

annual  
report  
2006



**SANYUAN GROUP LIMITED**  
**三元集團有限公司**

(Stock Code: 0140)

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## BOARD OF DIRECTORS

### Executive Directors:

Mr. Wu Kwai Yung (*Chairman*)  
Mr. Zhao Tie Liu (*Managing Director*)  
Mr. Leung Hon Man  
(*Appointed on 21 November 2006*)  
Dr. Wan Kwong Kee  
(*Resigned on 3 April 2007*)

### 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

P. C. Woo & Co.

## AUDITORS

CCIF CPA Limited  
20/F, Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

## REGISTERED OFFICE

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

## REGISTRAR AND TRANSFER OFFICE

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

*To the shareholders,*

Dear Sir or Madam,

I am delighted to report to you that the Group recorded significant increases in turnover and total assets in 2006. Our pharmaceutical business in Tianjin, as we expected, performed very well and made a great contribution to the revenue and results of the Group within the year under review. At the same time, GenePro, our pharmaceutical and health care business unit in Hong Kong also achieved an encouraging growth in services income in spite of keen competition.

Having a mission to enhance our shareholders' value, my colleagues and I will focus on developing our existing core business and grasping business opportunities in the huge China pharmaceutical market. Some business plans have already been carried out in the first half of 2007. We expect that the Group could make excellent progress and improve overall profitability in this year.

As our resumption proposal has not been accepted, trading of our shares remains suspended. We are now seeking professional advice on next step to strive for resumption of trading of our shares.

I also take this opportunity to thank our customers, shareholders, staff and professional advisers for their continuous support to the Group.

Yours sincerely,

**Wu Kwai Yung**

*Chairman*

Hong Kong, 25 April 2007

## OVERVIEW

As the business activities of the Group in the PRC increased rapidly in 2006, the Group's financial position and level of operations improved and its total assets base expanded substantially accordingly.

## FINANCIAL RESULTS

The 60% owned subsidiary of the Company in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") operated for a full calendar year and our laboratory testing service business also recorded growth in 2006. As a result, consolidated turnover recorded by the Group for the year ended 31 December 2006 was approximately HK\$144,383,000 and increased almost 12 times from the previous year.

During the year, Hong Jin Holdings Limited ("Hong Jin"), the controlling shareholder of the Company exercised its discretion to extend the maturity date of a HK\$30 million zero-coupon convertible note (the "Note") to 7 December 2007. Accordingly, the Group recorded a gain on adjustment of amortised cost of the Note of HK\$3,375,000. The Group also recognised a guarantee income of HK\$2,775,000 receivable from two minority shareholders of Tianjin Jinshun and reversed provisions for legal claims and employee benefits of approximately HK\$1,828,000.

Administrative expenses dropped slightly by 1% to HK\$10,774,000 (2005: HK\$10,839,000) because of the various cost control measures adopted by the Company and the emoluments waived by certain Directors and managements.

Finance cost for the year ended 31 December 2006 was HK\$4,494,000 (2005: HK\$266,000) representing an increase of 1,589%. The increase was mainly attributable to the imputed interest incurred on the Note which had no cash outflow from the Group.

Consolidated loss reported for the year was HK\$1,484,000 as compared to a profit of HK\$12,278,000 in 2005 which included the gains of HK\$13,021,000 and HK\$8,700,000 arising from the reversal of losses of subsidiaries on deconsolidation and forfeiture of deposits received respectively recorded in 2005. Excluding these non-recurrent gains, the Group had actually reduced its loss in 2006.

Loss per share for the year was HK0.25 cents (2005: earnings per share of HK1.29 cents) because of the loss recorded for the year.

## REVIEW OF OPERATIONS

### The PRC

The Group's pharmaceutical business was affected by the control measures undertaken by the Chinese government on the pharmaceutical market and health institutions in early 2006. Governmental approvals for new pharmaceutical products also slowed down and the Group had to postpone its plan to introduce a number of new products into the market. Despite these circumstances, revenue contribution from the PRC segment enlarged substantially in 2006. Approximately 99.2% (2005: 91.3%) of the turnover of the Group was generated by the Group's pharmaceutical distribution business in the PRC.

### Hong Kong

During the year, the pharmaceutical and health care unit of the Group - GenePro Medical Biotechnology Limited ("GenePro") increased its market share in paternity/forensic testing sector and activities related to the more expensive and yet more complicated cases, it reported a growth of 24.6% in turnover and accounted for approximately 0.8% (2005: 8.7%) of that of the Group in 2006. Since GenePro had also developed its own technology which utilised raw material from suppliers rather than expensive testing kits from external sources, its gross profit margin improved during the year.

Save for the operation of Tianjin Jinshun for a whole calendar year in 2006, there were no significant changes in respect of other activities of the Group as compared to 2005 and no material acquisitions and disposals of subsidiaries and associates during 2006.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had total assets of approximately HK\$49,354,000 (2005: HK\$38,461,000), among which, HK\$48,805,000 (2005: HK\$37,861,000) were current assets comprised mainly of trade and other receivables of HK\$30,522,000, bank balance and cash of HK\$13,230,000.

Total liabilities of the Group amounted to approximately HK\$71,297,000 (2005: HK\$64,023,000) and all were classified as current liabilities at the year end. Among the total liabilities, approximately HK\$26,544,000 was the carrying amount of the Note. The Note was issued to Hong Jin and will be mandatory and automatically converted into ordinary shares of the Company upon, inter alia, the trading of the shares of the Company resumes. During the year, the maturity date of the Note has been extended by Hong Jin to 7 December 2007. The other current liabilities included mainly other borrowings of HK\$1,444,000, trade and other payables of HK\$25,773,000 and the provisions of HK\$17,402,000 made in previous years for employee benefits and legal claims etc.

## MANAGEMENT DISCUSSION & ANALYSIS

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The financial position of the Group further improved during the year ended 31 December 2006. The gearing ratio (total liabilities as a percentage of total assets) decreased to 144.5% at the end of 2006 (As at 31 December 2005: 166.5%). Current ratio improved from 59.1% to 68.5% as at 31 December 2006. 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 expenses, 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 2006, certain assets of the Group with aggregate carrying value of approximately HK\$255,000 were pledged to secure the Group's borrowing as compared to HK\$191,000 as at 31 December 2005.

### EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 31 December 2006, the Group employed 65 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 2006 are set out in note 32 to the financial statements.

## OUTLOOK

Our pharmaceutical business in Tianjin delivered substantial improvement in the Group's results in 2006. Looking forward to 2007, the Company will continue to focus on its core competencies in the pharmaceutical business in the existing area. It has always been the view that the Group, at the right time, would actually want to extend to the nearby areas to explore new market and launch its own pharmaceutical products in these areas. The Directors are considering restructuring the Group's business strategies in DNA testing business and establishing a similar business base in East China in Mid 2007. The management believes that, with the persistent business growth and the new business developments, the Group could maintain strong financial results in the coming years.

To support its business developments, the Group will continue to negotiate with the controlling shareholder and the regulators regarding a proposed rights issue on fully underwritten basis and to solicit investors in making investments in or providing funding to the Group.

Trading of the shares of the Company remains suspended as at the date hereof. The Stock Exchange had rejected the resumption proposal submitted by the Company. The Company is currently seeking advice from its legal advisers and financial advisers on what possible actions available to the Company. Should there be any material developments and information in respect of the application for resumption of trading of its shares, the Company will make announcements to inform the shareholders in due course.



## EXECUTIVE DIRECTORS

**Mr. Wu Kwai Yung**, aged 56, is an Executive Director and the Chairman of the Company. Mr. Wu is very experienced in property investment and management. He had developed the “South China Mall” in Dongguan, one of the largest shopping malls in the PRC. 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 49, 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 and was responsible for overseeing the operation of Weida and formulating its overall corporate strategy. 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.

**Mr. Leung Hon Man**, aged 40, is an Executive Director and 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.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Zhou Haijin**, aged 74, 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 43, 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 34, 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.

