages of the Directors and senior management; and
- (iii) to review and approve performance-based remuneration.

No Director or any of his associates will involve in deciding his own remuneration.

The remuneration package and policy of the Company primarily consist fixed base salary, discretionary bonus and share options. Details of emoluments of the Directors for the year are disclosed in note 7 to the financial statements.

CORPORATE GOVERNANCE REPORT

During the year, no meeting of the Remuneration Committee was held but it is expected the committee will meet at least once a year. A meeting of the Remuneration Committee will be convened in 2006.

Audit Committee

The Audit Committee was established in September 1999. In April 2005, the Company adopted a set of new terms of reference which is in line with the CG Code and set out the authority and duties of the Audit Committee.

The committee has three members and all of them are Independent Non-executive Directors:

Mr. Zhou Haijun	<i>(Chairman, Independent Non-executive Director)</i>
Mr. Ng Wai Hung	<i>(Member, Independent Non-executive Director)</i>
Mr. Xu Zhi	<i>(Member, Independent Non-executive Director)</i>

During the year, the Audit Committee met twice and the attendance record are set out as follows:–

Independent Non-executive Directors	Attended
Mr. Zhou Haijun	2(2)
Mr. Ng Wai Hung	0(2)
Mr. Xu Zhi	2(2)
In attendance	
Mr. Wu Kwai Yung	1(2)
Mr. Zhao Tie Liu	1(2)
Dr. Wan Kwong Kee	1(2)
External auditors	2(2)
Financial controller	2(2)

In these meetings, the Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2004 and the unaudited interim financial statement for the period ended 30 June 2005. At the request of the committee, the Group's external auditors have been engaged to carry out the audit of the audited annual financial statements and the review of the unaudited interim financial statements.

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Nomination of Directors

The Board is responsible for considering suitability of a candidate for directorship and making decision of appointing a director. Board meeting will be convened to discuss nomination of directors. The Board will review the qualifications of the candidate on the basis of his/her qualifications, experience, background, expertise and knowledge as well as the requirements under the Listing Rules.

No new director was appointed during the year ended 31 December 2005.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirms that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 December 2005.

External Auditors and Auditors' remuneration

Moore's Rowland Mazars was the auditors of the Group during the year ended 31 December 2005 and provided audit and review services to the Group. The Group also engaged RSM Nelson Wheeler to conduct a due diligence review during the year.

After the year end, Moore's Rowland Mazars, had tendered their resignation as the Auditors of the Company and its subsidiaries with effect from 9 February 2006 because the Company and Moore's Rowland Mazars could not agree on mutually acceptable completion date of audit. RSM Nelson Wheeler were appointed as the Auditors of the Company and its subsidiaries with effect from 10 February 2006 to fill the casual vacancy following the resignation of Moore's Rowland Mazars until the conclusion of the next annual general meeting of the Company. The annual financial statements for the year ended 31 December 2005 have been audited by RSM Nelson Wheeler.

During 2005, audit and review fee incurred by the Group amounted to approximately HK\$620,000. Non-audit services fee which was related to the due diligence review amounted to approximately HK\$920,000.

Financial reporting and internal control

Statements about the respective responsibilities of the Directors and auditors on the preparation of the financial statements are set out in the Auditors' Report. The Directors acknowledge that they are responsible for preparing the financial statement for the year ended 31 December 2005 and the financial statements have been prepared on a going concern basis.

During the year, the Board has reviewed with the Audited Committee the system of internal control of the Group.

AUDITORS' REPORT

RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

TO THE MEMBERS OF

SANYUAN GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 26 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental Uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation of financial statements adopted by the directors. As explained in note 2 to the financial statements, the Group had net current liabilities and capital deficiency of HK\$26,162,000 and HK\$25,562,000 respectively at 31 December 2005.

AUDITORS' REPORT

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Fundamental Uncertainty (Continued)

The financial statements have been prepared on a going concern basis, the validity of which depends upon the continuous financial support by the Group's ultimate holding company at a level sufficient to finance the Group's current activities. The Group's ultimate holding company has confirmed its willingness to finance the Group's current activities. Moreover, as stated in note 20 to the financial statements, the Group's ultimate holding company has extended the maturity date of the HK\$30,000,000 convertible note from 7 December 2006 to 7 December 2007. The circumstances relating to this fundamental uncertainty are described in note 2 to the financial statements. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's and the Group's affairs as at 31 December 2005 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

RSM Nelson Wheeler

Certified Public Accountants

Hong Kong

21 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	5(a)	11,207	1,169
Other income	5(b)	559	660
Changes in inventories		(9,932)	(418)
Depreciation		(384)	(321)
Staff costs		(4,057)	(5,424)
Other operating expenses		(6,570)	(5,103)
Reversal of losses of subsidiaries on deconsolidation	12	13,021	–
Gain on disposal of subsidiaries		–	21,492
Loss on disposal of an associate		–	(1)
Gain on forfeiture of deposits received	18(b)(c)	8,700	–
Allowance for doubtful trade and other receivables		–	(3,571)
Gain on discharge of bank and other indebtedness	17(a)(b)	–	217,415
Finance costs		(266)	(9,641)
Profit before taxation	6	12,278	216,257
Taxation	8	–	–
Profit for the year	9	12,278	216,257
Attributable to:			
Equity holders of the Company		12,278	217,547
Minority interests		–	(1,290)
		12,278	216,257
Earnings per share	10		
– Basic		1.3 HK cents	45.9 HK cents
– Diluted		1.2 HK cents	45.9 HK cents

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	600	643
Interests in deconsolidated subsidiaries	12	–	–
		<u>600</u>	<u>643</u>
Current assets			
Inventories	13	4,775	–
Other investments	14	–	581
Financial assets at fair value through profit or loss	15	204	–
Trade and other receivables	16	15,513	785
Bank balances and cash		17,369	720
		<u>37,861</u>	<u>2,086</u>
Current liabilities			
Borrowings	17	1,244	10,925
Trade and other payables	18	18,266	20,900
Provisions	19	18,850	18,850
Convertible note	20	25,663	–
		<u>64,023</u>	<u>50,675</u>
Net current liabilities		<u>(26,162)</u>	<u>(48,589)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(25,562)</u>	<u>(47,946)</u>
CAPITAL AND RESERVES			
Share capital	22	19,078	19,078
Reserves		61,513	57,176
Accumulated losses		(111,922)	(124,200)
Total equity attributable to equity holders of the Company		<u>(31,331)</u>	<u>(47,946)</u>
Minority interests		5,769	–
		<u>(25,562)</u>	<u>(47,946)</u>

Approved and authorised for issue by the Board of Directors on 21 April 2006.

