

**LifeTec**

生命科技集團有限公司  
LIFETEC GROUP LIMITED



ANNUAL REPORT  
2004

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## CORPORATE INFORMATION

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### PRINCIPAL REGISTRAR

Butterfield Corporate Services Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

### DIRECTORS

Mr. Jay CHUN (*Chairman and Managing Director*)  
Mr. SHAN Shiyong, alias, SIN Sai Yung  
Dr. MA Xianming, alias, MA Yin Ming  
Mr. Frank HU\*  
Mr. WANG Faqi\*  
Ms. MA Shiwei\*

\* *Independent Non-executive Directors*

### COMPANY SECRETARY

Mr. Poon Yick Pang Philip, *CFA, CPA (Aust.)*

### SOLICITORS

Vincent T.K. Cheung, Yap & Co.

### AUDITORS

Deloitte Touche Tohmatsu  
Certified Public Accountants  
26th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### PRINCIPAL OFFICE

26th Floor, Central Tower  
28 Queen's Road Central  
Hong Kong

### PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

### HONG KONG SHARE REGISTRAR

Secretaries Limited  
G/F, Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong



## *Chairman's Statement*



**Year 2004 was full of encouraging new developments like research breakthrough, increased penetration of distribution network, launch of new corporate investment arm and the corporate reorganization.**

## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of the Company and the Group for the year ended 31 December 2004.

### BUSINESS REVIEW

The Group accomplished a number of breakthroughs in 2004. The Group's core business in biopharmaceutical division has made encouraging progress. Sales of the Group's biopharmaceutical product, Wei Jia, in China increased by approximately 119% from about HK\$28,988,000 in 2003 to a record high of about HK\$63,476,000 in 2004. Operating income of HK\$21,259,000 was recorded for operations in China, up 22 times compared with that of the previous year. The sharp increase in the turnover and income for our operations in China was attributable to the successful implementation of the marketing strategy for Wei Jia. At research and development front, the research team of the City University of Hong Kong and the Group have together invented Fibrocorin, a recombinant fusion protein with anti-fibrosis and anti-liver cancer applications. This new drug candidate will soon enter pre-clinical trials. To separately manage the biopharmaceutical and non-biopharmaceutical operations in a more effective and efficient manner, the Group underwent a corporate reorganization to form two business divisions: biopharmaceutical and non-biopharmaceutical divisions. All the existing non-biopharmaceutical assets and operations have been grouped under a new division operated by LT Capital Limited ("LT Capital"), a wholly-owned subsidiary of the Group whereas all the existing biopharmaceutical assets and operations have been grouped under another new division operated by LifeTec Pharmaceutical Limited ("LifeTec Pharmaceutical"), a wholly-owned subsidiary of the Group. The corporate reorganization can better reflect the financial performance of our core biopharmaceutical business versus the performance of other non-core businesses. All these initiatives would transform the Group into a technologically focused enterprise with diverse income streams and growth potential.

#### Turnover and Profit

The Group reported a turnover of HK\$64,179,000 for the year, representing an increase of approximately 12% as compared to HK\$57,213,000 for the previous year. Sales in China increased by approximately 119% from HK\$28,988,000 in year 2003 to HK\$63,476,000 in the year. There were no overseas sales in the year as compared to HK\$28,080,000 sales to Cambodia, Myanmar and Laos in 2003. Overall gross profit margin for the year dropped slightly from approximately 83% to 80% whereas operating profit for 2003 of HK\$36,543,000 turned to operating loss of about HK\$57,991,000 for the year. The Group reported loss of HK\$60,992,000 or 2.4 Hong Kong cents per share in the year compared to a net profit of HK\$36,848,000 or 1.7 Hong Kong cents earning per share in the previous year.

The loss has been mainly attributed to loss in securities investment and increase in marketing, research and development expenses. The Group has sold all securities portfolio in the year. Combining the securities and biotech investment transactions conducted in 2003 and 2004, the Group managed to post a net gain of about HK\$14,034,000 from such investment transactions over the two years. To set the foundation for the rapid sales growth of existing and new drugs in the years ahead, the Group devoted significant resources to strategic development and marketing activities in 2004.

Minority interests reported debit charges of HK\$208,000 representing the minority's share of the profits and the loss in subsidiaries for the current year. The profit before taxation and minority interests turned from HK\$38,559,000 in the previous year to loss before taxation and minority interests of HK\$58,280,000 for the year. Finance costs of the Group for the period significantly decreased by 60% from about HK\$730,000 to HK\$289,000. The reduction in finance costs was due to the improved financial position after the warrant issue in February 2004.

## CHAIRMAN'S STATEMENT

### Marketing, Sales and Distribution

During the year under review, the Group continued to expand the sales network of Wei Jia in various parts of China. The number of hospitals adopting Wei Jia increased to about 800 by the end of 2004 compared to 700 by the end of 2003. As the Group's distribution network for hospitals grew to a considerable scale, our management hence focused the marketing efforts on boosting the sales of Wei Jia per hospital. Our direct sales team had conducted an intensive hospital visit programme to render maximum support for the physicians on the use of Wei Jia. The Group also frequently updated the physicians on the latest clinical research findings on Wei Jia and organized regular seminars in hospitals to promote the successful clinical cases of Wei Jia. All these efforts helped to enhance the medical community's understanding of the superior efficacy of the drug.

The Group collaborated with major drug distribution groups in China to distribute Wei Jia to small to medium-sized hospitals and clinics. Marketing of Wei Jia to clinics has been making satisfactory progress in various regions in China and the Group's sales agency network expanded ahead of schedule. The Group's fast-growing direct sales force and agency network together have strengthened penetration of Wei Jia in the China market.

Although there were no export sales in the year under review, management are optimistic that Wei Jia would eventually gain strong acceptance in Asian and Western countries. To promote the benefits and latest clinical research findings of Wei Jia to physicians and bio-scientists worldwide, the Group continued its marketing activities to raise the global awareness of the product. The Group sponsored the International Forum on Liver Fibrosis (the "Forum") which was held in Hong Kong in November 2004. The University of Hong Kong and the City University of Hong Kong were the organizers of the Forum. In the Forum, leading liver disease experts presented Wei Jia's clinical studies based on years of extensive applications in China. The objective of the Forum was to discuss the latest breakthrough in the treatment for liver diseases, in particular, hepatitis and fibrosis. The Forum had drawn a wide spectrum of audience from both academic and biopharmaceutical communities.



Prominent speakers of the International Forum on Liver Fibrosis

### Research and Development

During the year under review, Fibrocorin, Fibroscutum and rhALR, are the three new genetic drug candidates in the pipeline.

#### *Fibrocorin*

The research team of the City University of Hong Kong and the Group together have invented Fibrocorin, a recombinant fusion protein and a potential new drug candidate for anti-cancer and anti-fibrosis applications. Fibrocorin is genetically engineered to possess a longer half-life. As a result, this novel recombinant protein has a more sustainable and profound treatment effect. Patent application was filed by the Group for Fibrocorin in the United States in December 2004. Priority has been given to the research and development of Fibrocorin over other new drug candidates in the pipeline. Pre-clinical trials for Fibrocorin are expected to begin in the first half of 2005 and complete in mid 2007. Once the investigational new drug certificate is issued by the State Food and Drug Administration ("SFDA") of China, the Group would launch clinical trials on Fibrocorin in China. The latest research findings of Fibrocorin were presented to the world's leading liver experts from the United States, Germany, France, China and Hong Kong in the International Forum on Liver Fibrosis held in November 2004.

## CHAIRMAN'S STATEMENT

### *Fibroscutum*

Fibroscutum is a novel compound possessing anti-cancer and anti-fibrosis applications. Animal tests on Fibroscutum were completed in 2004. All the required supplementary information has been submitted to the U.S. patent authority for the grant of full patent.

### *Recombinant Human Augmenter for Liver Regeneration (“rhALR”)*

Research team at the Institute of Infectious Diseases of the People's Liberation Army in Beijing has identified specific production techniques of recombinant human Augmenter for Liver Regeneration (“rhALR”). rhALR is a revolutionary gene therapy for various kinds of liver diseases. Animal tests of this new drug candidate yielded very positive results on rhALR's therapeutic value. Bioactivity and gene sequence of rhALR have been confirmed. The Group is conducting laboratory tests and preparing application documents for clinical trials in China.

### *Pazufloxacin*

The approval for the clinical trials for Pazufloxacin, a new generation antiseptic, was granted by the SFDA in September 2004. The clinical trials are expected to be completed in 2006.

### *New Projects in Pipeline*

At the current stage, the Group aims to focus its resources on developing its existing projects but will also explore different new projects that will contribute and complement the Group's product portfolio.

## Prospects

Two wholly-owned subsidiaries, LifeTec Pharmaceutical and LT Capital, were formed in January 2005 for the corporate reorganization. All the existing biopharmaceutical businesses as well as new drug research and development activities are now conducted through LifeTec Pharmaceutical. During the year under review, the Group also appointed a new senior management with strong scientific background to supervise the biopharmaceutical division.

In addition, all the existing non-biopharmaceutical businesses and assets have been transferred to LT Capital. New business or investment projects will be conducted through LT Capital in the future. The corporate reorganization will not only allow the two divisions to expand independently at respective optimal paces, but will also better reflect the individual performance of biopharmaceutical and non-biopharmaceutical operations.

The Group has been making sound progress in broadening the drug portfolio. Management is actively negotiating exclusive or non-exclusive agency for a number of new drugs. Pre-clinical trials on novel genetic drug candidate Fibrocorin are expected to commence in 2005. There are about 400 million people worldwide infected with hepatitis, in which over 120 million hepatitis carriers are from China. Hepatitis carriers have a higher risk of developing liver fibrosis, cirrhosis and liver cancers than non-carriers. Therefore, market potential for anti-fibrosis and anti-liver cancer drugs is huge. LifeTec Pharmaceutical would centre its research and development efforts to Fibrocorin which is potentially the first recombinant drug in the world for the prevention and treatment of fibrosis. Clinical trials on Pazufloxacin are expected to be completed in 2006. Management is optimistic that all these trials will be completed according to schedule. If the clinical trials yield favorable results and these new drug candidates are successfully launched on the market, they are expected to make positive contribution to the Group's future sales and profit.

## CHAIRMAN'S STATEMENT

The Group will capture new business opportunities through LT Capital which will focus on projects in the fast-growing business sectors. The Group's management is currently reviewing a number of investment opportunities which meet our investment criteria. Leveraging on our management's investment expertise and extensive network, we are optimistic that LT Capital is on the fast track to attain high returns and broaden the revenue streams for the Group.

### Liquidity and Financial Resources

The Company raised approximately HK\$24,567,000 net proceeds by means of a warrants issue (the "Warrants Issue") in February 2004. The Company also received subscription moneys of approximately HK\$13,409,000 in total on the exercise of the warrants and share options in 2004. Some of the proceeds were applied for the working capital of the Group. The remaining balance is reserved for potential acquisition of new projects. Details of the Warrants Issue are contained in the Warrants Issue Prospectus sent to shareholders on 17 February 2004. During the year under review, the Company also received cash of HK\$30,779,000 as the consideration for the disposal of Goldstone in July 2003.