## SENIOR MANAGEMENT

**Mr. Zeng Zhi Liang**, aged 35, 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 deputy manager of the customer service department of the Hotung branch of the Agricultural Bank of China. Mr. Zeng has extensive experience in bank accounting, money management and customer service. Mr. Zeng's primary responsibility in Tianjin Jinshun is to assist in bank affairs and finance related matters, as well as with investor and customer relationships. He joined the Group in 2005.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Zhao Geng**, aged 44, is the director and a deputy general manager of Tianjin Jinshun. Mr. Zhao graduated in 1984 from the School of Pharmacy of the former Tianjin Second Medical College (now known as Tianjin Medical University). During 1984 to 1993, Mr. Zhao taught in the School of Pharmacy at the Tianjin Medical University as a lecturer. During 1993 to 2003, he worked as a business manager of Tianjin Zhongyao Group. Prior to the establishment of Tianjin Jinshun in 2005, Mr. Zhao was the business manager of the Tianjin Shi Yi Yao Company Jin Shun Branch Company. He was appointed as a director of Tianjin Jinshun in September 2005 and is responsible for marketing pharmaceutical products and supervision of the sales team. His specialties are antibiotics, parenteral nutritions and neuro-cardiovascular drugs. Mr. Zhao is well known in the Tianjin pharmaceutical business and has been dealing with the local government pharmaceutical regulatory units, hospitals and drug wholesalers/retailers since 1993. Based on his experience, Mr. Zhao's responsibilities at Tianjin Jinshun are marketing and as well as tenders. Mr. Zhao joined the Group in 2005.

**Mr. Zhang Wei**, aged 45, the director and a deputy general manager of Tianjin Jinshun. Mr. Zhang holds a Master degree of Business Administration from Tianjin Polytechnic University in the PRC. During 1982-2003, Mr. Zhang worked for various pharmaceutical companies and has more than 17 years of experience in dealing pharmaceutical products from drug manufacturers worldwide. From 2003 until joining Tianjin Jinshun in 2005, he worked as a business manager at Tianjin Shi Yi Yao Company Jin Shun Branch Company. Mr. Zhang is well known in the Tianjin pharmaceutical business and has extensive experience in the marketing of pharmaceuticals and the obtaining of dealership rights from foreign drug manufacturers which the Company believes will be invaluable to the future success of Tianjin Jinshun. Mr. Zhang joined the Group in 2005 and is responsible for marketing pharmaceutical products, supervision of the sales team and preparing tenders.

**Ms, Guan Jun**, aged 52, a deputy general manager of Tianjin Jinshun. Ms. Guan is a licensed pharmacist in the PRC, which entitles her to control and/or manage a drug business independently. She graduated with a chemistry degree from Tianjin Nankai University in 1983. In 1992, she studied at the School of Pharmacy at the former Tianjin Second Medical College (now known as Tianjin Medical University). Ms. Guan joined the People's Liberation Army in 1970 and worked in drug units of different Army medical units for more than 30 years. She has extensive experience in the manufacturing, distribution, usage and quality control of pharmaceuticals. Ms. Guan joined the Group in 2005 and is responsible for quality control and Good Supply Practice of pharmaceutical products of Tianjin Jinshun.

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 2006.

## PRINCIPAL ACTIVITIES

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

The principal activities and other particulars of the subsidiaries are set out on page 65.

## CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2006, the five largest suppliers of the Group accounted for approximately 59.2% of the Group's total purchases while the five largest customers of the Group accounted for approximately 53.0% of the Group's total turnover. In addition, the largest supplier of the Group accounted for approximately 25.7% of the Group's total purchases whilst the largest customer of the Group accounted for approximately 19.3% 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 2006 are set out in the consolidated income statement on page 27 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 2006 (2005: Nil).

# REPORT OF THE DIRECTORS

## 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				
	2006 HK\$'000	2005 HK\$'000 (Restated)	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)
<b>Results</b>					
Turnover	144,383	11,207	1,169	1,355	6,785
Profit/(Loss) from operations	3,979	12,544	225,898	125,949	(115,781)
Finance costs	(4,494)	(266)	(9,641)	(29,450)	(24,875)
Share of results of associates	–	–	–	31	16
(Loss)/Profit before taxation	(515)	12,278	216,257	96,530	(140,640)
Income tax expenses	(969)	–	–	6	806
(Loss)/Profit for the year	(1,484)	12,278	216,257	96,536	(139,834)
(Loss)/Profit attributable to equity holders of the Company	(2,421)	12,278	217,547	96,232	(139,393)
<b>Assets and liabilities</b>					
Property, plant and equipment	549	600	643	424	29,560
Goodwill	–	–	–	–	1,548
Interest in associates	–	–	–	45	12,010
Investment securities	–	–	–	–	1
Net current liabilities	(22,492)	(26,162)	(48,589)	(308,101)	(447,287)
Net liabilities	(21,943)	(25,562)	(47,946)	(307,632)	(404,168)
<b>Capital and reserves</b>					
Share capital	19,078	19,078	19,078	6,201	6,201
Reserves	(52,409)	(50,409)	(67,024)	(315,123)	(411,355)
Total equity attributable to equity holders of the Company	(33,331)	(31,331)	(47,946)	(308,922)	(405,154)
Minority interests	11,388	5,769	–	1,290	986
	(21,943)	(25,562)	(47,946)	(307,632)	(404,168)

## SHARE CAPITAL

Details of share capital of the Company are set out in note 26 to the accompanying financial statements.

## CONVERTIBLE NOTE

Details of the convertible note issued by the Company are set out in note 24 to the accompanying financial statements.

## SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 26(b) to the accompanying financial statements.

## RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated 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 2006 (2005: 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 2006.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 17 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 15 to the accompanying financial statements.

## BORROWINGS

Particulars of borrowings as at 31 December 2006 are set out in note 23 to the accompanying financial statements.

## BORROWING COST CAPITALISATION

No borrowing cost was capitalised by the Group during the year (2005: Nil).

## 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*)  
Mr. Leung Hon Man  
Dr. Wan Kwong Kee (*resigned on 3 April 2007*)

### **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. Wu Kwai Yung and Zhao Tie Liu retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

According to article 94 of the Company's Articles of Association, any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at such meeting. Mr. Leung Hon Man was appointed as Executive Director of the Company with effect from 21 November 2006. Accordingly, Mr. Leung Hon Man shall retire from his office at the forthcoming annual general meeting and, being eligible, offer himself 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 2006, 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 (Note 1)	67.5%
Wu Kwai Yung	176,470,588	Corporate (Notes 1,2)	18.5%
Leung Hon Man	54	Nominee (Note 3)	0.0%

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.



## REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2006, 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 2006, 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)	18.5%

Notes:

- (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.

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 2006, 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 2005, the Group had the following transactions with ReliaLab Medical Laboratory & X-Ray Centre Limited ("ReliaLab"). Dr. Wan Kwong Kee, the then Director of the Company, and Mr. Chow Wing Cho, the then director of a wholly-owned subsidiary of the Company, are also directors and indirect minority shareholders of ReliaLab.

	2006 HK\$'000	2005 HK\$'000
Rental expenses recharged ( <i>note i</i> )	-	(19)
Salaries received for shared staff ( <i>note i</i> )	-	(14)
Salaries paid for shared staff ( <i>note i</i> )	-	2
Management fee recharged ( <i>note i</i> )	-	(6)
Electricity fee recharged ( <i>note i</i> )	-	(1)
Laboratory testing service income ( <i>note ii</i> )	-	(4)

Notes:

- (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.

# REPORT OF THE DIRECTORS

- (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, the then Director of the Company and the then director of such wholly-owned subsidiary, as landlord in respect of the continued use and occupation of a property for a period of two years from 1 April 2004 to 31 March 2006 with monthly rental of HK\$11,250. On 31 March 2006, the tenancy agreement was further extended to 30 September 2006 with monthly rental remain unchanged. No more tenancy agreement was renewed after 30 September 2006 even the property was still used and occupied by the wholly-owned subsidiary. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempted from the reporting, announcement and independent shareholders' approval requirements.

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

Moore Rowland were appointed as auditors of the Company on 22 February 2002. Messrs. Moore Rowland merged with Messrs. Mazars on 1 October 2003 and are now practicing under the name of Moore Rowland Mazars. Moore 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 and acted as auditors of the Company for the financial year ended 31 December 2005.

RSM Nelson Wheeler resigned and CCIF CPA Limited were appointed as auditors of the Company on 24 November 2006.