Wu Kwai Yung
Director

Zhao Tie Liu
Director

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2005

The Group

	Attributable to equity holders of the Company							Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000 (Note 23)	Capital reserve HK\$'000	General reserve HK\$'000	Special capital reserve HK\$'000 (Note 23)	Accumulated losses HK\$'000	Total HK\$'000		
At 1 January 2004	6,201	–	3,571	200	18	(318,912)	(308,922)	1,290	(307,632)
Capital reserve realised upon disposal of subsidiaries	–	–	(3,571)	–	–	–	(3,571)	–	(3,571)
Transfer of recoveries of provision from accumulated losses as required under the Order on Petition	–	–	–	–	22,835	(22,835)	–	–	–
Profit for the year	–	–	–	–	–	217,547	217,547	(1,290)	216,257
Issue of share capital	12,877	34,123	–	–	–	–	47,000	–	47,000
At 31 December 2004 and 1 January 2005	19,078	34,123	–	200	22,853	(124,200)	(47,946)	–	(47,946)
Equity element of the convertible note	–	–	4,337	–	–	–	4,337	–	4,337
Net income recognised directly in equity	–	–	4,337	–	–	–	4,337	–	4,337
Profit for the year	–	–	–	–	–	12,278	12,278	–	12,278
Total recognised income for the year	–	–	4,337	–	–	12,278	16,615	–	16,615
Capital injection by minority shareholders in a subsidiary	–	–	–	–	–	–	–	5,769	5,769
At 31 December 2005	19,078	34,123	4,337	200	22,853	(111,922)	(31,331)	5,769	(25,562)

The Company

	Attributable to equity holders of the Company							Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000 (Note 23)	Capital reserve HK\$'000	General reserve HK\$'000	Special capital reserve HK\$'000 (Note 23)	Accumulated losses HK\$'000	Total HK\$'000	
At 1 January 2004	6,201	–	–	200	21,721	(117,855)	(89,733)	
Transfer of recoveries of provision from accumulated losses as required under the Order on Petition	–	–	–	–	22,835	(22,835)	–	
Profit for the year	–	–	–	–	–	7,527	7,527	
Issue of share capital	12,877	34,123	–	–	–	–	47,000	
At 31 December 2004 and 1 January 2005	19,078	34,123	–	200	44,556	(133,163)	(35,206)	
Equity element of the convertible note	–	–	4,337	–	–	–	4,337	
Net income recognised directly in equity	–	–	4,337	–	–	–	4,337	
Loss for the year	–	–	–	–	–	(1,361)	(1,361)	
Total recognised income and expenses for the year	–	–	4,337	–	–	(1,361)	2,976	
At 31 December 2005	19,078	34,123	4,337	200	44,556	(134,524)	(32,230)	

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES			
Cash used in operations	25(b)	(18,832)	(10,428)
Interest paid		(176)	–
		<u>(19,008)</u>	<u>(10,428)</u>
INVESTING ACTIVITIES			
Dividend received from an associate		–	47
Interest received		99	–
Net cash outflow from deconsolidation of subsidiaries	25(c)	(45)	–
Proceeds from disposal of financial assets at fair value through profit or loss		286	–
Proceeds from disposal of other investments		–	116
Payment for acquisition of property, plant and equipment		(341)	(576)
Proceeds from disposal of property, plant and equipment		–	43
		<u>(1)</u>	<u>(370)</u>
FINANCING ACTIVITIES			
Issue of share capital		–	47,000
Issue of convertible note		30,000	–
Capital injection in a subsidiary by minority shareholders		5,769	–
Repayment of bank borrowings		–	(35,412)
Repayment of other borrowings		(111)	(704)
		<u>35,658</u>	<u>10,884</u>
Net cash from financing activities			
NET INCREASE IN CASH AND CASH EQUIVALENTS		16,649	86
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		720	(49,972)
BANK OVERDRAFT DISCHARGED			
		–	50,606
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u>17,369</u>	<u>720</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		<u>17,369</u>	<u>720</u>

BALANCE SHEET

At 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	141	284
Interests in subsidiaries	12	8,007	–
		<u>8,148</u>	<u>284</u>
Current assets			
Other investments	14	–	581
Financial assets at fair value through profit or loss	15	204	–
Trade and other receivables	16	178	581
Bank balances and cash		10,939	649
		<u>11,321</u>	<u>1,811</u>
Current liabilities			
Borrowings	17	1,244	1,355
Trade and other payables	18	5,942	17,096
Provisions	19	18,850	18,850
Convertible note	20	25,663	–
		<u>51,699</u>	<u>37,301</u>
Net current liabilities		<u>(40,378)</u>	<u>(35,490)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(32,230)</u>	<u>(35,206)</u>
CAPITAL AND RESERVES			
Share capital	22	19,078	19,078
Reserves		83,216	78,879
Accumulated losses		(134,524)	(133,163)
Total equity attributable to equity holders of the Company		<u>(32,230)</u>	<u>(35,206)</u>

Approved and authorised for issue by the Board of Directors on 21 April 2006

Wu Kwai Yung
Director

Zhao Tie Liu
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. General

The Company was incorporated in Hong Kong as a limited liability company. Its ordinary shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Suite 1429, 14/F, Ocean Centre, 5 Canton Road, Tsimshatsui, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 12 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2. Basis of Preparation of Financial Statements

The Group had net current liabilities and capital deficiency of HK\$26,162,000 and HK\$25,562,000 respectively at 31 December 2005. The financial statements have been prepared on a going concern basis, the validity of which depends upon the continuous financial support by the Group's ultimate holding company at a level sufficient to finance the Group's current activities. The Group's ultimate holding company has confirmed its willingness to finance the Group's current activities. Moreover, as stated in note 20 to the financial statements, the Group's ultimate holding company has extended the maturity date of the HK\$30,000,000 convertible note from 7 December 2006 to 7 December 2007.

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

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations (hereinafter collectively referred to as new HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- presentation of financial statements (HKAS 1); and
- financial instruments (HKAS 32 and HKAS 39);

The impact of these changes in accounting policies is discussed below. The adoption of the new HKFRSs has no impact on basic and diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

(Continued)

HKAS 1 Presentation of Financial Statements

HKAS 1 affects the presentation of minority interests and other disclosures in the financial statements.