At the balance sheet date, the Group's aggregate bank borrowings and finance leases stood at HK\$2,895,000 of which HK\$2,725,000 was payable within 12 months, HK\$35,000 was payable between 2 and 5 years. Current liabilities of the Group increased from HK\$19,633,000 to HK\$21,180,000, representing a rise of 8%. The Group's net current assets decreased from HK\$183,851,000 to HK\$111,286,000 to at the balance sheet date. The Group's liabilities at the balance sheet date totaled HK\$28,262,000. The percentage of total liabilities to total assets as at 31 December 2004 stood at 11% which is same as the corresponding figure of 11% as at 31 December 2003.

As at 31 December 2004, the cash on hand and available credit facilities at the current date are sufficient for financing ongoing activities of the Group.

The Group's operations are primarily based in China and the income derived and expenses incurred are denominated in Renminbi. There were no export sales in the year. On the other hand, the expenses of the headquarters and bank borrowings are denominated in Hong Kong dollars and are financed by Hong Kong dollar capital. Due to the relatively matched position in both Hong Kong and China and the stability of the exchange rates between Renminbi and Hong Kong dollars, the directors consider that specific hedges for currency fluctuation are not necessary.

### CHANGE OF DIRECTORSHIP

Ms. Ma Shiwei ("Ms. Ma") was appointed as an independent non-executive director of the Company and a member of the audit committee of the Company with effect from 28 September 2004.

Ms. Ma, aged 48, holds a master degree in business administration from Touro University International. She has over 16 years of experience in management of international trading. Ms. Ma is the General Manager of CHINA WORLDBEST GROUP (HONG KONG) CO., LTD., which is a subsidiary of one of the largest pharmaceutical groups in China.

### Charges on Group Assets

At 31 December 2004, the Group's bank borrowings were secured by charges over properties of the Group with aggregate net book value of approximately HK\$1,070,000 (2003: HK\$4,295,000).

## CHAIRMAN'S STATEMENT

### Organization and Staff

The Group has 120 staff in total as at the date of this report. Majority of the staff are sales and marketing executives located in China. The Group is actively seeking talent to join the sales and marketing as well as research and development team in order to cope with the fast growing operations.

The terms of employment of the staff, executives and directors conform to normal commercial practice. Share option benefits are granted to and included in the terms of selected senior executives of the Company.

### Investor Relations

The Group continues to adopt an active investor relation program to broaden the shareholder base and promote our investment value to the investment community. Two individual strategic investors together became substantial shareholders of the Group in 2004. They are respected community leaders in Macau and would provide valuable advice to the Group on gaming related business. The investor relation team would maintain an active dialogue with the existing international institutional investors to keep them well informed of the Group's new business initiatives.

### Appreciation

Year 2004 was full of encouraging new developments like research breakthrough, increased penetration of distribution network, launch of new corporate investment arm and the corporate reorganization. On behalf of the Board of Directors of the Company, I would like to thank our shareholders, bankers, professional parties and customers for their support. I would also like to thank our executives and staff for their dedication and innovation.

By Order of the Board

**Jay Chun**

*Chairman*

Hong Kong, 28 April 2005

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Jay Chun**, aged 40, Chairman and Managing Director of the Company, is a talented entrepreneur and manager. He has a solid background in information technology and marketing and over 14 years of management and investment experience. He holds a bachelor degree in computer science from the Shanghai University of Science and Technology. Mr. Chun joined the Group and was appointed as Managing Director of the Company in January 1999 and subsequently appointed as Chairman of the Board in July 2002.

**Mr. Shan Shiyong**, alias, Mr. Sin Sai Yung, aged 41, Executive Director and former Chairman of the Company, is an entrepreneur with strong business vision. After completing his studies in economics at the University of Agriculture, Shandong, he started his own business in manufacturing and export. Mr. Shan subsequently diversified to trading, property development and venture capital investment in China. He has over 17 years of dedicated business, investment and management experience at the owner level. Mr. Shan joined the Group and was appointed as an Executive Director in October 1998. He became Chairman of the Company in May 1999 and resigned from Chairmanship in July 2002.

**Dr. Ma Xianming**, alias, Dr. Ma Yin Ming, aged 38, holds a doctoral degree in accounting as well as a bachelor and a master degree in economics from the Central South University. He is an accounting and financial expert and has been appointed as a member of the Auditing Standards Drafting Committee of the China Institute of Certified Public Accountants and as the leader of the Chinese Expert Advisory Group on accounting issues in connection with Asian Development Bank sponsored projects in China. He has also held senior financial positions in the commercial field and over 15 years of management and investment experience. He joined the Group as an Independent Non-executive Director in September 2001 and was re-designated as an Executive Director in August 2003.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Frank Hu**, aged 42, is a seasoned banker and businessman with over 17 years of experience. He holds a bachelor degree in politics from New York University and is currently the chief executive officer of a major private group in Hong Kong. He joined the Group in July 1999.

**Mr. Wang Faqi**, aged 48, has over 25 years of extensive experience in the banking and finance sector. Since 1975, Mr. Wang has been holding various positions in the China Construction Bank (the “Bank”). He had been the General Manager of the International Business Department and Head of Investment Banking of the Bank’s Yantai Branch, as well as the Head of the Bank’s Yantai Mitsubishi Cement Specific Branch. Mr. Wang was awarded the Bachelor Degree in Economics from the Xiamen University. He also holds the professional qualification of Senior Economist accredited by the Bank’s Senior Professional and Technical Positions Supervisory Committee. He joined the Group in August 2003.

**Ms. Ma Shiwei**, aged 48, holds a master degree in business administration from Touro University International. She has over 16 years of experience in management of international trading. Ms. Ma is the General Manager of China Worldbest Group (Hong Kong) Co., Ltd., which is a subsidiary of one of the largest pharmaceutical groups in China. She joined the Group in September 2004.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Mr. Zhu Weixiong**, aged 49, is the Group's Associate Director of Sales and Marketing. Mr. Zhu has vast experience in the pharmaceutical industry. Having held senior executive positions in first-class establishments in China, Mr. Zhu has accumulated over 22 years' solid experience in the sales and marketing of pharmaceutical products. Before joining the Group, he was senior management of a number of sizeable pharmaceutical companies in China. Mr. Zhu joined the Group in June 2004.

**Mr. Poon Yick Pang, Philip**, aged 35, is the Group's Senior Vice President – Corporate Investment. He joined the Group in May 2002 and was appointed as Company Secretary of the Company in August 2003. Mr. Poon devoted his last ten years to major listed companies, prominent broking and private equity firms in Hong Kong. Mr. Poon holds a bachelor of commerce degree from the University of New South Wales and is also a holder of Chartered Financial Analyst charter awarded by the CFA Institute and a Certified Practising Accountant registered with the CPA Australia.

**Dr. Chan Pak Li, Bernard**, aged 28, is the Group's Director of Research and Development. Dr. Chan holds a Ph.D. degree in biomedical engineering from Duke University, USA, where he graduated at the top of his class. Dr. Chan has extensive experience in the research of biopharmaceutical drugs, recombinant proteins and biomaterial. Before joining the Group, he was an assistant research professor at Duke University and also served as a senior research scientist at Affinergy, Inc., a company specializing in site-specific biological delivery of drugs, peptides, proteins and cells. Dr. Chan has published numerous peer reviewed scientific articles and conference abstracts, and has given multiple podium presentations at international scientific meetings. Dr. Chan joined the Group in November 2004.

## **DIRECTORS’ REPORT**

The directors present the annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. Its subsidiaries are principally engaged in the research, development, and sale of biopharmaceutical products.

### **RESULTS**

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 22.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

### **INVESTMENT PROPERTY**

The investment property of the Group was revalued on an open market value basis as at 31 December 2004 as set out in note 15 to the financial statements. There was surplus in sum of HK\$280,000 arising on the revaluation as at 31 December 2004.

### **SHARE CAPITAL**

Details of changes in the Company’s share capital during the year are set out in note 30 to the financial statements.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 25 and in note 33 to the financial statements respectively.

## DIRECTORS' REPORT

### DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

#### **Executive directors:**

Mr. Jay Chun, Chairman and Managing Director (alternate director to Mr. Shan Shiyong)  
Mr. Shan Shiyong (alias, Mr. Sin Sai Yung)  
Dr. Ma Xianming (alias, Dr. Ma Yin Ming)

#### **Independent non-executive directors:**

Mr. Frank Hu  
Mr. Wang Faqi  
Ms. Ma Shiwei (appointed on 28 September 2004)

The biographical details of the directors of the Company and senior management of the Group are set out on pages 9 and 10.

In accordance with Bye-law 86(2) of the Company's Bye-laws, Ms. Ma Shiwei shall retire and, being eligible, offer herself for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 87 of the Company's Bye-laws, Dr. Ma Xianming (alias, Dr. Ma Yin Ming) shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

The directors being proposed for re-election at the forthcoming annual general meeting do not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office for each independent non-executive director (except Ms. Ma Shiwei) is the period up to his retirement by rotation in accordance with the Company's Bye-laws. The term of office for Ms. Ma Shiwei is a fixed term of two years commencing from 28 September 2004.

The Company confirmed that it has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and it still considered them to be independent as at the date of this report.

### DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2004, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Name of Directors	Name of company/ associated corporation	Capacity/ Nature of interests	Interests in shares (other than pursuant to equity derivatives) <sup>(1)</sup>	Interests in underlying shares pursuant to equity derivatives <sup>(1)</sup>	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr. Jay Chun	The Company	Beneficial owner	56,358,000	2,500,000	386,348,000	15.01%
	The Company	Interest of controlled corporation	327,490,000 <sup>(2)</sup>	–		
Mr. Shan Shiyong, alias, Mr. Sin Sai Yung	The Company	Interest of controlled corporation	353,190,000 <sup>(3)</sup>	–	353,190,000	13.72%
Dr. Ma Xianming, alias, Dr. Ma Yin Ming	The Company	Beneficial owner	–	1,000,000	1,000,000	0.04%

Notes:

- (1) All interests in shares stated above represent long positions.
- (2) These shares were held by August Profit Investments Limited, a company which is wholly owned by Mr. Chun.
- (3) These shares were held by Best Top Offshore Limited, a company which is wholly owned by Mr. Shan.

Save as disclosed above, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2004.

## DIRECTORS’ REPORT

### SHARE OPTIONS

On 15 July 2002, the Company terminated the share option scheme of the Company adopted on 3 January 1997 (the “Old Share Option Scheme”) and adopted a new share option scheme (the “Existing Share Option Scheme”) as a result of the changes in the Listing Rules in relation to share option scheme.

Particulars of the Old Share Option Scheme and the Existing Share Option Scheme are set out in note 31 to the financial statements.

There are no outstanding options granted under the Old Share Option Scheme during the year.