The accompanying financial statements were audited by CCIF CPA Limited. A resolution for the appointment of CCIF CPA Limited 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, 25 April 2007

## 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 14 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 31 December 2006, the Board consists of seven Directors. Four of them were Executive Directors, namely Mr. Wu Kwai Yung, Mr. Zhao Tie Liu, Mr. Leung Hon Man and Dr. Wan Kwong Kee (resigned on 3 April 2007) 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.

According to the Articles of Association of the Company, all directors appointed to fill a casual vacancy or as an addition to the Board should be subject to election at the first general meeting after their appointment. All directors should also be subject to retirement by rotation pursuant to the Articles of Association of the Company.

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 Executive Directors, the executive management under the supervision of the Board. Under the supervision and direction of the Executive Directors, the business plans and strategies are being implemented and executed.

# CORPORATE GOVERNANCE REPORT

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:

<b>Executive Directors</b>	<b>Attended</b>
Mr. Wu Kwai Yung	5(5)
Mr. Zhao Tie Liu	5(5)
Dr. Wan Kwong Kee	2(5)
Mr. Leung Hon Man ( <i>appointed on 21 November 2006</i> )	1(1)

  

<b>Independent Non-executive Directors</b>	
Mr. Zhou Haijun	1(5)
Mr. Ng Wai Hung	0(5)
Mr. Xu Zhi	1(5)

Within 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. As at 31 December 2006, the members of the Remuneration Committee were 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 10 to the financial statements.

During the year, a meeting of the Remuneration Committee was held to review the remuneration policy and package of the Group.

## 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:

<b>Independent Non-executive Directors</b>	<b>Attended</b>
Mr. Zhou Haijun	2(2)
Mr. Ng Wai Hung	1(2)
Mr. Xu Zhi	2(2)
<b>In attendance</b>	
Mr. Wu Kwai Yung	1(2)
Mr. Zhao Tie Liu	2(2)
External auditors	2(2)
Financial controller	2(2)

In these meetings, the Audit Committee had 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 2005 and the unaudited interim financial statements for the period ended 30 June 2006. 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.

## 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.

During the year ended 31 December 2006, Mr. Leung Hon Man was appointed as Executive Director.

## 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 2006.

## EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

RSM Nelson Wheeler was the auditors of the Group until 23 November 2006 and provided audit and review services to the Group. The Group also engaged CCIF CPA Limited to provide non-audit services during the year.

RSM Nelson Wheeler, tendered their resignation as the Auditors of the Company and its subsidiaries with effect from 24 November 2006 because the Company and RSM Nelson Wheeler could not agree on the audit fee for the financial year ended 31 December 2006. CCIF CPA Limited were appointed as the Auditors of the Company and its subsidiaries to fill the casual vacancy following the resignation of RSM Nelson Wheeler until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 31 December 2006 have been audited by CCIF CPA Limited.

During 2006, audit fee incurred by the Group amounted to approximately HK\$403,000. Non-audit services fee which was related to review services and preparation of comfort letters amounted to approximately HK\$668,000.

## 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 Independent Auditor's Report. The Directors acknowledge that they are responsible for preparing the financial statement for the year ended 31 December 2006 and the financial statements have been prepared on a going concern basis.

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to help the Group to achieve business objective, safeguard assets against unauthorized use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure compliance with relevant legislation and regulations. The system is designed to manage risks of failure in operational systems and foster achievement of corporate objectives. The internal control system is subject to the review of the Audit Committee.

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



## COMMUNICATION WITH SHAREHOLDERS

The Board believes that general meetings are important occasions for communication and exchanging views with the shareholders. At the forthcoming annual general meeting, separate resolutions will be proposed for each substantially separate issue, including the re-election of individual retiring Directors.

In addition to the biographies of each of the Directors to be re-elected at the annual general meeting, procedures for and the rights of the shareholders to demand a poll are also included in the Company's circular to be despatched to the shareholders.



**CCIF**

**CCIF CPA LIMITED**

20/F Sunning Plaza  
10 Hysan Avenue  
Causeway Bay Hong Kong

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SANYUAN GROUP LIMITED

*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Sanyuan Group Limited (the "Company") set out on pages 27 to 84, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

# INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2(b) to the financial statements which indicates that the Group incurred consolidated loss attributable to equity holders of the Company of HK\$2,421,000 during the year ended 31 December 2006 and, as of that date, the Group reported consolidated net current liabilities of HK\$22,492,000 and net liabilities of HK\$21,943,000. These conditions, along with other matters as set forth in note 2(b) to the financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

### **CCIF CPA Limited**

*Certified Public Accountants*

Hong Kong, 25 April 2007

### **Fung Pui Cheung**

Practising Certificate Number P00755

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>Turnover</b>	7	<b>144,383</b>	11,207
Cost of sales		<b>(138,039)</b>	(9,937)
Gross profit		<b>6,344</b>	1,270
Other revenue	7	<b>9,318</b>	559
Selling and distribution costs		<b>(543)</b>	(40)
General and administrative expenses		<b>(10,774)</b>	(10,839)
Other operating expenses		<b>(366)</b>	(127)
Operating profit/(loss)		<b>3,979</b>	(9,177)
Reversal of losses of subsidiaries on deconsolidation	29	–	13,021
Gain on forfeiture of deposits received		–	8,700
Finance costs	8	<b>(4,494)</b>	(266)
(Loss)/profit before income tax	9	<b>(515)</b>	12,278
Income tax expenses	12	<b>(969)</b>	–
<b>(Loss)/profit for the year</b>		<b>(1,484)</b>	12,278
<b>(Loss)/profit attributable to:</b>			
Equity holders of the Company	13	<b>(2,421)</b>	12,278
Minority interests		<b>937</b>	–
		<b>(1,484)</b>	12,278
<b>Dividends</b>		–	–
<b>(Loss)/earnings per share attributable to the equity holders of the Company during the year</b>	14		
– basic		<b>(HK0.25 cents)</b>	HK1.29 cents
– diluted		<b>HK0.16 cents</b>	HK1.23 cents

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>Non-current assets</b>			
Property, plant and equipment	15	549	600
Available-for-sale investments	16	–	–
		<b>549</b>	<b>600</b>
<b>Current assets</b>			
Inventories	18	4,781	4,775
Trade and other receivables	19	30,522	15,513
Financial assets at fair value through profit or loss	20	272	204
Cash and cash equivalents	21	13,230	17,369
		<b>48,805</b>	<b>37,861</b>
<b>Current liabilities</b>			
Trade and other payables	22	25,773	17,886
Other borrowing	23	1,444	1,244
Convertible note	24	26,544	25,663
Provisions	25	17,402	19,230
Tax payable		134	–
		<b>71,297</b>	<b>64,023</b>
<b>Net current liabilities</b>		<b>(22,492)</b>	<b>(26,162)</b>
<b>Net liabilities</b>		<b>(21,943)</b>	<b>(25,562)</b>
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	26	19,078	19,078
Reserves		(52,409)	(50,409)
		<b>(33,331)</b>	<b>(31,331)</b>
<b>Minority interests</b>		<b>11,388</b>	<b>5,769</b>
<b>Total equity</b>		<b>(21,943)</b>	<b>(25,562)</b>

