ANNUAL REPORT 2006

LifeTec

生命科技集團有限公司
LifeTec Group Limited

Stock code : 1180

Contents

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, Mr. SIN Sai Yung
Dr. MA Xianming, alias, Dr. MA Yin Ming
Mr. LAW Wing Kit, Stephen
Mr. PARK Aaron Changmin
Mr. Frank HU*
Mr. WANG Faqi*
Ms. MA Shiwei*

* *Independent Non-executive Directors*

Company Secretary

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

Solicitors

Vincent T.K. Cheung, Yap & Co.

Auditors

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

Principal Office

Room 907-908, 9/F.
Man Yee Building
68 Des Voeux 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
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Chairman's Statement

"During the year, the Group has made significant expansion in the gaming related business in Macau. Our LIVE Baccarat system has seen a significant increase in its installation base and has been added in a number of casinos in Macau."

Chairman's Statement

On behalf of the Board of Directors, I am delighted to present the annual report and audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

BUSINESS REVIEW

During the year, the Group has made significant expansion in the gaming related business in Macau. Our LIVE Baccarat system has seen a significant increase in its installation base and has been added in a number of casinos in Macau. The LIVE Baccarat game has seen very strong performance amongst casino goers in 2006, and we foresee that this momentum will continue into the future. On the other segment of the Group, the biopharmaceutical business in China continued to see sales growth of 10%, year-on-year, from about HK$83,730,000 in 2005 to a record high of about HK$91,716,000 in 2006. Our China biopharmaceutical operations posted an operating loss of about HK$12,860,000, representing an increase of about 161% compared with that of the previous year.

Turnover and Profit

The Group reported a turnover of about HK$94,669,000 for the year ended 31 December 2006, representing an increase of about 11% as compared to about HK$85,478,000 for the previous year. Overall, gross profit margin for the year ended 31 December 2006 dropped from about 30% to 16%, whereas operating loss of about HK$23,095,000 for 2005 increased to about HK$51,613,000 for the year ended 31 December 2006. The Group reported a loss attributable to equity holders of the Company of about HK$47,704,000 or 1.65 Hong Kong cents per share for the year ended 31 December 2006, compared to a net loss attributable to equity holders of the Company of about HK$24,095,000 or 0.9 Hong Kong cents per share for the previous year.

The loss was mainly attributed to an increase in costs of sales as well as administrative expenses. Due to increased competition in the PRC pharmaceutical industry, gross margins for the year ended 31 December 2006 inevitably narrowed. However, given this competitive backdrop, the Group continued to see expansion in its biopharmaceutical sales in 2006.

Gaming Related Business

The Group's gaming related business achieved outstanding progress in 2006. Our flagship product LIVE Baccarat system has entered the Macau gaming market under an income-sharing arrangement with casino operators. Our LIVE Baccarat system began its maiden operation with 20 terminals in May 2006, located in the New Century Greek Mythology Casino. Due to strong market demand, the number increased to 240 terminals by the end of December 2006, located in four casinos under the gaming concession of Sociedade de Jogos de Macau, S.A. ("SJM") as follows:

	No. of terminals installed	*Launch date*
• Lisboa–Monalisa Casino	120	November 2006
• Jai Alai Casino	40	December 2006
• Holiday Inn Diamond Casino	40	September 2006
• New Century Greek Mythology Casino	40	May 2006

Chairman's Statement

The customers' responses to the LIVE Baccarat game at these sites have exceeded our expectations in 2006. Very often during peak hours, customers found it difficult to find a terminal for participating in the game. Our customer survey poll conducted in 2006, indicated that LIVE Baccarat customers enjoyed playing LIVE Baccarat primarily for its comfortable wagering environment and the more rapid card dealing process compared to traditional baccarat tables. In addition, customers noted positively that they were free from disturbance by other players and bystanders as each customer placed bets through a touch screen on their own terminal.

LIVE Baccarat Performance in 2006

Gross Bet Turnover	**HK$633 million**
Total Net Win	**HK$6.5 million**
No. Of Terminals At Year End	**240 units**
No. Of Sites At Year End	**4 casinos**

LIVE Baccarat is conducted through our proprietary electronic gaming system which combines traditional baccarat card dealing by a live casino dealer with a digital network of touch screen betting terminals. It aims to provide a unique and exciting gaming experience for players of baccarat, which is the most popular casino game in Macau. Real time images of card dealing are broadcasted to the screens of the betting terminals. One unique advantage of the LIVE Baccarat system is that it can largely enhance the productivity of a casino table as a dealer can serve more customers with our system than a dealer at a traditional baccarat table. For example, at our LIVE Baccarat site at the Lisboa-Monalisa Casino, only two dealers are required to operate four LIVE Baccarat dealing tables which link up to 120 terminals. On average over 1,000 games are dealt by a LIVE Baccarat table per day, exceeding the 600 games handled by a traditional baccarat table. Our LIVE Baccarat system offers casino operators a timely solution to the acute shortage of skilled card dealers and escalating staffing costs in Macau.