HKAS 32 Financial Instruments: Disclosure and Presentation &

HKAS 39 Financial Instruments: Recognition and Measurement

HKAS 32 Financial Instruments: Disclosure and Presentation requires retrospective application and primarily addresses the classification of a financial instrument issued by an entity and prescribes disclosure requirements of financial instruments. HKAS 39 Financial Instruments: Recognition and Measurement deals with recognition, measurement, derecognition of financial instruments and also prescribes requirements for hedge accounting. HKAS 39, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects of the adoption of the requirements of HKAS 32 and HKAS 39 are summarised below:

Investment securities

In 2004, the Group classified its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 Accounting for Investments in Securities (SSAP 24). Under the alternative treatment, investments in equity securities are classified as "trading securities" or as "non-trading securities". Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise while unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for that period. In accordance with HKAS 39, investments in equity securities are classified as either financial assets at fair value through profit or loss or as available-for-sale, and are measured at subsequent reporting dates at fair value. Changes in fair values of financial assets at fair value through profit or loss are recognised in profit or loss as they arise while changes in fair values of available-for-sale investments are generally recognised in equity. The Group has applied the transitional rules in HKAS 39. At 1 January 2005, the Group reclassified its trading securities (other investments) with a carrying amount of HK\$581,000 to financial assets at fair value through profit or loss. Apart from this, the adoption of the requirements of HKAS 39 in respect of equity investments has had no other impact on the accounts reported for the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. Adoption of New and Revised Hong Kong Financial Reporting Standards

(Continued)

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS – Int 4	Determining whether an Arrangement contains a Lease
HKFRS – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. *Principal Accounting Policies*

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements are prepared in accordance with the Companies Ordinance and include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared on the historical cost basis, except for equity instruments, which are measured at fair values, as explained in the principal accounting policies set out below.

(a) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sales and the Group's share of its net assets together with any goodwill, which have not been previously charged or recognised in the consolidated income statement.

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

4. *Principal Accounting Policies* (Continued)

(b) **Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(c) **Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. *Principal Accounting Policies* (Continued)

(d) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Laboratory testing service income is recognised in the period when services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(e) *Property, plant and equipment*

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

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives using the straight-line method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. *Principal Accounting Policies* (Continued)

(e) *Property, plant and equipment* (Continued)

The annual rates of depreciation are as follows:

Leasehold improvements	Over lease terms
Machinery and equipment	24%
Motor vehicles	20%
Furniture and fixtures	20% – 30%

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

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(f) *Impairment of assets*

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. *Principal Accounting Policies* (Continued)

(f) *Impairment of assets* (Continued)

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(g) *Financial instruments*

Financial assets and financial liabilities are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

4. *Principal Accounting Policies* (Continued)

(g) *Financial instruments* (Continued)

Investments (Continued)

Investments are classified as either financial assets at fair value through profit or loss or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are financial assets at fair value through profit or loss, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liability 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. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. *Principal Accounting Policies* (Continued)

(g) *Financial instruments* (Continued)

Convertible notes

Convertible notes that consist of a liability and an equity components are regarded as compound instruments. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes and the fair value assigned to the liability component, representing the embedded option for the holder to convert the note into equity of the Group, is included in equity (capital reserves).

Issue costs are apportioned between the liability and equity components of the convertible notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible note.

Borrowings

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate 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.

Trade and other payables

Trade and other payables are stated 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.

(h) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

4. *Principal Accounting Policies* (Continued)

(i) *Foreign currencies*

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. *Principal Accounting Policies* (Continued)

(j) **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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 can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable 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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. *Principal Accounting Policies* (Continued)

(k) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(l) **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(m) **Provisions and contingent liabilities**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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 of economic benefits 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. *Principal Accounting Policies* (Continued)

(n) *Related parties*

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(o) *Retirement benefit costs*

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

(p) *Events after the balance sheet date*

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

(q) *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or 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.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. Principal Accounting Policies (Continued)

(q) Segment reporting (Continued)

Segment revenue, expenses, results, 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. For example, segment assets may include, trade receivables and property, plant and equipment. 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 similar terms as those available to other external parties.

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.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

5. Turnover and Revenue

(a) Turnover and revenue

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sale and distribution of pharmaceutical products	10,232	–
Laboratory testing service income	975	1,169
	<u>11,207</u>	<u>1,169</u>
Other revenue (note 5(b))	442	–
Total revenue	<u>11,649</u>	<u>1,169</u>

(b) Other income

Interest income	99	–
Guarantee income earned (note 16(c))	343	–
Total other revenue	442	–
Holding gain on other investments	–	217
Profit on disposal of other investments	–	53
Gain on disposal of property, plant and equipment	–	7
Others	117	383
	<u>559</u>	<u>660</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6. Profit before Taxation

This is stated after charging (crediting):

	2005 HK\$'000	2004 HK\$'000
(a) Finance costs		
Interest on bank overdrafts and borrowings	–	9,332
Interest on other borrowings wholly repayable within five years	266	309
	266	9,641
(b) Other items		
Guarantee income paid (note 16(c))	36	–
Changes in fair value of financial assets at fair value through profit or loss	65	–
Realised loss on disposal of financial assets at fair value through profit or loss	26	–
Bad debt recovery	(16)	–
Contributions to defined contribution plans	119	108
Exchange gain	(19)	–
Auditors' remuneration	550	390
Operating lease charges on premises	797	581

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. Directors' and Senior Executives' Emoluments

Directors' emoluments disclosed pursuant to section 161 of the Companies Ordinance are as follows:

For the year ended 31 December 2005

Name of director	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefits scheme contributions HK\$'000	Total emoluments HK\$'000
<i>Executive directors</i>				
Mr. Wu Kwai Yung	–	120	6	126
Mr. Zhao Tie Liu	–	600	12	612
Dr. Wan Kwong Kee	–	600	12	612
<i>Independent non-executive directors</i>				
Mr. Zhou Haijun	80	–	–	80
Mr. Ng Wai Hung	80	–	–	80
Mr. Xu Zhi	50	–	–	50
	<u>210</u>	<u>1,320</u>	<u>30</u>	<u>1,560</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. Directors' and Senior Executives' Emoluments (Continued)

For the year ended 31 December 2004

Name of director	Fees HK\$'000	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments HK\$'000
		HK\$'000	HK\$'000	
<i>Executive directors</i>				
Mr. Wu Kwai Yung	–	31	1	32
Mr. Zhao Tie Liu	–	152	3	155
Dr. Wan Kwong Kee	–	842	12	854
Mr. Chan Peng Kwan	–	2,204	12	2,216
<i>Independent non-executive directors</i>				
Mr. Zhou Haijun	80	–	–	80
Mr. Ng Wai Hung	80	–	–	80
Mr. Xu Zhi	–	–	–	–
	<u>160</u>	<u>3,229</u>	<u>28</u>	<u>3,417</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: HK\$Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year (2004: HK\$Nil).