On behalf of the Board

Wu Kwai Yung  
Director

Zhao Tie Liu  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital HK\$'000	Share premium HK\$'000 (note 27(a))	Capital reserve HK\$'000 (note 24)	General reserve HK\$'000	Special capital reserve HK\$'000 (note 27(b))	Exchange fluctuation reserve HK\$'000	Statutory common reserve HK\$'000 (note 27(d))	Accumulated losses HK\$'000	Total reserves HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2005	19,078	34,123	-	200	22,853	-	-	(124,200)	(67,024)	-	(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 2005	-	-	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)	(50,409)	5,769	(25,562)
Representing											
Share capital	19,078	-	-	-	-	-	-	-	-	-	-
Reserves	-	34,123	4,337	200	22,853	-	-	(111,922)	(50,409)	-	-
	19,078	34,123	4,337	200	22,853	-	-	(111,922)	(50,409)	-	-
At 1 January 2006	19,078	34,123	4,337	200	22,853	-	-	(111,922)	(50,409)	5,769	(25,562)
Exchange realignment	-	-	-	-	-	421	-	-	421	-	421
Net income recognised directly in equity	-	-	-	-	-	421	-	-	421	-	421
Loss for the year	-	-	-	-	-	-	-	(2,421)	(2,421)	937	(1,484)
Total recognised income/ (expense) for 2006	-	-	-	-	-	421	-	(2,421)	(2,000)	937	(1,063)
Capital injection by minority shareholders in a subsidiary	-	-	-	-	-	-	-	-	-	4,682	4,682
Appropriation	-	-	-	-	-	-	88	(88)	-	-	-
At 31 December 2006	19,078	34,123	4,337	200	22,853	421	88	(114,431)	(52,409)	11,388	(21,943)
Representing											
Share capital	19,078	-	-	-	-	-	-	-	-	-	-
Reserves	-	34,123	4,337	200	22,853	421	88	(114,431)	(52,409)	-	-
	19,078	34,123	4,337	200	22,853	421	88	(114,431)	(52,409)	-	-

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss)/profit before income tax		(515)	12,278
Adjustments for:			
Interest income		(219)	(99)
(Gain)/loss arising from changes in fair value of financial assets at fair value through profit or loss		(68)	65
Realised loss on disposal of financial assets at fair value through profit or loss		–	26
Reversal of losses of subsidiaries on deconsolidation	29	–	(13,021)
Gain on forfeiture of deposits received		–	(8,700)
Depreciation		305	384
Impairment on receivables		22	–
Gain on adjustment of the amortised cost of convertible note		(3,375)	–
Imputed interest on convertible note		4,256	–
Interest expenses		200	266
Operating profit/(loss) before working capital changes		606	(8,801)
Increase in inventories		(6)	(4,775)
Increase in trade and other receivables		(15,031)	(14,728)
Increase in trade and other payables		7,887	9,366
(Decrease)/increase in provisions		(1,828)	106
Cash used in operations		(8,372)	(18,832)
Tax paid		(835)	–
Interest paid		–	(176)
<b>NET CASH FLOW USED IN OPERATING ACTIVITIES</b>		<b>(9,207)</b>	<b>(19,008)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		219	99
Net cash outflow from deconsolidation of subsidiaries	29	–	(45)
Proceeds from disposal of financial assets at fair value through profit or loss		–	286
Payment for acquisition of property, plant and equipment		(245)	(341)
<b>NET CASH FLOW USED IN INVESTING ACTIVITIES</b>		<b>(26)</b>	<b>(1)</b>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

(Continued)

Note	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of convertible note	–	30,000
Capital injection by minority shareholders in a subsidiary	4,682	5,769
Repayment of other borrowing	–	(111)
<b>NET CASH FLOW GENERATED FROM FINANCING ACTIVITIES</b>	<b>4,682</b>	35,658
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,551)</b>	16,649
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>17,369</b>	720
<b>EFFECT OF FOREIGN CURRENCY TRANSLATION</b>	<b>412</b>	–
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>13,230</b>	17,369
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	13,230	17,369



# BALANCE SHEET

AS AT 31 DECEMBER 2006

	Note	2006 HK\$'000	2005 HK\$'000 (Restated)
<b>Non-current assets</b>			
Property, plant and equipment	15	43	141
Interests in subsidiaries	17	–	8,007
		<b>43</b>	<b>8,148</b>
<b>Current assets</b>			
Other receivables	19	178	178
Financial assets at fair value through profit or loss	20	272	204
Due from subsidiaries	17	13,390	–
Cash and cash equivalents	21	218	10,939
		<b>14,058</b>	<b>11,321</b>
<b>Current liabilities</b>			
Other payables	22	5,139	5,562
Due to a subsidiary	17	1,796	–
Other borrowing	23	1,444	1,244
Convertible note	24	26,544	25,663
Provisions	25	17,402	19,230
		<b>52,325</b>	<b>51,699</b>
<b>Net current liabilities</b>		<b>(38,267)</b>	<b>(40,378)</b>
<b>Net liabilities</b>		<b>(38,224)</b>	<b>(32,230)</b>
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	26	19,078	19,078
Reserves	27	(57,302)	(51,308)
<b>Total equity</b>		<b>(38,224)</b>	<b>(32,230)</b>

On behalf of the Board

Wu Kwai Yung  
Director

Zhao Tie Liu  
Director

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 1. GENERAL INFORMATION

Sanyuan Group Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in selling and trading of pharmaceutical products and laboratory testing service.

The Company is a limited liability company incorporated in Hong Kong and its registered office is Suite 1429, 14/F., Ocean Centre, 5 Canton Road, Tsimshatsui, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 April 2007.

## 2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

### (a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, available-for-sale investments and convertible note, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

### (a) Basis of preparation *(Continued)*

- (i) *Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards/interpretations to existing standards have been published that are mandatory for the Group's accounting periods with effect from the next financial year that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, are effective for annual periods beginning on or after 1 January 2007. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.
- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and
- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

## 2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

### (a) Basis of preparation *(Continued)*

#### (ii) *Interpretation to existing standards that are not yet effective and not relevant for the Group's operations*

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods with effect from the next financial year but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and
- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

### (a) Basis of preparation *(Continued)*

#### (iii) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations or do not have a significant impact on the Group's consolidated financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation;
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
HKAS 39 Amendment	The Fair Value Option;
HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts;
HKFRS 6	Exploration for and Evaluation of Mineral Resources;
HKFRS 1 Amendment	First-time Adoption of Hong Kong Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
HKFRS-Int 4	Determining whether an Arrangement contains a Lease;
HK(IFRIC)-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.

### (b) Material uncertainties in respect of going concern

The Group sustained consolidated loss attributable to equity holders of the Company of HK\$2,421,000 (2005: profit of HK\$12,278,000) for the year ended 31 December 2006. At 31 December 2006, the Group had consolidated net current liabilities of HK\$22,492,000 (2005: HK\$26,162,000), net liabilities of HK\$21,943,000 (2005: HK\$25,562,000) and provisions of HK\$17,402,000 (2005: HK\$19,230,000).

## 2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN *(Continued)*

### (b) Material uncertainties in respect of going concern *(Continued)*

Notwithstanding going concerns and liquidity concerns arising from the consolidated net current liabilities as at 31 December 2006, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern in the foreseeable future. In the opinion of directors, the liquidity of the Group can be maintained in the coming year, after taking into account several measures adopted and to be adopted subsequent to the balance sheet date as further detailed below:

- (i) Hong Jin Holdings Limited ("Hong Jin"), the parent and ultimate holding company of the Company in which Mr. Wu Kwai Yung held 70% beneficial interest, had provided an irrevocable guarantee in which the Company and Hong Jin agreed to extend the maturity date of convertible note with principal amount of HK\$30,000,000 (note 24) to not earlier than 7 December 2008, subject to the approval from the Stock Exchange and independent shareholders of the Company;
- (ii) Hong Jin has committed to provide financial support to enable the Group to meet in full its liabilities as they fall due, both present and future;
- (iii) the directors are currently looking into the cases as mentioned in note 25(a)(ii) and (b) and seeking legal advice as to the possible outcome and appropriate course of action to be taken in relation to these two cases with the provision of HK\$14,850,000 already provided as at the balance sheet date; and
- (iv) the directors are planning to adopt various cost control measures to reduce various general and administrative and other operating expenses.

In the opinion of the directors, in light of the measures adopted, together with the expected results of other measures and arrangements in progress and as planned, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. In addition, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun"), the 60% subsidiary of the Group, is engaged in trading of pharmaceutical products and the business of which formed the major business activities for the Group as a whole. The directors believe that the future funding generated from Tianjin Jinshun will sufficiently improve the financial and cash flow position and maintain the Group's ability to continue as a going concern. Accordingly, the directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve the above and fail to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

#### (i) *Subsidiaries*

Subsidiaries are all 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.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (a) Consolidation *(Continued)*

#### (ii) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### (b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The directors consider the business segment as the primary segment and geographical segment as the secondary segment.