A summary of the movements in share options granted under the Existing Share Option Scheme during the year is as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2004	Granted during the year	Exercised during the year	Outstanding at 31.12.2004
Category: Directors							
Jay Chun	27.11.2003	27.11.2003 to 26.11.2008	0.088	2,500,000	–	–	2,500,000
Dr. Ma Xianming	27.11.2003	27.11.2003 to 26.11.2008	0.088	1,000,000	–	–	1,000,000
Category: Employees							
	27.11.2003	27.11.2003 to 26.11.2008	0.088	76,825,000	–	(37,500,000)	39,325,000
	13.08.2004	01.09.2004 to 12.08.2009	0.081	–	4,000,000	–	4,000,000
Category: Consultants							
	27.11.2003	27.11.2003 to 26.11.2008	0.088	91,375,000	–	(68,000,000)	23,375,000
	13.08.2004	01.09.2004 to 12.08.2009	0.081	–	200,000,000	–	200,000,000
	01.11.2004	01.11.2004 to 31.10.2009	0.086	–	50,000,000	–	50,000,000
Total all categories				171,700,000	254,000,000	(105,500,000)	320,200,000

## DIRECTORS' REPORT

The fair value of the options granted on 13 August 2004 and 1 November 2004 measured on the date of grant amounted to approximately HK\$12,205,600 and HK\$1,777,200 respectively. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

	<b>13 August 2004</b>	<b>1 November 2004</b>
(1) Expected volatility based on historical volatility of share prices	144.87%	43.32%
(2) Expected annual dividend yield, based on historical dividends	–	–
(3) Expected life of options	5 years	5 years
(4) Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant	3.18%	3.18%

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model provides a best estimate of the fair value of the share options.

The closing price of the Company's shares immediately before 13 August 2004 and 1 November 2004, the dates on which options were granted during the year, were HK\$0.070 and HK\$0.035 per share respectively.

HK\$17,461,000 has been charged to the consolidated income statement for the year in respect of the value of options granted to consultants during the years ended 31 December 2003 and 31 December 2004.

At the date of this report, the total number of shares available for issue under the Existing Share Option Scheme is 5,711,291 shares, representing 10% of the shares of the Company in issue as at the date of refreshment of mandate on 19 April 2004 less the number of options granted under the Existing Share Option Scheme.

## WARRANTS

On 23 February 2004, the Company issued, by way of private placement, 340,000,000 warrants at a placing price of HK\$0.078 per warrant. The warrants are in registered form, which entitle the holders of the warrants the right to subscribe up to HK\$34,680,000 in aggregate in cash for shares of HK\$0.01 each in the Company at an initial subscription price of HK\$0.102 per share (subject to adjustments) during the period from 23 February 2004 to 26 February 2005 (both dates inclusive). The warrants have been listed on the Stock Exchange since 27 February 2004.

## DIRECTORS' REPORT

Exercise in full of the warrants would result in an issue of 340,000,000 shares of HK\$0.01 each in the Company and the shares to which the warrants relate represent approximately 13.2% of the then existing issued share capital of the Company and approximately 11.7% of the enlarged issued share capital of the Company if the subscription rights attached to the warrants have been exercised in full.

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

During the year, the registered holders of 40,440,000 warrants exercised their rights to subscribe for 40,440,000 shares of HK\$0.01 each in the Company at HK\$0.102 per share. These shares rank pari passu with the existing shares in all respect.

During the year, the Company repurchased 21,960,000 warrants and cancelled such warrants upon repurchase.

Subsequent to the balance sheet date, the registered holders of 74,420,000 warrants exercised their rights to subscribe for 74,420,000 shares of HK\$0.01 each in the Company at HK\$0.102 per share. All the remaining warrants lapsed after 26 February 2005.

A summary of the movements in warrants during the year is as follows:

	<b>Warrants in registered form</b>	
	<b>Number</b>	<b>Value HK\$'000</b>
Issued on 23 February 2004	340,000,000	26,520
Expenses incurred in connection with the issue of warrants	–	(1,953)
Exercise of warrants	(40,440,000)	(2,922)
Repurchase of warrants	(21,960,000)	(1,587)
At 31 December 2004	277,600,000	20,058

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes disclosed under the section headed "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the directors, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2004, so far as is known to directors, the interests and short positions of the persons or corporations, other than the directors and chief executive of the Company, in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name	Total interests in shares <sup>(1)</sup>	Approximate percentage of interests
Best Top Offshore Limited	353,190,000	13.72%
August Profit Investments Limited	327,490,000	12.72%
Mr. Ho Hao Chio	132,000,000 <sup>(2)</sup>	5.13%
Mr. Wong Porfirio Hau Yan Samson	132,000,000 <sup>(2)</sup>	5.13%
High Price Investments Limited	132,000,000 <sup>(2)</sup>	5.13%

Note:

- (1) All interests in shares stated above represent long positions.
- (2) These shares were owned by High Price Investments Limited. The issued share capital of High Price Investments Limited is owned as to 50% by each of Mr. Ho Hao Chio and Mr. Wong Porfirio Hau Yan Samson.

Save as disclosed above, as at 31 December 2004, the Company had not been notified of any other person who was interested in or had a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 54.7% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 17.4% of the Group's total turnover. Weihai Sinogen Pharmaceutical Co., Ltd. was the sole supplier of the Group for the year.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest customers or suppliers.

## DIRECTORS' REPORT

### CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share option schemes disclosed under the section headed “Share Options” and warrants disclosed under the section headed “Warrants” above, the Company had no outstanding convertible securities or other similar rights as at 31 December 2004.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES AND WARRANTS

The Company has purchased 148,006,000 shares and 21,960,000 warrants on the Stock Exchange during the year and all of these have been cancelled. Details of which are as follows:

#### 1. SHARES

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
March 2004	36,506,000	0.157	0.146	5,549
April 2004	530,000	0.167	0.167	89
May 2004	49,654,000	0.169	0.155	8,093
June 2004	13,200,000	0.171	0.166	2,232
July 2004	48,116,000	0.170	0.144	7,556
	148,006,000			23,519

#### 2. WARRANTS

Month of repurchase	Number of warrants repurchased	Price per warrant		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
June 2004	1,960,000	0.074	0.070	142
July 2004	20,000,000	0.066	0.054	1,179
	21,960,000			1,321

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares or warrants during the year.

## **DIRECTORS' REPORT**

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the audited financial statements for the year ended 31 December 2004.

### **COMPLIANCE WITH CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year, in compliance with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules, except that two of the Company's independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

### **COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the year.

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the latest practicable date prior to the issue of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

### **AUDITORS**

The auditors, Messrs. Deloitte Touche Tohmatsu, will retire as auditors of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Jay Chun**  
*Chairman*

## AUDITORS' REPORT

**Deloitte.**  
**德勤**

### TO THE SHAREHOLDERS OF LIFETEC GROUP LIMITED

*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 22 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Acts, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as below:

- (a) As at 31 December 2004, the Group had intangible assets of HK\$46,744,000 in connection with the beneficial rights to drugs under development not yet available for use as detailed in note 17 to the financial statements. However, we were unable to obtain sufficient information and explanations to assess whether any impairment in value should be recognised in respect of the intangible assets amounting to HK\$46,744,000 as stated in the consolidated balance sheet at 31 December 2004.
- (b) Included in the payments for investments at 31 December 2004 were two deposits paid for the acquisition of subsidiaries of HK\$34,132,000 as detailed in note 19 to the financial statements. However, we were unable to obtain sufficient information and explanations to assess whether there is any impairment in the values of the assets to be acquired under the deposits, i.e., beneficial rights in two drugs under development not yet available for use held by the companies to be acquired and accordingly whether any allowance should be made in respect of the deposits amounting to HK\$34,132,000 as included in the consolidated balance sheet at 31 December 2004.

## AUDITORS' REPORT

- (c) Included in the payments for investments at 31 December 2004 were three deposits paid for the acquisition of beneficial rights to three drugs under development not yet available for use of HK\$34,697,000 and the corresponding consultancy fees for soliciting the drugs under development projects capitalised of HK\$1,126,000 as detailed in note 19 to the financial statements. However, we were unable to obtain sufficient information and explanations to assess whether there is any impairment in the values of the underlying assets to be acquired under the deposits, i.e., beneficial rights to three drugs under development not yet available for use and, accordingly, whether any allowance should be made in respect of the deposits amounting to HK\$34,697,000 and the corresponding consultancy fees for soliciting the drugs under development projects capitalised of HK\$1,126,000 as included in the consolidated balance sheet at 31 December 2004.
- (d) Included in the Company's balance sheet as at 31 December 2004 are interests in subsidiaries at a book value of approximately HK\$226,101,000. We were unable to assess whether there is any impairment in value of the related interests in subsidiaries due to the limitations in the scope of our work referred to in points (a) to (c) above.

Any adjustments found to be necessary to the figures set out in points (a) to (d) above would affect the net assets of the Group and the Company as appropriate as at 31 December 2004 and/or the loss of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the intangible assets and the payments for investments, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the loss and cash flow of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the intangible assets and the payments for investments, we have not obtained all the information and explanations we considered necessary for the purposes of our audit.

Without qualifying our opinion, we draw to your attention that because we were unable to obtain sufficient evidence concerning the financial information of certain subsidiaries disposed of during the year ended 31 December 2003 (the "Disposed Subsidiaries"), we were unable to satisfy ourselves that the Disposed Subsidiaries' contribution to the Group's turnover and profit for the year of HK\$16,548,000 and HK\$629,000, respectively, and the loss arising on disposal of the Disposed Subsidiaries of HK\$14,948,000, which were included in the consolidated income statement of the Group for the year ended 31 December 2003, were free from material misstatements. Similarly, we were unable to satisfy ourselves that the analysis of net liabilities of HK\$48,772,000 of the Disposed Subsidiaries at the date of disposal, as disclosed in note 35 to the financial statements, is free from material misstatement.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

28 April 2005

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	4	64,179	57,213
Cost of sales		(12,575)	(9,961)
<hr/>			
Gross profit		51,604	47,252
Other operating income	5	3,383	2,370
Marketing, selling and distribution costs		(24,039)	(13,698)
Administrative expenses		(43,355)	(29,378)
Research and development expenditure		(1,500)	(2,247)
Loss on disposal of beneficial rights to a drug under development		(400)	–
(Loss) gain arising on investments in securities	6	(41,293)	36,200
Allowance for doubtful debts	7	(2,391)	(3,956)
<hr/>			
(Loss) profit from operations	8	(57,991)	36,543
Finance costs	10	(289)	(730)
Gain on partial disposal of subsidiaries	11	–	19,127
Loss on disposal of subsidiaries	35	–	(14,948)
Share of loss of an associate		–	(1,433)
<hr/>			
(Loss) profit before taxation		(58,280)	38,559
Income tax expense	12	(2,504)	(7)
<hr/>			
(Loss) profit before minority interests		(60,784)	38,552
Minority interests		(208)	(1,704)
<hr/>			
(Loss) profit for the year		(60,992)	36,848
<hr/>			
(Loss) earnings per share (cents)	13		
– Basic		(2.4)	1.7
<hr/>			
– Diluted		N/A	1.7
<hr/>			

## CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	14	4,164	3,554
Investment property	15	3,480	3,200
Goodwill	16	555	740
Intangible assets	17	46,744	47,454
Interest in an associate	18	–	–
Payments for investments	19	69,955	21,143
Promissory notes – due after one year	20	–	10,259
		<b>124,898</b>	86,350
<b>Current assets</b>			
Inventories	22	–	38
Debtors and prepayments	23	66,227	57,845
Promissory notes – due within one year	20	10,259	30,779
Investments in securities	24	–	73,243
Advances to consulting companies	25	48,069	28,286
Bank balances and cash		7,911	13,293
		<b>132,466</b>	203,484
<b>Current liabilities</b>			
Creditors and accrued charges	26	15,581	16,522
Amounts due to directors		524	364
Bank borrowings – due within one year	27	2,725	2,696
Obligations under finance leases – due within one year	28	–	44
Taxation payable		2,350	7
		<b>21,180</b>	19,633
<b>Net current assets</b>		<b>111,286</b>	183,851
<b>Total assets less current liabilities</b>		<b>236,184</b>	270,201
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	27	170	4,000
Deferred tax liability	29	6,912	6,912
		<b>7,082</b>	10,912
<b>Minority interests</b>		<b>3,792</b>	3,584
<b>Net assets</b>		<b>225,310</b>	255,705
<b>Capital and reserves</b>			
Share capital	30	25,745	25,766
Reserves		199,565	229,939
		<b>225,310</b>	255,705

The financial statements on pages 22 to 73 were approved and authorised for issue by the Board of Directors on 28 April 2005 and are signed on its behalf by:

**JAY CHUN**  
Director

**FRANK HU**  
Director

## BALANCE SHEET

As at 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current asset</b>			
Interests in subsidiaries	21	226,101	208,315
<b>Current assets</b>			
Debtors and prepayments		373	391
Bank balances and cash		7	7
		380	398
<b>Current liabilities</b>			
Creditors and accrued charges		647	558
Amounts due to directors		524	364
		1,171	922
<b>Net current liabilities</b>		(791)	(524)
<b>Net assets</b>		225,310	207,791
<b>Capital and reserves</b>			
Share capital	30	25,745	25,766
Reserves	33	199,565	182,025
		225,310	207,791

**JAY CHUN**  
*Director*

**FRANK HU**  
*Director*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note 1)	Warrant reserve HK\$'000	Option reserve HK\$'000 (Note 2)	Goodwill reserve HK\$'000 (Note 3)	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 January 2003	17,177	240,779	88,643	-	-	(38,478)	637	(209,265)	99,493
Exchange differences arising on translation of financial statements of operations outside Hong Kong and loss not recognised in the consolidated income statement	-	-	-	-	-	-	(251)	-	(251)
Issue of shares	8,589	77,298	-	-	-	-	-	-	85,887
Expenses incurred in connection with the issue of shares	-	(4,696)	-	-	-	-	-	-	(4,696)
Released on disposal of subsidiaries	-	-	-	-	-	38,571	(147)	-	38,424
Profit for the year	-	-	-	-	-	-	-	36,848	36,848
At 31 December 2003	25,766	313,381	88,643	-	-	93	239	(172,417)	255,705
Issue of warrants	-	-	-	26,520	-	-	-	-	26,520
Expenses incurred in connection with the issue of warrants	-	-	-	(1,953)	-	-	-	-	(1,953)
Issue of shares	1,459	14,872	-	(2,922)	-	-	-	-	13,409
Repurchase of warrants	-	-	-	(1,587)	-	-	-	-	(1,587)
Surplus arising on repurchase of warrants not recognised in the consolidated income statement	-	-	-	-	-	-	-	266	266
Repurchase of shares	(1,480)	(22,039)	-	-	-	-	-	-	(23,519)
Equity-settled consultancy services	-	-	-	-	17,461	-	-	-	17,461
Loss for the year	-	-	-	-	-	-	-	(60,992)	(60,992)
At 31 December 2004	25,745	306,214	88,643	20,058	17,461	93	239	(233,143)	225,310

The deficit of the Group included deficit of HK\$9,570,000 (2003: HK\$9,570,000) retained by an associate of the Group.

Notes:

- (1) Special reserve represents the aggregate of:
  - (i) the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the share premium account of LifeTec (Holdings) Limited, the subsidiary which was acquired by the Company pursuant to the group reorganisation in 1996, and
  - (ii) the effects of the capital reduction, share premium cancellation and elimination of deficit, took place in 1999.
- (2) Option reserve, which relates to the issue of 250,000,000 share options in the current year and 91,375,000 share options in the prior year as set out in note 31, represents fair value of the consultancy services provided or to be provided by certain consultants to the Group in relation to the scope of services as set out in note 31.
- (3) Goodwill reserve at 31 December 2004 comprises HK\$93,000 (2003: HK\$93,000) in respect of negative goodwill.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Operating activities</b>			
(Loss) profit from operations		(57,991)	36,543
Adjustments for:			
Amortisation of goodwill		185	410
Amortisation of intangible assets		710	1,176
Interest income		(1,834)	(265)
Depreciation and amortisation of property, plant and equipment		1,013	5,573
Gain on disposal of property, plant and equipment		(44)	(5)
Surplus on revaluation of investment property		(280)	–
Loss (gain) on disposal of investments in securities		41,293	(847)
Unrealised gain on revaluation of investments in securities		–	(36,200)
Allowance for doubtful debts		2,665	6,268
Loss on disposal of beneficial rights to a drug under development		400	–
Equity-settled consultancy services		17,461	–
Exchange difference		–	(368)
Operating cash flows before movements in working capital		3,578	12,285
Decrease (increase) in inventories		38	(1,962)
Increase in debtors and prepayments		(10,415)	(89,023)
(Decrease) increase in creditors and accrued charges		(2,067)	24,203
Increase (decrease) in amounts due to directors		160	(354)
Cash used in operations		(8,706)	(54,851)
Income tax paid		(161)	–
<b>Net cash used in operating activities</b>		<b>(8,867)</b>	<b>(54,851)</b>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

Notes	2004 HK\$'000	2003 HK\$'000
<b>Investing activities</b>		
Deposits paid for the acquisition of beneficial rights to drugs under development	(54,686)	–
Advances to consulting companies	(48,069)	–
Purchase of investments in securities	(17,650)	(40,894)
Purchase of property, plant and equipment	(1,679)	(820)
(Advance to) repayment from an associate	(632)	35
Proceeds on disposal of investments in securities	49,600	23,891
Promissory notes repaid	30,779	–
Repayment from a consulting company	28,286	–
Proceeds on disposal of beneficial rights to a drug under development	6,600	–
Interest received	1,834	265
Proceeds on disposal of property, plant and equipment	100	99
Deposits paid for the acquisition of a subsidiary	–	(14,143)
Acquisition of subsidiaries	34	(2,641)
Purchase of intangible assets	–	(660)
Disposal of subsidiaries	35	11,435
<b>Net cash used in investing activities</b>	<b>(5,517)</b>	<b>(23,433)</b>
<b>Financing activities</b>		
Proceeds from issue of warrants, net of expenses	24,567	–
Proceeds from issue of shares, net of expenses	13,409	81,191
Payment on repurchase of shares, net of expenses	(23,519)	–
Repayments of bank and other borrowings	(3,801)	(6,400)
Payment on repurchase of warrants	(1,321)	–
Interest on bank borrowings paid	(269)	(676)
Repayments of obligations under finance leases	(44)	(340)
Interest on other loan paid	(19)	(14)
Finance charges on finance leases paid	(1)	(40)
<b>Net cash from financing activities</b>	<b>9,002</b>	<b>73,721</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,382)</b>	<b>(4,563)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>13,293</b>	<b>17,856</b>
<b>Cash and cash equivalents at end of the year</b>	<b>7,911</b>	<b>13,293</b>
<b>Analysis of the balance of cash and cash equivalents</b>		
Bank balances and cash	7,911	13,293

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The activities of its subsidiaries and an associate are set out in notes 43 and 44 respectively.

### 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Group made up to 31 December each year.

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

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

## NOTES

### TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Turnover

Turnover represents the amounts received and receivable for goods sold to outside customers during the year.

#### Revenue recognition

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

Service income is recognised when services are rendered.

Rental income is recognised on a straight line basis over the period of the leases.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

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

#### Property, plant and equipment

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Depreciation or amortisation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, where appropriate, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining terms of the leases
Buildings	2 – 5%
Plant and machinery	10 – 15%
Furniture, fixtures and office equipment	15 – 20%
Motor vehicles	20%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group or, where shorter, the terms of the leases.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the consolidated income statement. Where a deficit has previously been charged to the consolidated income statement and a revaluation surplus subsequently arises, this surplus is credited to the consolidated income statement to the extent of the deficit previously charged.

On subsequent disposal of an investment property, any revaluation surplus attributable to that property is included in the determination of the gain or loss on disposal.

No depreciation is provided in respect of investment properties which are held on leases with unexpired term, including the renewable period, of more than twenty years.

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition of subsidiaries prior to 1 January 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition of subsidiaries after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

Goodwill arising on acquisition of associates continues to be capitalised and amortised on a straight line basis over its useful economic life and is included in the carrying amount of the associate.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the gain or loss on disposal.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition of subsidiaries after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

#### Patents and beneficial rights to drugs under development

Costs incurred in the acquisition of patents are capitalised and amortised on a straight line basis over their useful economic lives.

Costs incurred in the acquisition of beneficial rights to drugs under development and the subsequent development cost are capitalised and amortised on a straight line basis over their useful economic lives when the underlying drugs are ready for commercial production.

#### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

#### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of the associate plus the premium paid on acquisition in so far as it has not already been written off, less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interests in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets, other than intangible asset that is not yet available for use, to determine whether there is any indication that these assets have suffered an impairment loss. For intangible assets that is not yet available for use, the Group reviews whether these assets have suffered an impairment at least at each financial year end even if there is no indication that the assets are impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Leases**

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding principal portions of the commitments are shown as obligations of the Group. The finance costs, which represent the difference between the total commitments and the original principal at the inception of the respective leases, are charged to the income statement using the actuarial method over the period of the respective leases.

All other leases are classified as operating leases and the rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

#### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the consolidated income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising on consolidation are classified as equity and transferred to translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### Retirement benefit costs

The retirement benefit costs charged in the consolidated income statement represent the contribution payable in respect of the current year to the Group's retirement benefits schemes.

#### Share options

The financial impact of share options granted under the Company's share option schemes to the directors and employees of the Company or its subsidiaries is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

For the goods or services received in a share-based payment transaction from counter parties other than directors and employees of the Company or its subsidiaries, the fair value of the share options granted will be recognised when the goods or services are received.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 4. SEGMENT INFORMATION

#### Business segments

The Group is principally engaged in research, development and sale of biopharmaceutical products. No business segment analysis is presented as management considers this as one single business segment.

#### Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China.

Segment information of the Group by location of customers is presented as below:

*For the year ended 31 December 2004*

	People's Republic of China ("PRC") HK\$'000	Kingdom of Cambodia ("Cambodia") HK\$'000 (Note)	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
<b>Revenue</b>					
External sales	63,476	-	-	703	64,179
<b>Result</b>					
Segment results	21,259	-	-	(13)	21,246
Other operating income					3,383
Loss on disposal of beneficial rights to a drug under development					(400)
Loss arising on investments in securities					(41,293)
Unallocated corporate expenses					(40,927)
Loss from operations					(57,991)
Finance costs					(289)
Loss before taxation					(58,280)
Income tax expense					(2,504)
Loss before minority interests					(60,784)
Minority interests					(208)
Loss for the year					(60,992)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 4. SEGMENT INFORMATION (continued)

#### Geographical segments (continued)

Note: The Group has granted an exclusive distribution right to an independent distributor in Cambodia to distribute a pharmaceutical product in Cambodia, Union of Myanmar and Lao People's Democratic Republic for a period of five years commencing November 2003.