The five highest-paid individuals of the Group for the year included two (2004: two) directors whose emoluments have been disclosed above. The emoluments of these individuals other than directors are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and benefits in kind	1,176	1,119
Retirement scheme contributions	31	35
	<u>1,207</u>	<u>1,154</u>

The emoluments of the three (2004: three) highest-paid individuals other than directors fell within the HK\$Nil – HK\$1,000,000 band.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

8. *Taxation*

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the year (2004: HK\$Nil). Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	2005	2004
	HK\$'000	HK\$'000
Reconciliation of tax expense		
Profit before taxation	<u>12,278</u>	<u>216,257</u>
Income tax at applicable tax rate of 17.5% (2004: 17.5%)	2,149	37,845
Non-deductible expenses	1,617	3,317
Tax exempt revenue	(3,861)	(41,169)
Unrecognised tax losses	85	1,808
Unrecognised temporary differences	10	27
Utilisation of previously unrecognised tax losses	<u>-</u>	<u>(1,828)</u>
Tax charge for the year	<u>-</u>	<u>-</u>

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5% (2004: 17.5%).

9. *Profit for The Year*

Profit for the year attributable to equity holders of the Company includes a loss of approximately HK\$1,361,000 (2004: profit of HK\$7,527,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

10. Earnings per Share

The calculation of basic earnings per share for the year ended 31 December 2005 was based on the consolidated profit for the year attributable to equity holders of the Company of HK\$12,278,000 (2004: HK\$217,547,000) and the weighted average of 953,906,963 shares (2004: 473,668,922 shares) in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2005 was based on the consolidated profit for the year attributable to equity holders of the Company of HK\$12,278,000 (2004: HK\$217,547,000). The weighted average number of shares used in the calculation was 953,906,963 shares (2004: 473,668,922 shares) in issue during the year and the weighted average number of 45,930,701 shares (2004: Nil) assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary share in issue	953,906,963	473,668,922
Effect of dilution – weighted average number of ordinary shares to be issued upon full conversion of convertible note	45,930,701	–
	999,837,664	473,668,922

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

11. Property, Plant and Equipment
The Group

	Machinery and equipment	Motor vehicle	Leasehold improvements, furniture and fixtures	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation				
At 1 January 2004	115	245	1,737	2,097
Additions	–	–	576	576
Disposals/write-off	(115)	(245)	(329)	(689)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2004 and 1 January 2005	–	–	1,984	1,984
Additions	–	–	341	341
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2005	–	–	2,325	2,325
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Accumulated depreciation				
At 1 January 2004	97	245	1,331	1,673
Charge for the year	3	–	318	321
Disposals/write-off	(100)	(245)	(308)	(653)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2004 and 1 January 2005	–	–	1,341	1,341
Charge for the year	–	–	384	384
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2005	–	–	1,725	1,725
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book value				
At 31 December 2005	–	–	600	600
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2004	–	–	643	643
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

11. Property, Plant and Equipment (Continued) The Company

	Motor vehicles	Leasehold improvements, furniture and fixtures	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1 January 2004	245	445	690
Additions	–	280	280
Disposals/write-off	(245)	(87)	(332)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2004 and 1 January 2005	–	638	638
Additions	–	2	2
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2005	–	640	640
	<u> </u>	<u> </u>	<u> </u>
Accumulated depreciation			
At 1 January 2004	245	305	550
Charge for the year	–	115	115
Disposals/write-off	(245)	(66)	(311)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2004 and 1 January 2005	–	354	354
Charge for the year	–	145	145
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2005	–	499	499
	<u> </u>	<u> </u>	<u> </u>
Net book value			
At 31 December 2005	–	141	141
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2004	–	284	284
	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

12. Interests in Subsidiaries

The Group

	2005	2004
	HK\$'000	HK\$'000
Deconsolidated subsidiaries:		
Unlisted shares, at cost	8,395	–
Loans to subsidiaries	16,642	–
	25,037	–
Less: Impairments	(25,037)	–
	–	–

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

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

The Company

	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	1,000	1,000
Loans to subsidiaries	115,051	121,974
	116,051	122,974
Less: Impairments	(108,044)	(122,974)
	8,007	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

12. Investments in Subsidiaries (Continued)

Loans to subsidiaries are unsecured, interest-free and have no pre-determined repayment terms. The Company has agreed not to demand repayment from the subsidiaries before 1 January 2007.

Details of the subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid capital/ registered capital	Percentage of capital held by the Company		Principal activities
			Directly	Indirectly	
Beadle International Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Brilliant Team Investment Limited	Hong Kong	HK\$2	100%	–	Investment holding
GenePro Medical Biotechnology Limited	Hong Kong	HK\$1,000,000	100%	–	DNA testing services
Jet Quarter Limited	Hong Kong	HK\$2	–	100%	Inactive
Kimpo Investment Limited	Hong Kong	HK\$2	100%	–	Investment holding
Ontex Investment Limited	Hong Kong	HK\$2	100%	–	Investment holding
天津津順醫藥有限公司 (Tianjin Jinshun Pharmaceutical Co., Ltd.) ("Tianjin Jinshun")	People's Republic of China ("PRC")	RMB30,000,000	–	60%	Trading of pharmaceutical products

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. Inventories

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Finished goods – pharmaceutical products	<u>4,775</u>	<u>–</u>

The cost of inventories recognised as expense including material costs for service income amounted to HK\$9,932,000 (2004: HK\$418,000).