### (c) Foreign currency translation

#### (i) *Functional and presentation currency*

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

#### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Foreign currency translation *(Continued)*

#### (iii) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

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

### (d) Property, plant and equipment

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Property, plant and equipment *(Continued)*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the lease terms
Furniture and fixtures	20% to 30%
Motor vehicles	20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal is determined by comparing the proceeds with the carrying amount, and is recognised in the income statement.

### (e) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (f) Financial assets

The Group classifies its financial assets as financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Financial assets *(Continued)*

#### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### (ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Investment are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in income statement; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Financial assets *(Continued)*

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices in the ordinary course of business, less any estimated costs to be incurred to completion and disposal.

### (h) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicator that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

### (i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

### (j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (k) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

### (m) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### (o) Employee benefits

#### (i) *Retirement benefits scheme*

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operates in the Mainland of The People's Republic of China ("Mainland China") are required to participate in a pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the pension scheme.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Employee benefits *(Continued)*

#### (ii) *Employment leave entitlements*

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

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

#### (iii) *Bonus entitlements*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### (iv) *Share-based compensation*

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

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### (q) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.
- (ii) laboratory testing service income is recognised in the period when services are rendered.
- (iii) interest income, on a time proportion basis using the effective interest method.
- (iv) subsidy income is recognised as revenue when there is reasonable assurance that it will be received.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) **Borrowing costs**

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (s) **Leases**

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

### (t) **Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### (u) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) **Contingent liabilities and contingent assets** *(Continued)*

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (v) **Related parties**

For the purposes of these financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decision, or vice versa, or where the Group and the party are subject to common control. The Group's associates, joint ventures and key management are also considered to be related parties of the Group.

## 4. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, cash flow interest-rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

### (a) **Credit risk**

The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Deposits are placed with a major bank and the directors consider the credit risk for such is minimal.

At the balance sheet date, the Group has a certain concentration of credit risk as approximately 45.1% (2005: 45.9%) of the trade receivables was due from the five largest customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### (b) **Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash, other liquid assets and the ability to close market positions. The directors are of the opinion that adequate financial support is available from the ultimate holding company to meet the Group's liabilities as they fall due.

## 4. FINANCIAL RISK MANAGEMENT *(Continued)*

### (c) Cash flow and fair value interest rate risk

The Group's exposure to changes to interest rates is mainly attributable to its borrowings.

As the fixed deposits with banks are usually short-term in nature, the exposure is considered not significant. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate but may enter into interest rate hedging instruments in the future to hedge any significant interest rate exposure should the need arise.

### (d) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Renminbi. The Group monitors the net exposure and ensures that is kept to an acceptable level.

### (e) Fair values

All financial instruments are carried at amounts not materially different from their values as at the balance sheet date.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

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.

### (a) 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 sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (b) Impairments

Internal and external sources of information are reviewed by the Group at each balance sheet date to assess whether there is any indication that fixed assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the assets. Changes in facts and circumstances may affect the conclusion of whether an indication of impairment exists and result in revised estimates of recoverable amounts, which would affect profit or loss in future years.

Impairment losses on receivables are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the creditworthiness and past collection history of each individual customer. Any increase or decrease in impairment losses would affect profit or loss in future years.

## 6. SEGMENT INFORMATION

### (a) Business segments

No separate analysis of financial information by business segments is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of pharmaceutical and healthcare business.

### (b) Geographical segments

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

	Hong Kong		Mainland China		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:						
Sales to external customers	1,215	975	143,168	10,232	144,383	11,207
Segment results	(3,827)	11,606	1,406	672	(2,421)	12,278
Other segment information:						
Segment assets	1,037	12,790	48,317	25,671	49,354	38,461
Capital expenditure	55	81	190	260	245	341

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 7. TURNOVER AND OTHER REVENUE

Turnover and other revenue recognised during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Turnover		
Sales and distribution of pharmaceutical products	143,168	10,232
Laboratory testing service income	1,215	975
	<b>144,383</b>	11,207
Other revenue		
Reversal of provisions, net	1,828	–
Gain on adjustment of the amortised cost of convertible note	3,375	–
Gain arising from changes in fair value of financial assets at fair value through profit or loss	68	–
Bank interest income	219	99
Guarantee income earned	2,775	343
Subsidy income	863	–
Other income	190	117
	<b>9,318</b>	559
Total	<b>153,701</b>	11,766

Turnover represents the net invoiced value of goods sold, after allowances for trade discounts and returns.

## 8. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest expenses on other borrowing wholly repayable within five years	200	266
Imputed interest on convertible note	4,256	–
Other finance charges	38	–
	<b>4,494</b>	266

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 9. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after charging/(crediting) the following:

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 (Restated)
Staff costs, excluding directors' remuneration (note 10):		
Salaries, wages and allowances	<b>2,851</b>	2,505
Contributions to retirement benefit schemes	<b>79</b>	119
	<b>2,930</b>	2,624
Auditors' remuneration		
– Audit fee	<b>403</b>	550
– Non-audit fee	<b>668</b>	–
	<b>1,071</b>	550
Cost of inventories	<b>138,039</b>	9,937
Depreciation	<b>305</b>	384
Bad debt recovery	–	(16)
Guarantee payment paid	<b>366</b>	36
Loss arising from changes in fair value of financial assets at fair value through profit or loss	–	65
Minimum lease payments under an operating lease in respect of land and buildings	<b>1,280</b>	797
Impairment on receivables	<b>22</b>	–
Realised loss on disposal of financial assets at fair value through profit or loss	–	26
Bank interest income	<b>(219)</b>	(99)
Exchange loss/(gain), net	<b>134</b>	(19)
(Decrease)/increase in provisions	<b>(1,828)</b>	106
Gain on adjustment of the amortised cost of convertible note	<b>(3,375)</b>	–
Guarantee income earned	<b>(2,775)</b>	(343)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 10. DIRECTORS' AND MANagements' EMOLUMENTS

In accordance with the disclosure requirements of Section 161B of the Hong Kong Companies Ordinance, the aggregate amounts of emoluments paid to directors of the Company during the year are set out as follows:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Fees	<b>240</b>	210
Salaries and other allowances	<b>1,128</b>	1,320
Contributions to retirement benefit schemes	<b>31</b>	30
	<b>1,399</b>	1,560

Directors' fees disclosed above include HK\$240,000 (2005: HK\$210,000) paid to independent non-executive directors.

The Company did not grant any share options during the current and prior years.

As at 31 December 2006 and 2005, no share options were held by directors of the Company.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 10. DIRECTORS' AND MANagements' EMOLUMENTS *(Continued)*

### (a) Directors' emoluments

Details and movements of share options granted and exercised during the year are set out in note 26(b) to the financial statements.

The directors' emoluments are analysed as follows:

Name of directors	Note	Year ended 31 December 2006			Total HK\$'000
		Fees HK\$'000	Salary and other allowances HK\$'000	Contribution to retirement benefit schemes HK\$'000	
<b>Executive directors</b>					
Mr. Wu Kwai Yung		–	110	6	116
Mr. Zhao Tie Liu		–	351	12	363
Dr. Wan Kwong Kee	(ii)	–	600	12	612
Mr. Leung Hon Man	(i)	–	67	1	68
<b>Independent non-executive directors</b>					
Mr. Zhou Haijun		80	–	–	80
Mr. Ng Wai Hung		80	–	–	80
Mr. Xu Zhi		80	–	–	80
		240	1,128	31	1,399

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 10. DIRECTORS' AND MANagements' EMOLUMENTS (Continued)

### (a) Directors' emoluments (Continued)

Name of directors	Note	Year ended 31 December 2005			Total HK\$'000
		Fees HK\$'000	Salary and other allowances HK\$'000	Contribution to retirement benefit schemes HK\$'000	
Executive directors					
Mr. Wu Kwai Yung		–	120	6	126
Mr. Zhao Tie Liu		–	600	12	612
Dr. Wan Kwong Kee		–	600	12	612
Independent non-executive directors					
Mr. Zhou Haijun		80	–	–	80
Mr. Ng Wai Hung		80	–	–	80
Mr. Xu Zhi		50	–	–	50
		210	1,320	30	1,560

Notes:

- (i) appointed on 21 November 2006;
- (ii) resigned on 3 April 2007.