#### At 31 December 2004

	PRC HK\$'000	Cambodia HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
<b>Assets</b>					
Segment assets	54,385	-	-	-	54,385
Unallocated corporate assets					202,979
Consolidated total assets					257,364
<b>Liabilities</b>					
Unallocated corporate liabilities					28,262
Consolidated total liabilities					28,262

#### For the year ended 31 December 2004

	PRC HK\$'000	Cambodia HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions in property, plant and equipment	-	-	-	-	1,679	1,679
Depreciation and amortisation of property, plant and equipment	-	-	-	-	1,013	1,013
Amortisation of goodwill	-	-	-	-	185	185
Amortisation of intangible assets	710	-	-	-	-	710
Allowance for doubtful debts	2,003	-	-	-	662	2,665
Equity-settled consultancy services	-	-	-	-	17,641	17,641

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 4. SEGMENT INFORMATION (continued)

#### Geographical segments (continued)

For the year ended 31 December 2003

	PRC HK\$'000	Cambodia HK\$'000 (Note)	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
<b>Revenue</b>					
External sales	28,988	28,080	33	112	57,213
<b>Result</b>					
Segment results	941	23,745	(26)	3	24,663
Other operating income					2,370
Gain arising on investments in securities					36,200
Unallocated corporate expenses					(26,690)
Profit from operations					36,543
Finance costs					(730)
Gain on partial disposal of subsidiaries					19,127
Loss on disposal of subsidiaries					(14,948)
Share of loss of an associate					(1,433)
Profit before taxation					38,559
Income tax expense					(7)
Profit before minority interests					38,552
Minority interests					(1,704)
Profit for the year					36,848

Note: The Group has granted an exclusive distribution right to an independent distributor in Cambodia to distribute a pharmaceutical product in Cambodia, Union of Myanmar and Lao People's Democratic Republic for a period of five years commencing November 2003.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 4. SEGMENT INFORMATION (continued)

#### Geographical segments (continued)

At 31 December 2003

	PRC HK\$'000	Cambodia HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Total HK\$'000
<b>Assets</b>					
Segment assets	9,436	28,080	–	–	37,516
Unallocated corporate assets					252,318
Consolidated total assets					289,834
<b>Liabilities</b>					
Segment liabilities	3,549	4,140	–	38	7,727
Unallocated corporate liabilities					22,818
Consolidated total liabilities					30,545

For the year ended 31 December 2003

	PRC HK\$'000	Cambodia HK\$'000	Hong Kong HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions in:						
– Property, plant and equipment	–	–	–	–	1,344	1,344
– Goodwill	–	–	–	–	943	943
– Intangible assets	–	–	–	–	46,744	46,744
Depreciation and amortisation of						
property, plant and equipment	–	–	–	–	5,573	5,573
Amortisation of goodwill	–	–	–	–	410	410
Amortisation of intangible assets	674	490	–	12	–	1,176
Allowance for doubtful debts	1,000	–	–	–	5,268	6,268

The geographical location of the segment assets is the same as the geographical location of customers in both years.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 5. OTHER OPERATING INCOME

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>1,834</b>	265
Management fee income	<b>379</b>	435
Surplus on revaluation of investment property	<b>280</b>	–
Sales of mould	<b>177</b>	–
Gain on disposal of property, plant and equipment	<b>44</b>	5
Net exchange gain	<b>13</b>	533
Gain on disposal of investments in securities	–	847
Rental income	–	30
Sundry	<b>656</b>	255
	<b>3,383</b>	2,370

### 6. (LOSS) GAIN ARISING ON INVESTMENTS IN SECURITIES

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Loss arising on disposal of investments in securities through:		
The Stock Exchange	<b>(19,293)</b>	–
Private dealing (note)	<b>(22,000)</b>	–
	<b>(41,293)</b>	–
Unrealised gain on revaluation of investments in securities (note)	–	36,200
	<b>(41,293)</b>	36,200

Note: During the year, the Group disposed of its entire investment in Mexan Limited, the Group's investment in listed securities as set out in note 24, to an independent third party for cash at a consideration of HK\$1.50 per share, representing an approximately 31% discount to the closing price on the date of disposal, resulting in a loss of HK\$22,000,000. An unrealised gain of HK\$36,200,000 on revaluation of the shares in Mexan Limited was recognised in last year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 7. ALLOWANCE FOR DOUBTFUL DEBTS

	2004 HK\$'000	2003 HK\$'000
Allowance for doubtful debts is analysed as follows:		
Allowance for amount due from an associate	632	5,258
Allowance for trade debtors	2,003	1,000
Allowance for amount due from a former subsidiary	–	10
Allowance for other debtors	30	–
	<b>2,665</b>	6,268
Recovery from trade debtors	(85)	–
Recovery from other debtors	(189)	(2,312)
	<b>2,391</b>	3,956

### 8. (LOSS) PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Staff cost		
– Directors' remuneration (note 9)	6,060	6,469
– Other staff		
– Salaries and allowances	5,504	6,831
– Retirement benefit scheme contributions	182	186
	<b>11,746</b>	13,486
Amortisation of goodwill (included in administrative expenses)	185	410
Amortisation of intangible assets (included in administrative expenses)	710	1,176
Auditors' remuneration	740	795
Depreciation and amortisation	1,013	5,573
Equity-settled consultancy services (note 31)	17,461	–
Operating lease rentals paid in respect of rented premises (note)	1,839	1,855

Note: The amount includes the accommodation benefits provided to a director amounting to HK\$840,000 (2003: HK\$840,000) as set out in note 9.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 9. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

#### Directors' remuneration

The directors' remuneration is analysed as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fee paid to:		
Executive directors	–	–
Independent non-executive directors	<b>280</b>	240
	<b>280</b>	240
Other emoluments paid to executive directors:		
Salaries and other benefits	<b>4,928</b>	5,377
Accommodation benefits	<b>840</b>	840
Retirement benefit scheme contributions	<b>12</b>	12
	<b>5,780</b>	6,229
Total directors' remuneration	<b>6,060</b>	6,469

The remunerations of the directors were within the following bands:

	<b>2004</b>	2003
	<b>Number of Directors</b>	Number of Directors
Nil to HK\$1,000,000	<b>4</b>	4
HK\$2,000,001 – HK\$2,500,000	<b>2</b>	2

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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

#### Highest paid employees

The five highest paid employees of the Group included three directors (2003: three directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid employees of the Group, other than directors, were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,164	1,700
Retirement benefit scheme contributions	24	22
	<b>1,188</b>	<b>1,722</b>

Their emoluments were within the following bands:

	2004 Number of employees	2003 Number of employees
Nil to HK\$1,000,000	2	2

### 10. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	269	676
Interest on other loan	19	14
Finance charges on finance leases	1	40
	<b>289</b>	<b>730</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 11. GAIN ON PARTIAL DISPOSAL OF SUBSIDIARIES

On 31 December 2003, LifeTec (Holdings) Limited (“LifeTec Holdings”), a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party to dispose of its entire interest in the issued share capital of its wholly-owned subsidiary, Durable Stock Investments Limited (“DSI”). DSI holds a 5% equity interests each in Golden Butterfly Investments Limited and Shanghai Youheng Biotechnology Limited (“Shanghai Youheng”) and a 1.5% equity interests in Hainan Kangwei Medicine Co., Ltd. (“Hainan Kangwei”), all of which are subsidiaries of the Company.

The consideration was satisfied by 15,732,000 shares in Sen Hong Resources Holdings Limited, a company with its shares listed on the Stock Exchange, with market value as at 31 December 2003, being the date of completion of the agreement, amounting to HK\$19,193,000. Accordingly, the disposal of DSI constituted a partial disposal of subsidiaries and the resulting gain on disposal of HK\$19,127,000 was credited to the consolidated income statement.

### 12. INCOME TAX EXPENSE

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
The charge represents:		
Current taxation		
Profits tax outside Hong Kong	<b>2,504</b>	7

Profits tax outside Hong Kong represents PRC Income Tax which is calculated at 33% (2003: 33%).

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 12. INCOME TAX EXPENSE (continued)

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

	2004 HK\$'000	2003 HK\$'000
(Loss) profit before taxation	(58,280)	38,559
Tax at PRC income tax rate of 33% (2003: 33%)	(19,232)	12,724
Tax effect of expenses not deductible for tax purpose	16,126	6,041
Tax effect of income not taxable for tax purpose	(765)	(11,825)
Tax effect of tax losses not recognised	12,613	3,690
Utilisation of tax losses previously not recognised	(3,758)	(9,163)
Effect of tax exemptions granted to a subsidiary in the PRC	–	(1,480)
Income tax on concessionary rate	(3,004)	–
Others	524	20
Tax expense for the year	2,504	7

### 13. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	2004 HK\$'000	2003 HK\$'000
<b>(Loss) earnings:</b>		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share:		
– (Loss) profit for the year	(60,992)	36,848
<b>Number of shares:</b>		
Weighted average number of shares for the purposes of basic (loss) earnings per share	2,567,413,269	2,157,477,143
Effect of dilutive potential shares in respect of share options		26,545,096
Weighted average number of shares for the purposes of diluted earnings per share		2,184,022,239

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
<b>COST</b>					
At 1 January 2004	9,126	4,294	3,201	1,874	18,495
Additions	–	–	380	1,299	1,679
Disposals	–	–	(24)	(389)	(413)
At 31 December 2004	9,126	4,294	3,557	2,784	19,761
<b>DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES</b>					
At 1 January 2004	8,031	3,889	1,751	1,270	14,941
Provided for the year	25	89	501	398	1,013
Eliminated on disposals	–	–	(13)	(344)	(357)
At 31 December 2004	8,056	3,978	2,239	1,324	15,597
<b>NET BOOK VALUES</b>					
At 31 December 2004	1,070	316	1,318	1,460	4,164
At 31 December 2003	1,095	405	1,450	604	3,554
			<b>2004</b>		2003
			<b>HK\$'000</b>		HK\$'000
The net book value of the Group's leasehold land and buildings represents property situated in Hong Kong held under long lease			<b>1,070</b>		1,095
The net book value of property, plant and equipment held under finance leases			–		238

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 15. INVESTMENT PROPERTY

	<b>THE GROUP</b>
	HK\$'000
<b>VALUATION</b>	
At beginning of the year	3,200
Surplus on revaluation	280
	<hr/>
At end of the year	3,480
	<hr/> <hr/>

The investment property, which is rented out for rental income, was revalued as at 31 December 2004 by Dudley Surveyors Limited, an independent firm of professional valuers, on an open market value basis.

The investment property is situated in Hong Kong and is held under long lease.