14. Other Investments

	The Group and the Company 2004 HK\$'000
At fair value and market value:	
Equity securities listed in Hong Kong	<u>581</u>

15. Financial Assets at Fair Value through Profit or Loss

	The Group and the Company 2005 HK\$'000
Equity securities listed in Hong Kong	<u>204</u>
Market value of listed securities	<u>204</u>

Certain of the financial assets at fair value through profit or loss are pledged to a securities broker to secure the borrowings granted by a securities broker (note 17(b)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

16. Trade and Other Receivables

	Note	The Group		The Company	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade receivables	16(a)	<u>10,790</u>	<u>136</u>	<u>–</u>	<u>–</u>
Other receivables					
Deposits, prepayment and other debtors		3,307	644	178	581
Due from a related company	16(b)	–	5	–	–
Due from minority shareholders of a subsidiary	16(c)	<u>1,416</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>4,723</u>	<u>649</u>	<u>178</u>	<u>581</u>
		<u>15,513</u>	<u>785</u>	<u>178</u>	<u>581</u>

- (a) The Group provides term credit to customers in accordance with the Group's established credit policies of 30 to 180 days (2004: 30 days). The ageing analysis of trade receivables is as follows:

	2005 HK\$'000	2004 HK\$'000
Within 1 month	10,751	110
1 – 2 months	26	7
2 – 3 months	5	3
3 – 6 months	1	–
6 – 12 months	1	5
Over 1 year	6	11
	<u>10,790</u>	<u>136</u>

Included in trade receivables are HK\$4,000 (2004: HK\$ Nil) due from two minority shareholders of a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

16. Trade and Other Receivables (Continued)

(b) Due from a related company

This represents amount due from ReliaLab Medical Laboratory & X-Ray Centre Limited ("ReliaLab"). Dr. Wan Kwong Kee, a director of the Company, and Dr. Chow Wing Cho, a director of a wholly-owned subsidiary of the Company, are also directors and hold beneficial interest in ReliaLab. The amount due is unsecured, interest-free and has no fixed repayment terms. The maximum amount outstanding during the year was HK\$50,000 (2004: HK\$63,000). At the balance sheet date, provision of HK\$Nil (2004: HK\$57,000) had been made in respect of the outstanding balance.

(c) Due from the minority shareholders of a subsidiary

According to the joint venture agreement ("JV Agreement") dated 28 April 2005 (as supplemented) entered into between the Group and 天津市醫藥公司 (Tianjin Shi Yi Yao Company) ("Party B"), 天津國津投資有限公司 (Tianjin Guo Jin Investment Company Limited) ("Party C") and 天津市河西區北京大藥房 (Tianjin Shi He Xi Qu Bei Fang Dai Yao Fang) ("Party D"), profit generated by Tianjin Jinshun will be shared among the parties based on their respective percentage interest in Tianjin Jinshun. As at the year end date, the Group, Party B, Party C and Party D owned 60%, 5%, 17.5% and 17.5% of the interest of Tianjin Jinshun respectively.

It is also agreed between the parties that profit after tax of Tianjin Jinshun for each of the first three years starting from the date of establishment of Tianjin Jinshun ("Guarantee Period") will not be less than RMB7,000,000 and the Group will be entitled to RMB4,200,000 in each year (or on pro rata basis, if less than one year).

Should the profit after tax of Tianjin Jinshun attributable to the Group fall short of RMB4,200,000 in any of the year during the Guarantee Period, Party C and Party D undertake to pay the Group jointly such shortfall in cash before 30 April in the following year.

It is provided in the JV Agreement that profit attributable to Party B's 5% equity interest in Tianjin Jinshun for each of the year ending 31 December 2005 and 2006 should not be less than RMB700,000. In case of any shortfall, Party B will be compensated by the Group as to 63.2% of such shortfall and jointly by Party C and Party D in equal share as to the remaining 36.8% of such shortfall.

During the year, the Group recognised a guarantee income receivable from Party C and Party D in the amount of HK\$343,000 and a payment of guarantee income to Party B in the amount of HK\$36,000 pursuant to the JV Agreement.

The balance of the amount due from the minority shareholders of a subsidiary represented the temporary cash advanced net of the expenses paid on behalf of the Group which is interest-free, unsecured and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. Borrowings

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank borrowings (note 17(a))				
Other bank borrowings				
– unsecured	–	9,570	–	–
Other borrowings (note 17(b))	<u>1,244</u>	<u>1,355</u>	<u>1,244</u>	<u>1,355</u>
	<u>1,244</u>	<u>10,925</u>	<u>1,244</u>	<u>1,355</u>

(a) Bank borrowings

Immediate before the settlement of the indebtedness due to BOC, the Group was indebted to BOC totalling HK\$262,616,000, representing (i) HK\$34,527,000 of bank borrowings originally secured on properties held by former subsidiaries sold to Singapore Hong Kong Properties Investment Limited ("SPI"), now renamed Landune International Limited and (ii) HK\$228,089,000 related to other bank borrowings raised by the Group. On 31 December 2003, SPI entered into a settlement agreement with BOC (the "SPI Settlement Agreement") whereby approximately HK\$34,527,000 of the indebtedness owed by the Group to BOC mentioned in (i) above would be discharged subject to satisfaction by SPI of certain conditions. The Group entered into the BOC Agreements, whereby the Group's indebtedness mentioned in (ii) above would be discharged upon the payment by the Group of HK\$35,412,000 and the performance by the Group of certain procedures, including the winding-up of certain of the Group's subsidiaries. The conditions for the discharge and release of the bank borrowings had been substantially satisfied at 31 December 2004 and bank indebtedness of HK\$249,639,000 after netting of the settlement amount of HK\$35,412,000, has been released and recognised as income in the financial statements for the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. Borrowings (Continued)

(b) Other borrowings

On 2 July 2004, the Company and a subsidiary of the Company entered into a settlement deed with the finance company in respect of the settlement of the principal amount and accrued interest due and payable to the finance company by the subsidiary in the amount of HK\$3,776,000. Pursuant to the settlement deed, the amount due to the finance company was discharged and released upon the payment to the finance company an aggregate sum of HK\$588,000. By 13 October 2004, the Group paid the settlement sum and the Group's obligations regarding the indebtedness of HK\$3,776,000 were discharged by the finance company. Gain on discharge of amount due to a finance company in the amount of HK\$3,188,000 has been recognised in the financial statements for the year ended 31 December 2004.

The amount as at 31 December 2005 represented an amount of HK\$1,244,000 (2004: HK\$1,355,000) due to a securities broker and bore interest at 14% per annum (2004: 14% per annum). The borrowing was secured by certain of the Group's financial assets at fair value through profit or loss with a net book value of approximately HK\$191,000 (2004: HK\$525,000).

18. Trade and Other Payables

	Note	The Group		The Company	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade payables	18(a)	11,680	239	-	-
Other payables					
Accrued charges and other creditors	18(c)	4,916	8,114	4,353	7,996
Accrued interest expenses		-	3,406	-	-
Convertible note deposit received	18(b)	-	7,200	-	7,200
Due to directors	18(d)	88	395	43	354
Due to a former related company	18(e)	1,546	1,546	1,546	1,546
Due to a minority shareholder of a subsidiary	16(c)	36	-	-	-
		6,586	20,661	5,942	17,096
		18,266	20,900	5,942	17,096

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

18. Trade and Other Payables (Continued)

(a) Trade payables

The ageing analysis of trade payables is as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Within 1 month	11,486	44
1 – 2 months	4	8
2 – 3 months	1	5
3 – 6 months	24	78
6 – 12 months	63	28
Over 1 year	102	76
	11,680	239

Included in trade payables was a sum of HK\$2,118,000 (2004: HK\$Nil) due to two minority shareholders of a subsidiary.