The above analysis includes two (2005: two) directors whose emoluments were among the five highest paid individuals in the Group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 10. DIRECTORS' AND MANagements' EMOLUMENTS (Continued)

### (b) Managements' emoluments

Details of the aggregate emoluments paid to three (2005: three) individuals whose emoluments were the highest in the Group and have not been included in the directors' emoluments above are set out below:

	2006 HK\$'000	2005 HK\$'000
Salaries and other allowances	765	1,176
Contributions to retirement benefit schemes	30	31
	<b>795</b>	<b>1,207</b>

The emoluments of the highest paid individuals fell within the following band.

	Number of individuals	
	2006	2005
Emolument band Nil – HK\$1,000,000	3	3

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

(d) During the year, certain directors and managements waived emoluments of HK\$758,000 (2005: Nil) as follows and have agreed to waive 2007 emoluments of HK\$223,000.

	2006 HK\$'000	2005 HK\$'000
Mr. Wu Kwai Yung	25	–
Mr. Zhao Tie Liu	312	–
Dr. Wan Kwong Kee	154	–
Mr. Leung Hon Man	267	–
	<b>758</b>	<b>–</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 11. RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the consolidated income statement represent contributions payable by the Group to the retirement benefit schemes and amounted to HK\$110,000 (2005: HK\$149,000). Contributions amounted to HK\$27,000 (2005: Nil) were payable to the retirement benefit schemes as at 31 December 2006 and 2005 and are included in trade and other payables. No forfeited contributions were utilised and no forfeited contributions were available to reduce future contributions as at 31 December 2006 and 2005.

## 12. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Taxation in the consolidated income statement represents:

	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax	–	–
PRC income tax		
– Current year	864	–
– Under-provision in prior year	105	–
Income tax expenses	969	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 12. INCOME TAX EXPENSES *(Continued)*

Below is a numerical reconciliation between income tax expenses in the consolidated income statement and aggregate tax expense at the domestic rates applicable to profits in respective territories concerned:

### Group – 2006

	2006 HK\$'000	2005 HK\$'000
(Loss)/profit before income tax	(515)	12,278
(Tax credit)/tax charge at the applicable tax rate of 17.5% (2005: 17.5%)	(90)	2,149
Effect of different tax rate	513	–
Under-provision in prior year	105	–
Income not subject to tax	(1,638)	(3,861)
Expenses not deductible for tax	1,182	1,617
Unrecognised temporary differences	5	10
Tax losses not recognised	892	85
Tax charge	969	–

The Group did not have any significant unprovided deferred income tax in respect of the current and prior years.

## 13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$5,994,000 (2005: loss of HK\$1,361,000) (note 27).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

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## 14. (LOSS)/EARNINGS PER SHARE

### (a) Basic

The calculation of basic (loss)/earnings per share for the year ended 31 December 2006 was based on the consolidated loss for the year attributable to equity holders of the Company of HK\$2,421,000 (2005: profit of HK\$12,278,000) and the weighted average of 953,906,963 shares (2005: 953,906,963 shares) in issue during the year.

### (b) Diluted

The calculation of diluted earnings per share for the year ended 31 December 2006 was based on the consolidated profit for the year attributable to equity holders of the Company of HK\$1,835,000 (2005: HK\$12,278,000) and the weighted average number of shares used in the calculation was 1,130,377,551 shares (2005: 999,837,664 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's convertible note.

#### (i) Profit attributable to equity holders of the Company (diluted)

	2006 HK\$'000	2005 HK\$'000
(Loss)/profit attributable to equity holders	(2,421)	12,278
Imputed interest on convertible note	4,256	–
Profit used for determining diluted earnings per share	1,835	12,278

#### (ii) Weighted average number of ordinary share (diluted)

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	953,906,963	953,906,963
Deemed issue of ordinary shares – convertible note	176,470,588	45,930,701
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,130,377,551	999,837,664

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 15. PROPERTY, PLANT AND EQUIPMENT

### Group

	Motor vehicle <i>HK\$'000</i>	Leasehold improvements, furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>			
At 1 January 2005	–	1,984	1,984
Additions	–	341	341
At 31 December 2005 and 1 January 2006	–	2,325	2,325
Additions	124	121	245
Exchange realignment	–	9	9
At 31 December 2006	124	2,455	2,579
<b>Accumulated depreciation</b>			
At 1 January 2005	–	1,341	1,341
Provided for the year	–	384	384
At 31 December 2005 and 1 January 2006	–	1,725	1,725
Provided for the year	19	286	305
Exchange realignment	–	–	–
At 31 December 2006	19	2,011	2,030
<b>Net book value</b>			
At 31 December 2006	105	444	549
At 31 December 2005	–	600	600

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Company

	Leasehold improvements, furniture and fixtures HK\$'000
<b>Cost</b>	
At 1 January 2005	638
Additions	2
<hr/>	
At 31 December 2005, 1 January 2006 and 31 December 2006	640
<b>Accumulated depreciation</b>	
At 1 January 2005	354
Provided for the year	145
<hr/>	
At 31 December 2005 and 1 January 2006	499
Provided for the year	98
<hr/>	
At 31 December 2006	597
<b>Net book value</b>	
At 31 December 2006	43
<hr/>	
At 31 December 2005	141
<hr/>	

## 16. AVAILABLE-FOR-SALE INVESTMENTS

### Group

	2006 HK\$'000	2005 HK\$'000
Unlisted investments		
At cost	3,362	25,037
Less: Provision for impairments	(3,362)	(25,037)
	-	-
<hr/>		



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 16. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Carrying amount of available-for-sale investments as at 31 December 2006 is analysed as follows:

	Cost HK\$'000	Provision for impairments HK\$'000	Carrying amount HK\$'000
Infinity Properties Limited	3,362	(3,362)	–

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 classified as available-for-sale investments with effect from that date. On reclassification, 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 ended 31 December 2005. The costs and provisions of interest in two former indirectly held subsidiaries of the Company have been written off during the year on completion of the winding up.

## 17. INTERESTS IN SUBSIDIARIES

### Company

	2006 HK\$'000	2005 HK\$'000
Unlisted investments, at cost	1,000	1,000
Less: Provision for impairments	(1,000)	(1,000)
	–	–
Due from subsidiaries	85,576	115,051
Due to a subsidiary	(1,796)	–
Less: Provision for impairments	(72,186)	(107,044)
	11,594	8,007
	11,594	8,007

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 17. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

(a) Details of the subsidiaries as at the balance sheet dates are as follows:

Name	Place of incorporation/ registration	Place of operation	Issued and fully paid capital/ registered capital	Percentage of capital held by the Company				Principal activities
				2006		2005		
				Directly	Indirectly	Directly	Indirectly	
Beadle International Limited	British Virgin Island	Hong Kong	US\$1	100%	–	100%	–	Investment holding
GenePro Medical Biotechnology Limited	Hong Kong	Hong Kong	HK\$1,000,000	100%	–	100%	–	Provision of DNA testing services
Jet Quarter Limited	Hong Kong	Hong Kong	HK\$2	–	100%	–	100%	Dormant
Kimpo Investment Limited	Hong Kong	Hong Kong	HK\$2	100%	–	100%	–	Investment holding
Ontex Investment Limited	Hong Kong	Hong Kong	HK\$2	100%	–	100%	–	Dormant
Tianjin Jinshun Pharmaceutical Co., Ltd. <sup>^</sup>	Mainland China	Mainland China	RMB30,000,000	–	60%	–	60%	Trading of pharmaceutical products
Jetson Consultants Limited	Hong Kong	Hong Kong	HK\$1	100%	–	–	–	Dormant
Jetstar Fareast Limited	Hong Kong	Hong Kong	HK\$1	100%	–	–	–	Dormant

<sup>^</sup> Sino-foreign owned equity joint venture

(b) The balances with subsidiaries are unsecured, interest-free and repayable on demand. In the last year, such amount was not expected to be repaid within one year from the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 18. INVENTORIES

### Group

	2006 HK\$'000	2005 HK\$'000
Finished goods	4,781	4,775

## 19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade receivables (note (a))	30,212	10,808	–	–
Less: Provision for impairments	(40)	(18)	–	–
	30,172	10,790	–	–
Other receivables, deposits and prepayments	350	3,307	178	178
Due from minority shareholders of a subsidiary (note (b))	–	1,416	–	–
	30,522	15,513	178	178

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 19. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

- (a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period ranging from 30 to 180 days (2005: 30 to 180 days). The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The ageing analysis of the Group's trade receivables was as follows:

	2006 HK\$'000	2005 HK\$'000 <i>(Restated)</i>
Within 90 days	20,337	10,782
91 days to 180 days	8,023	1
181 days to 365 days	1,819	1
Over 365 days	33	24
	<b>30,212</b>	10,808

Included in trade receivables is HK\$81,000 (2005: HK\$4,000) due from one (2005: two) minority shareholder(s) of a subsidiary.