### 16. GOODWILL

	<b>THE GROUP</b>
	HK\$'000
<b>COST</b>	
At 1 January and 31 December 2004	925
	<hr/>
<b>AMORTISATION</b>	
At 1 January 2004	185
Provided for the year	185
	<hr/>
At 31 December 2004	370
	<hr/>
<b>NET BOOK VALUE</b>	
At 31 December 2004	555
	<hr/> <hr/>
At 31 December 2003	740
	<hr/> <hr/>

## NOTES

### TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

#### 17. INTANGIBLE ASSETS

	<b>Patent</b> HK\$'000	<b>Beneficial rights to drugs under development</b> HK\$'000	<b>Total</b> HK\$'000
<b>THE GROUP</b>			
<b>COST</b>			
At 1 January and 31 December 2004	4,705	46,744	51,449
<b>AMORTISATION</b>			
At 1 January 2004	3,995	–	3,995
Provided for the year	710	–	710
At 31 December 2004	4,705	–	4,705
<b>NET BOOK VALUES</b>			
At 31 December 2004	–	46,744	46,744
At 31 December 2003	710	46,744	47,454

Patent represents the acquired exclusive right to use certain technologies for the manufacture of certain biopharmaceutical products. The patent is amortised over the remaining period of the exclusive rights assigned to the Group of four years.

No amortisation will be provided for drug under development not yet available for use. The amortisation of the cost of the beneficial rights to drugs under development will commence when the underlying drugs are fully developed and are ready for commercial production.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 18. INTEREST IN AN ASSOCIATE

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Share of net assets	–	–
Amount due from an associate	<b>6,890</b>	6,258
	<b>6,890</b>	6,258
Less: Allowance for amount due from an associate	<b>(6,890)</b>	(6,258)
	–	–

Particulars of the Group's associate at 31 December 2004 are set out in note 44.

### 19. PAYMENTS FOR INVESTMENTS

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Deposits paid for the acquisition of subsidiaries (note a)	<b>34,132</b>	14,143
Deposits paid for the acquisition of beneficial rights to drugs under development (note b)	<b>34,697</b>	7,000
Consultancy fees for soliciting the drugs under development projects capitalised	<b>1,126</b>	–
	<b>69,955</b>	21,143

Notes:

- (a) On 27 December 2003, LifeTec (Holdings) Limited ("LifeTec Holdings"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with an independent party for the acquisition of the entire issued share capital of LGH Limited for a cash consideration of RMB16,000,000 (equivalent to HK\$15,086,000). LGH Limited is a limited liability company incorporated in the British Virgin Islands and holds the rights to a new drug project. As at 31 December 2003 and 31 December 2004, the deposits paid by the Group for the acquisition of LGH Limited amounted to RMB15,000,000 (equivalent to HK\$14,143,000).

On 1 March 2004, LifeTec Holdings entered into a conditional sale and purchase agreement with an independent party to acquire 1 ordinary share in Anica Ltd., representing 100% of the issued share capital of Anica Ltd., for a cash consideration of RMB22,200,000 (equivalent to HK\$20,932,000). Anica Ltd. is a limited liability company incorporated in the British Virgin Islands and holds the rights of a new drug project. The deposit paid by the Group for the acquisition of Anica Ltd. on the date of the agreement amounted to RMB21,200,000 (equivalent to HK\$19,989,000).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 19. PAYMENTS FOR INVESTMENTS (continued)

Notes: (continued)

- (b) On 26 July 2002, LifeTec Holdings entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of HK\$7,609,000. The amount paid by the Group amounting to HK\$7,000,000 at 31 December 2003 represents the partial consideration paid under the agreement. On 28 March 2004, the Group transferred of its beneficial rights to this drug development project to be acquired with carrying value of HK\$7,000,000 for a consideration of RMB7,000,000 (equivalent to HK\$6,600,000), resulting in a loss on disposal of HK\$400,000.

On 2 June 2004, Hainan Kangwei Medicine Co. Ltd., a subsidiary of the Company, entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB15,000,000 (equivalent to HK\$14,143,000). The amount paid by the Group amounting to RMB14,000,000 (equivalent to HK\$13,200,000) at 31 December 2004 represents the partial consideration paid under the agreement.

On 8 October 2004, Hainan Kangwei Medicine Co. Ltd. entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB12,000,000 (equivalent to HK\$11,314,000). The amount paid by the Group amounting to RMB11,000,000 (equivalent to HK\$10,371,000) at 31 December 2004 represents the partial consideration paid under the agreement.

On 2 November 2004, Hainan Kangwei Medicine Co. Ltd. entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB12,800,000 (equivalent to HK\$12,087,000). The amount paid by the Group amounting to RMB11,800,000 (equivalent to HK\$11,126,000) at 31 December 2004 represents the partial consideration paid under the agreement.

### 20. PROMISSORY NOTES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Maturity dates of the promissory notes are as follows:		
30 December 2003	–	10,260
30 May 2004	–	10,260
30 October 2004	–	10,259
30 March 2005	<b>10,259</b>	10,259
	<b>10,259</b>	41,038
Less: Amount due within one year classified as current assets	<b>(10,259)</b>	(30,779)
Amount due after one year	–	10,259

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 20. PROMISSORY NOTES (continued)

The promissory notes represent the partial consideration receivable resulting from the disposal of certain subsidiaries during the year ended 31 December 2003. Details of the disposal of subsidiaries are set out in note 35. The promissory notes bear interest at prevailing market rate and are secured by a first mortgage over the entire issued share capital of Goldstone International Holdings Limited (“Goldstone”), the holding company of the disposed subsidiaries, and the assignment of the benefit of all the shareholders’ loan to Goldstone after the disposal and before the full repayment of the promissory notes. The outstanding amount has been fully settled after the balance sheet date.

### 21. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<b>HK\$’000</b>	HK\$’000
Unlisted shares, at cost	<b>48,726</b>	48,726
Impairment loss	<b>(48,726)</b>	(48,726)
	—	—
Amount due from a subsidiary less allowance	<b>226,101</b>	208,315
	<b>226,101</b>	208,315

The cost of the unlisted shares is based on the underlying net tangible assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation in 1996.

Particulars of the Company’s subsidiaries as at 31 December 2004 are set out in note 43.

### 22. INVENTORIES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$’000</b>	HK\$’000
Finished goods, at cost	—	38

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 23. DEBTORS AND PREPAYMENTS

The Group allows credit periods to its trade debtors on a case by case basis. The aging analysis of the trade debtors, based on date of invoice, is as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade debtors		
Within 30 days (note a)	<b>2,633</b>	32,157
31 – 60 days	<b>1,303</b>	2,221
61 – 90 days	<b>1,915</b>	1,535
91 – 180 days	<b>9,370</b>	1,603
181 – 365 days	<b>36,112</b>	–
Over 365 days	<b>3,052</b>	–
	<b>54,385</b>	37,516
Balance of consideration receivable resulting from disposal of subsidiaries (note b)	–	1,300
Amount due from a former subsidiary (note 26)	<b>4,330</b>	14,543
Loan to an independent third party (note c)	<b>3,133</b>	–
Balance of consideration receivable resulting from disposal of beneficial rights to a drug under development	<b>943</b>	–
Other debtors and prepayments	<b>3,436</b>	4,486
	<b>66,227</b>	57,845

Notes:

- (a) Included in the balance at 31 December 2003 was an amount of HK\$28,080,000, representing the trade debt due from a distributor in Cambodia, which was fully settled during the year.
- (b) The amount was unsecured, interest free and fully settled during the year.
- (c) The amount is unsecured, carries interest at 3% per annum and has been fully repaid after the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 24. INVESTMENTS IN SECURITIES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Other investments:		
Equity securities listed in Hong Kong, at market value	–	73,243

Included in the equity securities at 31 December 2003 was an amount of HK\$52,000,000, representing the Group's investment in Mexan Limited, a company incorporated in Bermuda with its shares listed on the Stock Exchange. The Group's investment represented a 1.53% of the issued share capital of Mexan Limited at 31 December 2003. The Group disposed of all the equity securities during the year.

### 25. ADVANCES TO CONSULTING COMPANIES

The amount represents the outstanding receivables from four consulting companies established in the PRC. Pursuant to an agreement entered into between one of these consulting companies and Shanghai Youheng in July 2003 and three other agreements entered into between each of the remaining three consulting companies and Shanghai Youheng in July 2004, Shanghai Youheng has appointed these consulting companies:

- (a) to solicit potential biopharmaceutical investments projects in the PRC and to provide consultancy services to the related investments for a service fee of 3% on the amount to be invested in the projects by Shanghai Youheng; and
- (b) to make payment of earnest money for potential investment projects or cost of investment from the outstanding receivables after obtaining the approval from Shanghai Youheng.

All the above agreements will expire on 30 June 2006. The outstanding receivables are unsecured, carry interests at 1% per annum and have been fully settled after the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 26. CREDITORS AND ACCRUED CHARGES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
The aging analysis of trade creditors is as follows:		
Within 30 days	–	5,343
31 – 60 days	–	876
61 – 90 days	–	660
More than 90 days	–	848
	–	7,727
Value added tax payable	<b>6,611</b>	1,191
Other creditors and accrued charges	<b>8,970</b>	7,604
	<b>15,581</b>	16,522

The Group's major supplier during the year ended 31 December 2004 was a former subsidiary disposed of in last year as set out in note 35. The purchases during the year from this former subsidiary were settled by crediting the amount receivable from this former subsidiary. As at 31 December 2004, the amount receivable from this former subsidiary amounted to HK\$4,330,000 (2003: HK\$14,543,000) as set out in note 23.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 27. BANK BORROWINGS

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Mortgage loans	<b>298</b>	420
Bank loans	<b>2,597</b>	6,276
	<b>2,895</b>	6,696
<hr/>		
Of which:		
Secured	<b>298</b>	621
Unsecured	<b>2,597</b>	6,075
	<b>2,895</b>	6,696
<hr/>		
The terms of repayment of the bank borrowings are analysed as follows:		
Within one year or on demand	<b>2,725</b>	2,696
More than one year, but not exceeding two years	<b>135</b>	2,719
More than two years, but not exceeding five years	<b>35</b>	1,281
	<b>2,895</b>	6,696
Less: Amount due within one year shown under current liabilities	<b>(2,725)</b>	(2,696)
	<b>170</b>	4,000
<hr/>		

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum		Present value	
	lease payments		of minimum	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>				
Amount payable under finance leases				
due within one year	–	46	–	44
Less: Future finance charges	–	(2)	–	–
<hr/>				
Present value of lease obligations –				
Amount due within one year	–	44	–	44
<hr/> <hr/>				

### 29. DEFERRED TAX LIABILITY

The balance as at 31 December 2003 and 31 December 2004 represents the deferred tax liability recognised in respect of the temporary difference attributable to the intangible assets acquired in relation to the acquisition of interests in Shanghai Youheng (note 34). There was no movement in deferred tax liability during the year.