(b) Convertible note deposit received

On 15 May 2001, the Company entered into an agreement (the "Agreement") with an independent third party (the "Purchaser") under which the Company would issue convertible note of HK\$80,000,000 to the Purchaser on or before 30 June 2001. Such convertible note was unsecured, bore interest at 3% per annum and convertible (at the discretion of the Company) into ordinary shares of the Company at conversion price of HK\$0.22 per share.

The completion date of the Agreement was subsequently extended to 31 July 2001 and later to 18 September 2001 by mutual agreement. On 18 September 2001, the Company and the Purchaser entered into a supplemental agreement to amend certain terms of the convertible note. Under the supplemental agreement, the principal amount of the convertible note was increased from HK\$80,000,000 to HK\$100,000,000 and would be issued in three tranches. Deposits totalling HK\$7,200,000 were received in 2001. On 31 December 2001, the Purchaser informed the Company in writing that it would not proceed with the completion of the supplemental agreement in relation to the issue of the convertible notes.

On 14 March 2005, the Company entered into an agreement with the Purchaser pursuant to which both parties agreed to release each other of all liabilities and obligations, on the condition that the repayment of the deposit of HK\$7,200,000 paid by the Purchaser for the subscription under the supplemental agreement be waived. Accordingly, the deposit of HK\$7,200,000 was forfeited and recorded as the income for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

18. Trade and Other Payables (Continued)

(c) Accrued charges and other creditors

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

As a result of the above, the total amount of the deposits received of HK\$1,500,000 was forfeited and such amount was recorded by the Group as an income for the year.

(d) Due to directors

Details of amounts due to directors are as follows:

Name of director	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Mr. Wu Kwai Yung	43	354	43	354
Mr. Zhao Tie Liu	4	–	–	–
Dr. Wan Kwong Kee	41	41	–	–
	<u>88</u>	<u>395</u>	<u>43</u>	<u>354</u>

The amounts due are unsecured, interest-free and have no fixed repayment terms.

(e) Due to a former related company

The amount due is unsecured, interest-free and has no fixed repayment terms.

19. Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

20. Convertible Note

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

As at 31 December 2005, the Note had not been converted and on 7 April 2006 Hong Jin had exercised its discretion to extend the maturity date of the Note to 7 December 2007.

Under HKAS 32 and HKAS 39, the directors estimated the fair value of the convertible note at 31 December 2005 to be approximately HK\$25,663,000. This fair value has been calculated by discounting the future cash flows at the market rate. The equity element of the convertible note amounted to HK\$4,337,000 was recognised in the capital reserve for the year.

21. Deferred Taxation

The Group has not recognised deferred tax assets in respect of tax losses of HK\$107,296,000 (2004: HK\$111,595,000).

The Company has not recognised deferred tax assets in respect of tax losses of HK\$96,396,000 (2004: HK\$96,396,000).

The tax losses have no expiry date under current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

22. Share Capital

	2005		2004	
	No. of shares '000	Nominal value HK\$'000	No. of shares '000	Nominal value HK\$'000
Authorised:				
At 1 January and 31 December, at HK\$0.02 (2004: HK\$0.02) each	100,000,000	2,000,000	100,000,000	2,000,000
Issued and fully paid:				
At 1 January, at HK\$0.02 (2004: HK\$0.02) each	953,907	19,078	310,071	6,201
New shares issued	-	-	643,836	12,877
At 31 December, at HK\$0.02 each	953,907	19,078	953,907	19,078

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

23. Reserves

- (a) The application of share premium account is governed by section 48B of the Companies Ordinance.
- (b) As part of the capital reorganisation (“the Reorganisation”) (details of which are set out in the Company’s circular dated 1 August 2002), an Order on Petition dated 15 October 2002 (the “Order”) was issued by the High Court of the Hong Kong Special Administrative Region in connection with the reduction of the capital and the utilisation of the share premium account of the Company pursuant to which the Company undertook to the Court that any future recoveries by the Company in respect of certain provision for diminution in value beyond their written down value in the Company’s audited accounts for the period ended 31 December 2001 up to an overall aggregate amount of approximately HK\$990,320,000 will be credited to a special capital reserve. So long as there remains outstanding any debt of or claim against the Company which, if the date on which the reduction of capital and cancellation of the share premium account became effective (the “Effective Date”) were the date of the commencement of the winding up of the Company would have been admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an undistributable reserve of the Company for the purposes of section 79C of the Companies Ordinance (Cap. 32) or any statutory re-enactment of modification thereof provided that:
- (i) The Company shall be liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;
- (ii) The overall aggregate limit of special capital reserve of approximately HK\$990,320,000 may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount of the share premium account of the Company as the result of the issue of shares for new consideration or the capitalisation of distributable profits;
- (iii) The overall aggregate limit of special capital reserve of approximately HK\$990,320,000 may be reduced upon the realisation, after the Effective Date, of any of the assets identified in the Court Order by the amount of the total provision made in relation to each such asset as at 31 December 2001 less such amount (if any) as is credited to the said special capital reserve as a result of such realisation; and
- (iv) When the credit amount of the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (ii) and/or (iii) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

23. Reserves (Continued)

- (c) During the year, no provisions for diminution in value of investment in subsidiaries and inter-company balances as prescribed in the Order were recovered. Up to 31 December 2005, the Company has credited approximately HK\$44,556,000 (2004: HK\$44,556,000) to the special capital reserve, which reduced the overall aggregate limit of special capital reserve with the same amount. Such amount was further reduced by the issue of share capital of HK\$47,000,000 in 2004. As a result, the maximum amount to be credited to the special capital reserve was reduced to approximately HK\$898,764,000 (2004: HK\$898,764,000).
- (d) The Company has no reserves available for distribution to shareholders as at 31 December 2005 (2004: HK\$Nil).

24. Employee Share Options

A share option scheme (the "Scheme") was approved by shareholders of the Company on 29 June 2004. The Scheme is yet to take effect and is subject to the Listing Committee of the Stock Exchange granting the approval of listing of and permission to deal in the shares of the Company which may be issued pursuant to the exercise of the options under the Scheme up to 10 per cent of the total issued share capital of the Company as at the date of adopted of the Scheme.