Included in trade and other receivables in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

### Group

	2006 '000	2005 '000
Renminbi	30,381	14,768

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 19. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

- (b) According to the joint venture agreement ("JV Agreement") dated 28 April 2005 (as supplemented) entered into among 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 天津市河西區北方大藥房 (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 balance sheet 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 years ended 31 December 2006 and 2005 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.

The Group recognised a guarantee income receivable from Party C and Party D in the amount of HK\$2,775,000 (2005: HK\$343,000) and a payment of guarantee income to Party B in the amount of HK\$366,000 (2005: HK\$36,000) pursuant to the JV Agreement.

The balances with the minority shareholders of a subsidiary represent the temporary cash advance net of the expenses paid on behalf of the Group which is interest-free, unsecured and repayable on demand.

- (c) The carrying amounts of trade receivables, other receivables, deposits and prepayments approximated their fair value.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

### Group and Company

	2006 HK\$'000	2005 HK\$'000
Equity securities listed in Hong Kong	272	204
Market value of listed securities	272	204

Certain financial assets at fair value through profit or loss with carrying amount of approximately HK\$255,000 (2005: HK\$191,000) are pledged to a securities broker for the borrowing granted to the Company (note 23).

## 21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash at bank and in hand	13,230	7,290	218	860
Short term bank deposits	–	10,079	–	10,079
	13,230	17,369	218	10,939

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

### Group

	2006 '000	2005 '000
Renminbi	11,506	1,531

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 22. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)
Trade payables (note (a))	15,386	11,680	–	–
Other payables and accruals	4,589	6,082	4,292	5,519
Due to directors (note (b))	847	88	847	43
Due to minority shareholders of a subsidiary (note 19(b))	4,951	36	–	–
	<b>25,773</b>	17,886	<b>5,139</b>	5,562

Notes:

- (a) The ageing analysis of the Group's trade payables was as follows:

	2006 HK\$'000	2005 HK\$'000
Within 90 days	13,532	11,491
91 days to 180 days	1,437	24
181 days to 365 days	302	63
Over 365 days	115	102
	<b>15,386</b>	11,680

Included in trade payables is HK\$615,000 (2005: HK\$2,118,000) due to one (2005: two) minority shareholder(s) of a subsidiary.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 22. TRADE AND OTHER PAYABLES (Continued)

Notes: (Continued)

- (a) The ageing analysis of the Group's trade payables was as follows: (Continued)

Included in trade and other payables in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

### Group

	2006 '000	2005 '000
Renminbi	15,608	12,316

- (b) Details of amounts due to directors are as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Name of director</b>				
Mr. Wu Kwai Yung	100	43	100	43
Mr. Zhao Tie Liu	111	4	111	-
Dr. Wan Kwong Kee	294	41	294	-
Mr. Leung Hon Man	50	-	50	-
Mr. Zhou Haijun	82	-	82	-
Mr. Ng Wai Hung	130	-	130	-
Mr. Xu Zhi	80	-	80	-
	847	88	847	43

The amounts due are unsecured, interest free and repayable on demand.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 23. OTHER BORROWING

### Group and Company

	2006 HK\$'000	2005 HK\$'000
Other borrowing, secured	1,444	1,244

The amount as at 31 December 2006 represents an amount of HK\$1,444,000 (2005: HK\$1,244,000) due to a securities broker and bore interest at rates ranging from 14% to 15% (2005: 14%) per annum. The borrowing was secured by certain of the Group's financial assets at fair value through profit or loss with a carrying amount of approximately HK\$255,000 (2005: HK\$191,000) (note 20). The borrowing has been substantially settled on 12 February 2007.

## 24. 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 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.

On 7 April 2006 Hong Jin had exercised its discretion to extend the maturity date of the Note to 7 December 2007. The Note had not been converted during the years ended 31 December 2006 and 2005.

The Note was split into liability and equity components of HK\$25,663,000 and HK\$4,337,000 respectively upon initial recognition by recognising the liability component at its fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost and the equity component is recognised in the capital reserve.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 24. CONVERTIBLE NOTE *(Continued)*

The movement of the liability component of the Note for the year is as follows:

### Group and Company

	2006 HK\$'000	2005 HK\$'000
Liability component at the beginning of the year	25,663	–
Issue of convertible note	–	25,663
Interest charge	4,256	–
Gain on adjustment of the amortised cost	(3,375)	–
Liability component at the end of the year	<b>26,544</b>	25,663
Analysed for reporting purposes as:		
Current liability	<b>26,544</b>	25,663
Non-current liability	–	–
	<b>26,544</b>	25,663

The fair value of the liability component of the Note, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible note at the balance sheet date, approximate their corresponding carrying amount.

## 25. PROVISIONS

### Group and Company

	Legal claims HK\$'000	Employee benefits HK\$'000	Other HK\$'000	Total HK\$'000
At 1 January 2005	13,000	274	5,850	19,124
Charged to the income statement	–	106	–	106
At 31 December 2005 and 1 January 2006	13,000	380	5,850	19,230
Credited to the income statement	(1,600)	(228)	–	(1,828)
At 31 December 2006	11,400	152	5,850	17,402

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 25. PROVISIONS *(Continued)*

### Group and Company *(Continued)*

#### (a) *Legal claims*

- (i) On 5 February 1999, the Company issued a writ against an investment bank (the "Investment Bank") 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, the Investment Bank 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 considered that the HK\$1,000,000 claim was without merit. An amount of HK\$4,000,000 had already been provided for the year ended 31 December 1999.

Both Company and Investment Bank had subsequently filed their respective defence together with list of supporting documents to the High Court of Hong Kong Special Administrative Region (the "Court") on 9 February 2001. Since then, the proceedings had been inactive and neither party took any substantive steps in the proceedings.

On 11 July 2005, the Court gave consequential directions to both parties including the filing of consolidated statement of claim, consolidated defence and counterclaim and consolidated reply and defence to counterclaim, discovery of documents and exchange of witness statement.

Further on 6 December 2006, an agreement entered between the Company and the Investment Bank. The Company shall pay to the Investment Bank a sum of HK\$2,250,000 together with interest of approximately HK\$38,000 on or before 29 December 2006 which shall be deemed to have been in full and final settlement of the outstanding debt. However the Company defaulted the repayment of principal but only paid the interest on 29 December 2006.

Due to the failure of the repayment, the Investment Bank issued a writ against the Company for the breach of the settlement agreement on 15 February 2007. Further on 22 March 2007, after verbal negotiation with the Investment Bank, the Company's lawyer suggested to settle the case by ways of: (i) payment in the sum of HK\$2,250,000; (ii) payment of interest of approximately HK\$55,000 and (iii) payment of costs in the sum of HK\$95,000 to the Investment Bank. Subsequent to the balance sheet date on 23 March 2007, the Company repaid approximately HK\$2,400,000 and the Investment Bank has withdrawn its claim against the Company in the Court thereafter.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 25. PROVISIONS *(Continued)*

### Group and Company *(Continued)*

#### (a) Legal claims *(Continued)*

- (ii) On 14 May 2001, a body corporate issued a writ of summons and the accompanying statement of claim in the Court against the Company for the recovery of certain agency commission amount. The total claim was approximately HK\$8,500,000. The directors considered that the claim was without merit and the Company defended the action by filing defence on 26 June 2001 and a list of documents of the defendant on 5 September 2001. Since then no further action had been taken by both the body corporate and the Company. As a prudent measure, a provision of HK\$9,000,000 in respect of this claim was made (including principal of HK\$8,500,000 and expected fees/interests of HK\$500,000) for the year ended 31 December 2001.