At 31 December 2004, the Group has unused tax losses of HK\$105,762,000 (2003: HK\$85,227,000) available to offset against future taxable profits. During the year, additional tax loss of HK\$2,905,000 of a subsidiary of the Company relating to prior year was agreed with the tax authority and tax loss of HK\$9,204,000 of the Company relating to prior year was disagreed by the tax authority. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$2,393,000 (2003: HK\$842,000) that will be expired from 2005 to 2009. Other losses may be carried forward indefinitely.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 30. SHARE CAPITAL

	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Number</b>	Number	<b>HK\$'000</b>	HK\$'000
	<b>of shares</b>	of shares		
Shares of HK\$0.01 each				
Authorised:				
At beginning and at end of the year	<b>10,000,000,000</b>	10,000,000,000	<b>100,000</b>	100,000
Issued and fully paid:				
At beginning of the year	<b>2,576,618,919</b>	1,717,745,946	<b>25,766</b>	17,177
Rights issue (note a)	–	858,872,973	–	8,589
Issue of shares upon exercise of share options (note 31)	<b>105,500,000</b>	–	<b>1,055</b>	–
Issue of shares upon exercise of warrants (note 32)	<b>40,440,000</b>	–	<b>404</b>	–
Repurchase of shares (note b)	<b>(148,006,000)</b>	–	<b>(1,480)</b>	–
At end of the year	<b>2,574,552,919</b>	2,576,618,919	<b>25,745</b>	25,766

Notes:

- (a) On 10 July 2003, the Company issued 858,872,973 new shares in the Company of HK\$0.01 each by way of a rights issue on the basis of one new share for every two then existing shares at an issue price of HK\$0.10 per new share (the “Rights Issue”). These new shares rank pari passu with the existing shares in all respect.
- (b) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
March 2004	36,506,000	0.157	0.146	5,549
April 2004	530,000	0.167	0.167	89
May 2004	49,654,000	0.169	0.155	8,093
June 2004	13,200,000	0.171	0.166	2,232
July 2004	48,116,000	0.170	0.144	7,556
	<b>148,006,000</b>			<b>23,519</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 30. SHARE CAPITAL (continued)

The above shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

All the new shares issued during the year rank pari passu in all respects with the existing shares.

### 31. SHARE OPTIONS

On 15 July 2002, the Company terminated the share option scheme of the Company adopted on 3 January 1997 (the "Old Share Option Scheme") and adopted a new share option scheme (the "New Share Option Scheme") as a result of the changes in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to share option scheme.

#### Old Share Option Scheme

The purpose of the Old Share Option Scheme is to provide incentives to the directors and employees of the Group. As the Old Share Option Scheme has been terminated, no more option can be issued pursuant to the Old Share Option Scheme but in all other respects the provisions of the Old Share Option Scheme shall remain in force. The maximum entitlement of each participant shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Old Share Option Scheme. The period within which the shares must be taken up under an option shall not be later than 3 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. Each eligible employee has a choice to accept the share options granted within 21 days from the date of grant and no consideration is payable on acceptance of an option. The subscription price is the higher of the (i) the nominal value of a share and (ii) a price not less than 80% of the average of the closing prices of the share quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options.

#### New Share Option Scheme

The purpose of the New Share Option Scheme is to provide incentives or rewards for the contribution by the directors and employees of the Group; any supplier of goods or services to the Group; any customer of the Group; any adviser or consultant of the Group; any person or entity that provides research, development or other technological support to the Group; or any shareholders of the Group. The period within which the shares must be taken up under an option of the New Share Option Scheme shall not be more than 5 years from the date of the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK\$1 is payable on acceptance of an option within 21 days from the date of grant.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 31. SHARE OPTIONS *(continued)*

#### **New Share Option Scheme** *(continued)*

Initially, the total number of shares in respect of which options may be granted under the New Share Option Scheme must not in aggregate exceed 10% of the shares in issue as at 15 July 2002, being the date of adoption of the New Share Option Scheme, without prior approval from the Company's shareholders. Pursuant to an ordinary resolution passed by the shareholders at a special general meeting held on 19 April 2004, the number of shares in respect of which options may be granted has been refreshed to 10% of the number of shares in issue as at 19 April 2004. The total number of shares issued and to be issued upon exercise of the options granted to each individual in any twelve-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the five anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the offer date.

The total number of shares may be issued upon exercise of all outstanding options granted and yet to be exercised under the Old Share Option Scheme and the New Share Option Scheme must not exceed 30% of the shares in issue from time to time.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 31. SHARE OPTIONS (continued)

#### New Share Option Scheme (continued)

Details of the movements in share options granted under the Old Share Option Scheme and the New Share Option Scheme during each of the two years ended 31 December 2004 are set out as follows:

Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			Outstanding at 31.12.2004
			Outstanding at 1.1.2004	Granted during the year	Exercised during the year	
Category: Directors						
<i>New Share Option Scheme</i>						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	3,500,000	-	-	3,500,000
Category: Employees						
<i>New Share Option Scheme</i>						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	76,825,000	-	(37,500,000)	39,325,000
13.08.2004	01.09.2004 to 12.08.2009	0.08100	-	4,000,000	-	4,000,000
Category: Consultants						
<i>New Share Option Scheme</i>						
27.11.2003	27.11.2003 to 26.11.2008	0.08800	91,375,000	-	(68,000,000)	23,375,000
13.08.2004	01.09.2004 to 12.08.2009	0.08100	-	200,000,000	-	200,000,000
01.11.2004	01.11.2004 to 31.10.2009	0.08600	-	50,000,000	-	50,000,000
Total all categories			171,700,000	254,000,000	(105,500,000)	320,200,000

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 31. SHARE OPTIONS (continued)

#### New Share Option Scheme (continued)

Date of grant	Exercisable period	Rights Issue	Exercise price per share prior to the Rights Issue	Exercise price adjusted for the effect of the Rights Issue	Number of share options				
					Outstanding at 1.1.2003	Granted during the year	Adjustment due to the Rights Issue	Lapsed/ cancelled during the year	Outstanding at 31.12.2003
Category: Directors									
<i>Old Share Option Scheme</i>									
02.06.2000	02.06.2000 to 01.06.2003	0.06848	N/A		43,600,000	-	-	(43,600,000)	-
<i>New Share Option Scheme</i>									
27.11.2003	27.11.2003 to 26.11.2008	N/A	0.08800		-	3,500,000	-	-	3,500,000
					43,600,000	3,500,000	-	(43,600,000)	3,500,000
Category: Employees									
<i>Old Share Option Scheme</i>									
19.04.2000	19.04.2000 to 18.04.2003	0.24000	N/A		1,500,000	-	-	(1,500,000)	-
05.06.2001	05.06.2001 to 04.06.2004	0.19600	0.13060		2,500,000	-	1,250,000	(3,750,000)	-
07.05.2002	07.05.2002 to 06.05.2005	0.14460	0.09640		5,000,000	-	2,500,000	(7,500,000)	-
08.05.2002	08.05.2002 to 07.05.2005	0.14580	0.09720		2,500,000	-	1,250,000	(3,750,000)	-
<i>New Share Option Scheme</i>									
27.11.2003	27.11.2003 to 26.11.2008	N/A	0.08800		-	76,825,000	-	-	76,825,000
					11,500,000	76,825,000	5,000,000	(16,500,000)	76,825,000
Category: Consultants									
<i>New Share Option Scheme</i>									
27.11.2003	27.11.2003 to 26.11.2008	N/A	0.08800		-	91,375,000	-	-	91,375,000
Total all categories					55,100,000	171,700,000	5,000,000	(60,100,000)	171,700,000

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 31. SHARE OPTIONS *(continued)*

#### **New Share Option Scheme** *(continued)*

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

- (a) identify potential strategic investors and financial investors for the Group;
- (b) assist the Group in negotiating with the potential strategic investors and financial investors;
- (c) provide consultancy services in relation to the drug development business of the Group; and
- (d) carry out other duties as appropriate and as agreed with LifeTec Holdings.

The fair values of the 91,375,000 share options and 250,000,000 share options granted by the Company to the consultants during the years ended 31 December 2003 and 31 December 2004 amounted to HK\$3,718,000 and HK\$13,743,000 respectively. An amount of HK\$17,461,000 was credited to option reserve of the Company and the Group during the year. In the opinion of the directors of the Company, as the future economic benefits in relation to the services to be provided by these consultants are uncertain, the whole amount of HK\$17,461,000 has been charged to the income statement for the current year.

Total consideration received during the year from directors, employees and consultants for accepting the options granted amounted to HK\$12 (2003: HK\$15).

The fair value of the Company's share at the respective dates of the exercise of the 105,500,000 share options during the year ended 31 December 2004 was HK\$20,268,000 in aggregate.

### 32. WARRANTS

	<b>Warrants in registered form</b>	
	<b>Number</b>	<b>Value</b> HK\$'000
Issued on 23 February 2004 (note a)	340,000,000	26,520
Expenses incurred in connection with the issue of warrants	–	(1,953)
Exercise of warrants (note b)	(40,440,000)	(2,922)
Repurchase of warrants (note c)	(21,960,000)	(1,587)
At 31 December 2004	277,600,000	20,058

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 32. WARRANTS (continued)

Notes:

- (a) On 23 February 2004, the Company issued, by way of private placement, 340,000,000 warrants at a placing price of HK\$0.078 per warrant. The warrants are in registered form, which entitle the holders of the warrants the right to subscribe up to HK\$34,680,000 in aggregate in cash for shares of HK\$0.01 each in the Company at an initial subscription price of HK\$0.102 per share (subject to adjustments) during the period from 23 February 2004 to 26 February 2005 (both dates inclusive). The warrants have been listed on the Stock Exchange since 27 February 2004.

Exercise in full of the warrants would result in an issue of 340,000,000 shares of HK\$0.01 each in the Company and the shares to which the warrants relate represent approximately 13.2% of the then existing issued share capital of the Company and approximately 11.7% of the enlarged issued share capital of the Company if the subscription rights attached to the warrants have been exercised in full.

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

- (b) During the year, the registered holders of 40,440,000 warrants exercised their rights to subscribe for 40,440,000 shares of HK\$0.01 each in the Company at HK\$0.102 per share. These shares rank pari passu with the existing shares in all respect.
- (c) During the year, the Company repurchased 21,960,000 warrants and cancelled such warrants upon repurchase.

Details of which are as follows:

Month of repurchase	Number of warrants repurchased	Price per warrant		Aggregate consideration paid HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
June 2004	1,960,000	0.074	0.070	142
July 2004	20,000,000	0.066	0.054	1,179
	21,960,000			1,321

- (d) Subsequent to the balance sheet date, the registered holders of 74,420,000 warrants exercised their rights to subscribe for 74,420,000 shares of HK\$0.01 each in the Company at HK\$0.102 per share. All the remaining warrants lapsed after 26 February 2005.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 33. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000 (Note)	Warrant reserve HK\$'000	Option reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>THE COMPANY</b>						
At 1 January 2003	240,779	110,223	–	–	(234,730)	116,272
Issue of shares	77,298	–	–	–	–	77,298
Expenses incurred in connection with the issue of shares	(4,696)	–	–	–	–	(4,696)
Loss for the year	–	–	–	–	(6,849)	(6,849)
At 31 December 2003	313,381	110,223	–	–	(241,579)	182,025
Issue of warrants	–	–	26,520	–	–	26,520
Expenses incurred in connection with the issue of warrants	–	–	(1,953)	–	–	(1,953)
Issued of shares	14,872	–	(2,922)	–	–	11,950
Repurchase of warrants	–	–	(1,587)	–	–	(1,587)
Surplus arising on repurchase of warrants	–	–	–	–	266	266
Repurchase of shares	(22,039)	–	–	–	–	(22,039)
Equity-settled consultancy services	–	–	–	17,461	–	17,461
Loss for the year	–	–	–	–	(13,078)	(13,078)
At 31 December 2004	306,214	110,223	20,058	17,461	(254,391)	199,565

Note: Contributed surplus represents the aggregate of:

- (i) the difference between the consolidated shareholders' funds of LifeTec (Holdings) Limited at the date on which the group reorganisation became effective and the nominal amount of the share capital of the Company issued under the group reorganisation and after distributions, and
- (ii) the effects of the capital reduction, share premium cancellation and elimination of deficit, took place in 1999.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### **33. RESERVES** (continued)

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company did not have reserves available for distribution to shareholders as at 31 December 2003 and 31 December 2004.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 34. ACQUISITION OF SUBSIDIARIES

During the year ended 31 December 2003, the Group acquired the entire interest in the registered capital of Shanghai Youheng for a consideration of approximately HK\$40,072,000 and the entire interest in the registered capital of Hainan Kangwei for a consideration of approximately HK\$2,829,000. Details of the net assets of the subsidiaries acquired were as follows:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Property, plant and equipment	–	524
Intangible assets	–	46,084
Inventories	–	4
Debtors and prepayments	–	308
Bank balances and cash	–	2,074
Creditors and accrued charges	–	(124)
Deferred tax liability	–	(6,912)
<hr/>		
Net assets acquired	–	41,958
Goodwill arising on acquisition	–	943
<hr/>		
Total consideration	–	42,901
<hr/> <hr/>		
Satisfied by:		
Cash	–	4,715
Deposits paid in 2002	–	38,186
<hr/>		
	–	42,901
<hr/> <hr/>		
Net cash outflow arising on acquisition:		
Cash consideration	–	(4,715)
Bank balances and cash acquired	–	2,074
<hr/>		
	–	(2,641)
<hr/> <hr/>		

The subsidiaries acquired during the year ended 31 December 2003 contributed HK\$12,434,000 to the Group's turnover and HK\$1,407,000 to the Group's profit from operations for the year ended 31 December 2003.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 35. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2003, the Group disposed of its entire interest in the issued share capital of Goldstone and the shareholder's loan advanced by the Group to Goldstone for a total consideration of RMB58,300,000 (approximately HK\$55,000,000). The principal activity of Goldstone was investment holding in a 65.7% equity interests in Weihai Sinogen Pharmaceutical Co., Ltd., a company engaged in research, development, manufacturing and sales of biopharmaceutical products. Details of the net assets of the subsidiaries disposed of were as follows:

	2004 HK\$'000	2003 HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	–	45,586
Goodwill	–	1,553
Inventories	–	2,393
Debtors and prepayments	–	22,928
Bank balances and cash	–	2,527
Creditors and accrued charges	–	(26,035)
Amount due to immediate holding company	–	(80,296)
Minority interests	–	(17,428)
Net liabilities disposed of	–	(48,772)
Assignment of amount due from Goldstone	–	80,296
Attributable goodwill	–	38,571
Translation reserve realised	–	(147)
Loss on disposal of subsidiaries	–	(14,948)
Total consideration	–	55,000
Satisfied by:		
Cash	–	13,962
Promissory notes (note 20)	–	41,038
	–	55,000
Net cash inflow arising on disposal:		
Cash consideration	–	13,962
Bank balances and cash disposed of	–	(2,527)
	–	11,435

## NOTES

### TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

#### 35. DISPOSAL OF SUBSIDIARIES (continued)

The subsidiaries disposed of during the year ended 31 December 2003 contributed HK\$16,548,000 to the Group's turnover and HK\$2,403,000 to the Group's profit from operations for the year ended 31 December 2003.

The income statement of Goldstone and its subsidiary for the period from 1 January 2003 to 31 July 2003 (the effective date of disposal), based on the unaudited consolidated management accounts, is analysed as follows:

	1.1.2003 to 31.7.2003 HK\$'000
Turnover	16,548
Cost of sales	(2,238)
<hr/>	
Gross profit	14,310
Other operating income	2
Marketing, selling and distribution costs	(7,830)
Administrative expenses	(4,079)
<hr/>	
Profit from operations	2,403
Finance costs	(6)
<hr/>	
Profit before taxation	2,397
Income tax expense	–
<hr/>	
Profit before minority interests	2,397
Minority interests	(1,768)
<hr/>	
Profit for the period	629

#### 36. PLEDGE OF ASSETS

At 31 December 2004, the Group's bank borrowings were secured by charges over properties of the Group with aggregate net book value of approximately HK\$1,070,000 (2003: HK\$4,295,000).

At 31 December 2003, the Group's investments in securities amounting to HK\$54,200,000 were pledged to a securities broker to secure the margin facilities amounting to HK\$10,730,000 granted to the Group. All the securities were disposed of during the year ended 31 December 2004.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 37. CONTINGENT LIABILITIES

#### THE COMPANY

The Company has given guarantees to banks to secure general banking facilities granted to the subsidiaries. The extent of such facilities utilised by the subsidiaries as at 31 December 2004 amounted to approximately HK\$2,597,000 (2003: HK\$6,276,000).

#### THE GROUP

On 15 September 1999, LifeTec Enterprise Limited (“LifeTec Enterprise”), a subsidiary of the Company, was named as a defendant in a High Court action in respect of an alleged failure to repay a loan in amount of HK\$20,000,000. The plaintiff took out an application for summary judgment under Order 14 of the Rules of the High Court on 6 October 1999 and in the hearing of the application on 25 October 1999, LifeTec Enterprise was given unconditional leave to defend the plaintiff’s claim in the above action. LifeTec Enterprise filed its Defence on 8 November 1999. The plaintiff should have filed its reply, if any, fourteen days thereafter, but LifeTec Enterprise had not received any reply from the plaintiff and the time for the plaintiff to file the same has long expired and the pleadings should be deemed to be closed. The directors believe that there is no ground for the above claim and it will not have any material adverse impact on the Group’s operations.

### 38. OPERATING LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	1,665	1,983	736	1,227
In the second to fifth year inclusive	101	7	–	–
	<b>1,766</b>	1,990	<b>736</b>	1,227

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 39. CAPITAL AND OTHER COMMITMENTS

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of subsidiaries	<b>1,886</b>	943
Acquisition of the beneficial rights to drugs under development	<b>2,828</b>	609
	<b>4,714</b>	1,552
Research and development expenditure contracted for but not provided in the financial statements	<b>12,925</b>	13,571

### 40. RETIREMENT BENEFIT SCHEME

#### **Hong Kong**

The Group has joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the MPF Scheme.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

The Group's contribution under the MPF Scheme for the year amounted to HK\$109,000 (2003: HK\$123,000).

#### **PRC**

According to the relevant laws and regulations in the PRC, the Group's subsidiaries in the PRC are required to contribute a specified percentage of the payroll of their employees to the retirement benefit schemes to fund the retirement benefits of their employees. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the respective schemes.

The Group's contribution under the respective schemes for the year amounted to HK\$85,000 (2003: HK\$75,000).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 41. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, Hainan Kangwei Medicine Co. Ltd., a subsidiary of the Company, entered into two agreements with independent third parties to acquire the beneficial rights to two drug development projects for an aggregate cash consideration of RMB21,000,000 (equivalent to HK\$19,800,000).

### 42. RELATED PARTY TRANSACTIONS

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

	Directors		Associate	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>THE GROUP</b>				
Management fee income (note a)	–	–	240	240
Maintenance expenses paid (note a)	–	–	120	120
<hr/>				
Amount due from related party (note b)	–	–	6,890	6,258
Amount due to related party (note b)	524	364	–	–
<hr/>				
<b>THE COMPANY</b>				
Amount due to related party (note b)	524	364	–	–
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Notes:

- (a) The transactions were charged at predetermined amount agreed between the parties involved.
- (b) The amounts are unsecured, interest-free and have no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 43. SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued/ registered capital held by the Group	Principal activities
Asset Manager Enterprises Limited	Hong Kong	HK\$100	100%	Property holding
CTI Limited	Hong Kong	HK\$10	70%	General trading
Hop Fu (Hong Kong) Trading Company Limited	Hong Kong	HK\$10,000	100%	Inactive
Golden Butterfly Investments Limited	British Virgin Islands	US\$100	95%	Investment holding
Gold Corner International Limited	British Virgin Islands	US\$1	100%	Investment holding
Hainan Kangwei Medicine Co., Ltd. (Note a)	PRC	RMB2,000,000	98.5%	Trading of biopharmaceutical products
LT Game Limited	British Virgin Islands	US\$1	100%	Investment holding
LifeTec Enterprise Limited	Hong Kong	HK\$100	100%	General trading
LifeTec Group (China) Limited	British Virgin Islands	US\$1	100%	Inactive
LifeTec (Holdings) Limited (Note b)	British Virgin Islands	HK\$141,176	100%	Investment holding
Longkou Sunny Link Leathering Co., Ltd. (Note c)	PRC	US\$3,100,000	68%	Manufacture and sale of PVC products

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 43. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued/ registered capital held by the Group	Principal activities
Shanghai Youheng Biotechnology Limited (Note d)	PRC	HK\$5,600,000	95%	Research and development of biopharmaceutical products
Sino Flow Investments Limited	British Virgin Islands	US\$1	100%	Trading of biopharmaceutical products
Sunny Link Trading Limited	Hong Kong	HK\$2	100%	General trading
Weihai Genen Biotech Limited (Note d)	PRC	US\$2,000,000	100%	Research and development of biopharmaceutical products
Yip Hing Toys Manufactory Limited	Hong Kong	HK\$100,000	100%	Inactive

Notes:

- (a) The subsidiary is established in the PRC as a domestic enterprise.
- (b) The subsidiary is directly held by the Company.
- (c) The subsidiary is established in the PRC as cooperative joint venture.
- (d) The subsidiaries are established in the PRC as wholly foreign owned enterprises.

Apart from Hainan Kangwei Medicine Co., Ltd., Longkou Sunny Link Leathering Co., Ltd., Shanghai Youheng Biotechnology Limited and Weihai Genen Biotech Limited which carry out their principal activities in the PRC, the principal activities of the remaining subsidiaries are carried out in Hong Kong.

None of the subsidiaries had any debt securities subsisting at 31 December 2004 or at any time during the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 44. ASSOCIATE

Particulars of the Group's associate as at 31 December 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation	Attributable proportion of nominal value of issued share capital indirectly held by the Group	Principal activities
LT3000 Online Limited	Incorporated	British Virgin Islands	47.47%	Development and trading of computer hardware and software

## FINANCIAL SUMMARY

	For the year ended 31 December				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
<b>RESULTS</b>					
Turnover	26,386	22,318	31,009	57,213	<b>64,179</b>
(Loss) profit before taxation	(93,226)	(62,704)	(18,107)	38,559	<b>(58,280)</b>
Income tax expenses	–	–	–	(7)	<b>(2,504)</b>
(Loss) profit before minority interests	(93,226)	(62,704)	(18,107)	38,552	<b>(60,784)</b>
Minority interests	605	5,446	(5,211)	(1,704)	<b>(208)</b>
(Loss) profit for the year	(92,621)	(57,258)	(23,318)	36,848	<b>(60,992)</b>

## ASSET AND LIABILITIES

	At 31 December				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
Total assets	131,692	119,416	151,295	289,834	<b>257,364</b>
Total liabilities and minority interests	(116,827)	(76,892)	(51,802)	(34,129)	<b>(32,054)</b>
Shareholders' funds	14,865	42,524	99,493	255,705	<b>225,310</b>