25. Notes to Consolidated Cash Flow Statement

- (a) Included in the bank balances and cash of the Group, HK\$1,469,000 (2004: HK\$Nil) were denominated in Renminbi ("RMB"), which was not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. Notes to Consolidated Cash Flow Statement (Continued)

(b) Cash used in operations

	2005	2004
	HK\$'000	HK\$'000
Profit from ordinary activities before taxation	12,278	216,257
Interest income	(99)	–
Interest expenses	266	9,641
Depreciation	384	321
Gain on disposal of property, plant and equipment	–	(7)
Changes in fair value of financial assets at fair value through profit or loss	65	–
Realised loss on disposal of financial assets at fair value through profit or loss	26	–
Holding gain on other investments	–	(217)
Gain on disposal of other investments	–	(53)
Gain on discharge of bank and other indebtedness (note 16(a) &(b))	–	(217,415)
Gain on disposal of subsidiaries	–	(21,492)
Loss on disposal of an associate	–	1
Reversal of losses of subsidiaries on deconsolidation	(13,021)	–
Gain on forfeiture of deposits received	(8,700)	–
Allowance for doubtful trade and other receivables	–	3,571
Changes in working capital:		
Trade and other receivables	(14,728)	110
Trade and other payables	9,472	(1,142)
Inventories	(4,775)	–
Due to an associate	–	(3)
	<hr/>	<hr/>
Cash used in operations	(18,832)	(10,428)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. Notes to Consolidated Cash Flow Statement *(Continued)*

(c) *An analysis of the net cash outflow in respect of reversal of losses of subsidiaries on deconsolidation*

	2005	2004
	HK\$'000	HK\$'000
Net liabilities deconsolidated:		
Borrowings	(9,570)	–
Bank balances and cash	45	–
Trade and other payables	(3,496)	–
	<hr/>	<hr/>
	(13,021)	–
Reversal of losses of subsidiaries on deconsolidation	13,021	–
	<hr/>	<hr/>
	–	–
	<hr/> <hr/>	<hr/> <hr/>
An analysis of the net cash outflow in respect of reversal of losses of subsidiaries on deconsolidation		
	2005	2004
	HK\$'000	HK\$'000
Bank balances and cash deconsolidated	(45)	–
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

26. Related Party Transactions

- (a) In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with ReliaLab.

	2005	2004
	HK\$'000	HK\$'000
Rental expenses recharged (<i>note i</i>)	(19)	(45)
Salaries received for shared staff (<i>note i</i>)	(14)	(52)
Salaries paid for shared staff (<i>note i</i>)	2	59
Management fee recharged (<i>note i</i>)	(6)	(12)
Electricity fee recharged (<i>note i</i>)	(1)	(6)
Testing fee expense (<i>note ii</i>)	-	26
Laboratory testing service income (<i>note ii</i>)	(4)	(43)

- (i) These expenses were recharged/shared with reference to the actual expenses incurred.
- (ii) These transactions were carried out at market prices.
- (iii) The above transactions did not fall under the definition "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.
- (b) On 15 March 2004, a wholly-owned subsidiary of the Company as tenant entered into a tenancy agreement on normal commercial terms with Dr. Wan Kwong Kee, director of the Company and director of such wholly-owned subsidiary, as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with monthly rental of HK\$11,250. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempt from the reporting, announcement and independent shareholders' approval requirements.
- (c) During the year, the office premises occupied by Tianjin Jinshun was provided by the key management personnel of Tianjin Jinshun, Mr. Zhao Geng and Mr. Zhang Wei's spouse free of charge. The open market rental value of the office premises of Tianjin Jinshun for the year ended 31 December 2005 estimated by Mr. Zhao Geng and Mr. Zhang Wei was HK\$19,000 (2004: HK\$Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

26. Related Party Transactions *(Continued)*

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

	2005	2004
	HK\$'000	HK\$'000
Sales to Party B	2	–
Sales to Party D	2	–
Purchases from Party B	326	–
Purchases from a branch company of Party B and operated by Party C and Party D	3,803	–
	<u>3,803</u>	<u>–</u>

(e) Key management compensation paid during the year are disclosed a note 7 to the financial statements.

27. Commitments

Capital Commitment

	2005	2004
	HK\$'000	HK\$'000
Commitment in respect of capital injection in Tianjin Jinshun	9,591	–
	<u>9,591</u>	<u>–</u>

Pursuant to the JV Agreement, the Group has 60% equity interest in Tianjin Jinshun. The total investment cost of the Group in proportion to its respective interest in Tianjin Jinshun is RMB18,000,000. At 31 December 2005, the Group has fulfilled its investment obligation in Tianjin Jinshun to the extent of approximately RMB8,025,000.

Lease Commitment

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

	2005	2004
	HK\$'000	HK\$'000
Within one year	619	622
In second to fifth years inclusive	195	697
	<u>814</u>	<u>1,319</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

28. Contingent Liabilities

At 31 December 2005, the Group had the following contingent liabilities:

- (a) On 5 February 1999, the Company issued a writ against Core Pacific-Yamaichi International (H.K.) Limited ("Core Pacific") for (i) damages as a result of breaching a loan facility agreement dated 7 August 1998 of approximately HK\$120,000,000 (the "Facility"); (ii) damages as a result of breaching fiduciary duties as arranger and joint financial advisor under an agreement dated 6 August 1998; and (iii) an indemnity against all loss in relation to a purported supplemental deed dated 13 November 1998 (the "Supplemental Deed"). On 23 March 1999, Core Pacific issued a writ against the Company for interest of approximately HK\$4,000,000 and overdue interest together with other administrative expenses for approximately HK\$1,000,000 under the Facility and the Supplemental Deed. Of the HK\$5,000,000 claim, the directors consider that the HK\$1,000,000 claim is without merit. The remaining HK\$4,000,000 is still in dispute and has been provide for in the financial statements.
- (b) In relation to the SPI Settlement Agreement (note 17(a)), the Company is liable to a reinstatement of all liabilities and obligations under the corporate guarantees and the outstanding indebtedness owed by the Company to BOC when the settlement under the SPI Settlement Agreement is revoked, occurrence of which is not considered probable. Subsequently, the Group and BOC agreed pursuant to the BOC Agreements, in the event of the revocation of the SPI Settlement Agreement, the Company shall pay to BOC an additional sum of approximately HK\$223,000.
- (c) Pursuant to the two settlement deeds with creditor banks and SPI entered into in 2003 for the discharge and release of all the liabilities and obligations of the Company under guarantees given by the Company in respect of banking facilities extended to the subsidiaries of SPI, the releases are subject to reinstatement in the event that the settlements under these deeds are revoked, occurrence of which is not considered probable. The total amount of liabilities released by the creditor banks amounted to approximately HK\$37,136,000. During the year, the guarantee given to a creditor bank was released. Subsequent to the balance sheet date, the Group issued a letter to request another creditor bank to release the guarantee according to the terms of settlement deed.
- (d) Pursuant to the BOC Agreements, the Company is liable to a reinstatement of all liabilities and obligations under the guarantees and outstanding liabilities released and discharged when the BOC Agreements are revoked, occurrence of which is not considered probable. The total liabilities released under the BOC Agreements amounted to approximately HK\$215,112,000 and the settlement sum already paid for the settlement is approximately HK\$35,412,000.