In the directors' opinion, after taking appropriate legal advice, the Company has viable grounds to compel for an amicable settlement and discharge in favour of the Company. Up to the date of this report, no action has been taken by both the body corporate and the Company.

#### (b) Other

Other provision represents the provision of minimum use fee for the unissued convertible notes according to a convertible secured note purchase agreement with an independent third party on 16 March 2001.

Up to the date of this report, the Company has received no demand for the minimum use fee from the counterparty. After taking appropriate legal advice, the directors considered that a full write back is possible when the statutory limitation period is up.

## 26. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
100,000,000,000 ordinary shares of HK\$0.02 each	2,000,000	2,000,000
Issued and fully paid:		
953,906,963 (2005: 953,906,963) ordinary shares of HK\$0.02 each	19,078	19,078

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 26. SHARE CAPITAL *(Continued)*

- (a) There was no movement in the share capital of the Company for each of the years ended 31 December 2006 and 2005.

### (b) 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 26. SHARE CAPITAL *(Continued)*

### (b) Share options *(Continued)*

- (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;
  - (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.

## 27. RESERVES

### Company

		Share premium	Capital reserve	General reserve	Special capital reserve	Accumulated losses	Total
	Note	HK\$'000 (note a)	HK\$'000 (note 24)	HK\$'000	HK\$'000 (note b)	HK\$'000	HK\$'000
At 1 January 2005		34,123	-	200	44,556	(133,163)	(54,284)
Equity element of the convertible note	24	-	4,337	-	-	-	4,337
Loss for the year	13	-	-	-	-	(1,361)	(1,361)
At 31 December 2005 and 1 January 2006		34,123	4,337	200	44,556	(134,524)	(51,308)
Loss for the year	13	-	-	-	-	(5,994)	(5,994)
At 31 December 2006		34,123	4,337	200	44,556	(140,518)	(57,302)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 27. RESERVES *(Continued)*

- (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 Court 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 financial statements for the period ended 31 December 2001 up to an overall aggregate amount of approximately HK\$990,320,000 will be credited to a special capital reserve. So long as there remains outstanding any debt of or claim against the Company which, if the date on which the reduction of capital and cancellation of the share premium account became effective (the "Effective Date") were the date of the commencement of the winding up of the Company would have been admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an undistributable reserve of the Company for the purposes of section 79C of the Companies Ordinance (Cap. 32) or any statutory re-enactment or modification thereof provided that:
- (i) The Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;
- (ii) The overall aggregate limit of special capital reserve of approximately HK\$990,320,000 may be reduced by the amount of any increase, after the Effective Date, in the paid up share capital or the amount of the share premium account of the Company as the result of the issue of shares for new consideration or the capitalisation of distributable profits;
- (iii) The overall aggregate limit of special capital reserve of approximately HK\$990,320,000 may be reduced upon the realisation, after the Effective Date, of any of the assets identified in the court order by the amount of the total provision made in relation to each such asset as at 31 December 2001 less such amount (if any) as is credited to the said special capital reserve as a result of such realisation; and

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 27. RESERVES *(Continued)*

- (iv) When the credit amount of the special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (ii) and/or (iii) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.
  
- (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 2006, the Company has credited approximately HK\$44,556,000 (2005: 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 (2005: HK\$898,764,000).
  
- (d) Statutory common reserve

According to the PRC Company Law, the PRC subsidiary of the Group are required to transfer 5% of its profit after taxation, as determined under PRC Accounting Regulations, to statutory common reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory reserve fund can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

- (e) The Company has no reserves available for distribution to shareholders as at 31 December 2006 (2005: Nil).



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 28. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2006, the Group and the Company have unrecognised tax losses of HK\$108,125,000 (2005: HK\$107,296,000) and HK\$96,396,000 (2005: HK\$96,396,000) respectively, which have no expiry date, to carry forward.

No deferred income tax has been made in the financial statements as there are no significant temporary differences for the current and prior years.

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Deconsolidation of subsidiaries:

	2006 HK\$'000	2005 HK\$'000
Net liabilities deconsolidated		
Borrowings	–	(9,570)
Cash and bank balances	–	45
Trade and other payables	–	(3,496)
	–	(13,021)
Reversal of losses of subsidiaries on deconsolidation	–	13,021
	–	–

An analysis of the net outflow of cash and cash equivalents in respect of reversal of losses of subsidiaries on deconsolidation is as follows:

	2006 HK\$'000	2005 HK\$'000
Cash and bank balances deconsolidated	–	(45)

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 30. OPERATING LEASE COMMITMENT

### As lessee

At the balance sheet date, the Group and the Company had future aggregate minimum lease payments under operating leases in respect of land and buildings as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	246	619	195	468
In the second to fifth year inclusive	–	195	–	195
	<b>246</b>	814	<b>195</b>	663

## 31. 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:

Name of related company	Nature of transaction	Amount paid to/(received from) the related parties	
		2006 HK\$'000	2005 HK\$'000
ReliaLab Medical	Rental expenses recharged (note (iii))	–	(19)
Laboratory & X-Ray	Salaries received for shared staff (note (iii))	–	(14)
Centre Limited	Salaries paid for shared staff (note (iii))	–	2
("ReliaLab")	Management fee recharged (note (iii))	–	(6)
(note (i))	Electricity fee recharged (note (iii))	–	(1)
	Laboratory testing service income (note (iv))	–	(4)
Party B	Sales (note (iv))	–	(2)
	Purchases (note (iv))	3,204	326
Party D	Sales (note (iv))	(69)	(2)
天津市醫藥公司 津順分公司 (note (ii))	Purchases (note (iv))	–	3,803

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 31. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

- (i) 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.
  - (ii) A branch company of Party B and operated by Party C and Party D.
  - (iii) These expenses were recharged/shared with reference to the actual expenses incurred.
  - (iv) These transactions were carried out at market prices.
  - (v) 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. On 31 March 2006, the tenancy agreement was further extended to 30 September 2006 with monthly rental remain unchanged. No more tenancy agreement was renewed after 30 September 2006 even the property was still used and occupied by the wholly-owned subsidiary. This transaction constituted exempt continuing connected transaction of the Company under Rule 14A.33(3) of the Listing Rules which was exempted 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 2006 estimated by Mr. Zhao Geng and Mr. Zhang Wei was HK\$74,000 (2005: HK\$19,000).
- (d)** Key management compensation paid during the year are disclosed in note 10 to the financial statements.

## 32. CONTINGENT LIABILITIES

- (a) The Group disposed of three subsidiaries to an independent third party (the "Acquirer") in 2000. The Company has provided corporate guarantees (the "Corporate Guarantees") to the bankers of these former subsidiaries to secure certain bank facilities granted to them. Subject to the release of the Corporate Guarantees by the relevant banks, the Company is obliged to continue to provide the Corporate Guarantees after the completion of such disposal. In relation to the settlement agreement dated 31 December 2003 entered by the Acquirer and BOC ("Settlement Agreement"), 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 Settlement Agreement is revoked. Subsequently, the Group and BOC agreed pursuant to the BOC Agreements, in the event of the revocation of the Settlement Agreement, the Company shall pay to BOC an additional sum of approximately HK\$223,000.
- (b) Pursuant to the two settlement deeds with creditor banks and the Acquirer 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 the Acquirer, the releases are subject to reinstatement in the event that the settlements under these deeds are revoked. The total amount of liabilities released by the creditor banks amounted to approximately HK\$37,136,000. During the year ended 31 December 2005, the guarantee given to a creditor bank was released.
- (c) 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. 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.

During the year, the Company has successfully come to agreement with relevant bankers and all contingent liabilities regarding the above have now been released.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

## 33. PENSION SCHEME

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund Scheme (the "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 MPF 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 MPF 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 Mainland China 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 2006 amounted to approximately HK\$110,000 (2005: HK\$149,000 (as restated)).

## 34. PLEDGE OF ASSETS

At the balance sheet date, the Company pledged the bank deposits of HK\$50,000 (2005: 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 borrowing as stated in note 23.

## 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. EVENTS AFTER THE BALANCE SHEET DATE

Other than those disclosed elsewhere in the financial statements, the Group did not have any significant events after the balance sheet date need to be disclosed.

## 37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.