The Group noted Landune International Limited had disclosed in note 23 to the financial statements contained in its annual report for the year ended 31 December 2004 that the principal terms of settlement set out in the SPI Settlement Agreement were substantially satisfied. Moreover, the Group has satisfied the conditions for the discharge and release of the bank borrowings as set out in the BOC Agreements (note 17(a)). In view of this, the directors consider that the revocation of SPI Settlement Agreement and BOC Agreements are remote and no provision was provided for note 28 (b) and (d) stated above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. Pension Scheme

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong since 1 December 2000. Monthly contributions are made to the scheme based on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to HK\$12,000 per annum. The contributions to the mandatory provident fund scheme vest immediately and fully as employees benefits once the contributions become payable by the Group. There is no forfeited contribution when employees leave the mandatory provident fund scheme.

In addition to the participation in the MPF Scheme, the Group is required to contribute to a defined contribution retirement scheme for its employees in the PRC based on the applicable basis and rates with the relevant government regulations. (i.e. 20% of the basic salary).

The only obligation of the Group with respect of the retirement benefit schemes is to make the required contributions under the respective schemes.

The Group's (employer's) contributions made during the year ended 31 December 2005 amounted to approximately HK\$119,000 (2004: HK\$108,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

30. Segment Information

(a) By business segments

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

	Property investment	Pharmaceutical and healthcare	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2005			
Sales revenue from external customers	—	11,207	11,207
Segment result	—	(218)	(218)
Unallocated operating income and expenses			12,762
Profit from operations			12,544
Finance costs			(266)
Profit before taxation			12,278
Taxation			—
Profit for the year			12,278
Other information			
Capital expenditures	—	339	339
Unallocated capital expenditures			2
			341
Depreciation	—	240	240
Unallocated depreciation			144
			384
Other unallocated non-cash revenue	—	—	21,721

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

30. Segment Information *(Continued)*

(a) By business segments *(Continued)*

	Property investment	Pharmaceutical and healthcare	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2004			
Sales revenue from external customers	–	1,169	1,169
Segment result	126,003	(881)	125,122
Unallocated operating income and expenses			100,776
Profit from operations			225,898
Finance costs			(9,641)
Profit before taxation			216,257
Taxation			–
Profit for the year			216,257
Other information			
Capital expenditures	–	298	298
Unallocated capital expenditures			278
			576
Depreciation	–	194	194
Unallocated depreciation			127
			321
Other non-cash expenses other than depreciation	–	57	57
Other non-cash revenue	(126,217)	–	(126,217)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

30. Segment Information (Continued)

(a) By business segments (Continued)

	Property investment	Pharmaceutical and healthcare	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2005			
Assets			
Segment assets	—	20,573	20,573
Unallocated assets			17,888
Total assets			38,461
Liabilities			
Segment liabilities	—	12,286	12,286
Unallocated liabilities			51,737
Total liabilities			64,023
Year ended 31 December 2004			
Assets			
Segment assets	45	589	634
Unallocated assets			2,095
Total assets			2,729
Liabilities			
Segment liabilities	12,977	398	13,375
Unallocated liabilities			37,300
Total liabilities			50,675

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

30. Segment Information (Continued)

(b) By geographic segment

The Group's operation are located in Hong Kong and the PRC. The analysis of the Group's sales by geographic segment is as follows:

	2005		
	HK\$'000		2004 HK\$'000
Hong Kong	875		1,169
The PRC	10,232		–
	<u>11,207</u>	<u></u>	<u>1,169</u>

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	12,790	2,729	81	576
The PRC	25,671	–	260	–
	<u>38,461</u>	<u>2,729</u>	<u>341</u>	<u>576</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

31. Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group operates mainly in Hong Kong and the PRC and is exposed to foreign exchange risk arising from RMB exposures primarily with respect to the Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(ii) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Company are classified on the balance sheet as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) *Credit risk*

The Group's principal financial assets are trade and other receivables and bank and cash balances, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's five largest customers contributed 42.8% of the turnover for the year and shared 45.9% of the trade receivables at 31 December 2005. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable of the receivables.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) *Cash flow interest-rate risk*

The Group's significant interest-bearing assets are bank deposits. The Group's interest income is dependent on changes in market interest rates and will not have significant adverse impact on the Group's financial position.

31. *Financial Risk Management* (Continued)

Financial risk factors (Continued)

(d) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalent to meet operational needs and possible investment opportunities.

32. *Critical Accounting Estimates and Judgements*

The Group's estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

Estimate of fair value convertible notes

The best estimate of fair value of the convertible notes is the interest rate charged for the borrowings in an active market. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) the interest rate for bank borrowing; and
- (ii) the interest rate for the existing borrowings obtained by the Group.

The Group uses assumptions that are mainly based on market conditions existing at each balance date.

Critical judgements in applying the entity's accounting policies

The Group has reversal of losses of subsidiaries on deconsolidation amounting HK\$13,021,000 in 2005. The Group believes that, based on past experience, no further cost or expenses would incurred and claims to be paid for those deconsolidated subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

33. *Pledge of Assets*

At 31 December 2005 the Company pledged the bank deposits of HK\$75,000 to a bank to secure a corporate credit card account and pledged certain financial assets of fair value through profit or loss to secure the other borrowings as stated in note 17.

34. *Comparative Figures*

As further explained in note 3 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified/restated to conform with the current year's presentation and accounting treatment.

35. *Ultimate Holding Company*

In the opinion of the directors of the Company, the parent and the ultimate holding company is Hong Jin Holdings Limited, a company incorporated in the British Virgin Islands in which Mr. Wu Kwai Yung held 70% beneficial interest in this parent and the ultimate holding company.

36. *Post Balance Sheet Events*

On 7 April 2006, Hong Jin, the holder of the Note exercised its discretion to extend the maturity date of the Note to 7 December 2007. Please refer to note 20 to the financial statements for details.