The gaming business of the Group is conducted through our subsidiary, LT Game Limited ("LT Game"). In April 2006, LT Game entered into a gaming income sharing agreement with SJM, the leading gaming concessionaire in Macau, for the launch of the LIVE Baccarat system in SJM's casinos. Under the agreement with SJM, LT Game shall supply LIVE Baccarat the system to SJM and bear staffing costs of card dealers. In return, LT Game is entitled to share 31% of pretax gaming income from the LIVE Baccarat gaming activities and install LIVE Baccarat system in one or more of the casinos operated by SJM.

LT Game holds all the intellectual property rights of the LIVE Baccarat system. LT Game has filed a patent application for the rules and system of LIVE Baccarat in the United States and Macau. The application for the product invention has also been filed under the Patent Cooperation Treaty. These patent applications were published in August and September of 2006 in United States and Macau, respectively. LT Game has also engaged Technical Systems Testing Pty. Ltd. ("TST"), one of the world's leading gaming equipment certification bodies, to conduct an evaluation on the LIVE Baccarat system. The First Pass Evaluation Report was issued by TST in March 2007.

As a majority of the LIVE Baccarat terminals were launched in the last quarter of 2006, the gaming division did not contribute significantly to the Group's turnover and operating income, despite the strong market response to the game. Net win generated by LIVE Baccarat in 2006 amounted to about HK$6,500,000, of which 31% was shared by LT Game.

Chairman's Statement

Biopharmaceutical Business

The Group's biopharmaceutical business is conducted under LifeTec Pharmaceutical Limited ("LifeTec Pharmaceutical"). The turnover of LifeTec Pharmaceutical for the year ended 31 December 2006 increased from about HK$83,730,000 to about HK$91,716,000, representing a year-on-year rise of about 10%. Gross profit for the year ended 31 December 2006 decreased by about 14% compared to that of the previous year. Gross profit for the year ended 31 December 2006 reduced due to the intense market competition. The cost control measures effectively reduced marketing, selling and distribution expenses from about HK$19,906,000 for previous year to about HK$15,628,000 for the year ended 31 December 2006.

Marketing, Sales and Distribution

LifeTec Pharmaceutical adopted new initiatives to consolidate direct sales team by teaming up with renowned drug distributors. The replacement of sales agents in a number of cities resulted in a dramatic increase in sales performance. In 2006, LifeTec Pharmaceutical sponsored and participated in the first Beijing Ditan Infectious Diseases Symposium. Over 300 infectious disease experts joined the symposium. Highlights of the event included a leading liver disease expert delivered an in-depth presentation on the characteristics and efficacy of Wei Jia, LifeTec Pharmaceutical's leading Hepatitis B drug. The event helped to further strengthen the position of Wei Jia amongst medical professionals in China. In addition, LifeTec Pharmaceutical's sales representatives were present at the 55th Zhengzhou National Medicine Trade Fair, where they improved communication with its distribution agents and recruited new sales agents in areas where sales of Wei Jia have historically had low penetration rates. To broaden the sales base, the division introduced a wider range of generic drugs for distribution and extended the geographical span of its drug distribution business.

Research and Development

Satisfactory progress has been made in research and development projects in 2006, which has provided encouraging prospects for the following projects. Fibrocorin patent is in the final approval stage in the United States and is simultaneously being filed for the China national phase entry. Other generic injectable formulations are ready for final State Food and Drug Administration ("SFDA") approval for registration and are expected to be available for commercial production, sale and distribution in 2007.

Fibrocorin

Fibrocorin is a recombinant fusion protein and a potential new drug candidate for anti-cancer and anti-fibrosis applications. It was invented by LifeTec Pharmaceutical in conjunction with the research team of the City University of Hong Kong. Fibrocorin is a genetically engineered protein comprising an active component to alleviate fibrosis and a human immunoglobulin Fc region which extends the degradation rate. This novel recombinant protein has a more sustainable and profound treatment effect. Patent application has been filed by LifeTec Pharmaceutical for Fibrocorin in the United States (final stage) and China (national phase entry).

Recombinant Human Augmenter for Liver Regeneration ("rhALR")

rhALR is a revolutionary compound for the gene therapy of various kinds of liver diseases. Timely and satisfactory progress has been made in the rhALR project. We have gathered encouraging results in a rat liver model to demonstrate reduction in mortality and relief of liver failure. The next phase of experiments for rhALR would involve testing on human subjects. This involves approval by the SFDA based on the preclinical experimental data and the approval of hospital ethic committees. The expected duration for human trials will be around 18-24 months.

Pazufloxacin
Pazufloxacin is indicated for the treatment of bronchitis, complicated urinary tract infections and gonorrhea. Significant progress has been made in the Pazufloxacin project. The clinical trial design has been approved by ethic committees of participating hospitals. Phase I clinical trial has been completed by Clinical Pathology Laboratory, Beijing People's Liberation Army 301 Hospital. Based on the Phase I clinical trial results, safety and tolerability data on human subjects were established. Phase II clinical trials are expected to take approximately one year to complete, with results analysed before proceeding to registration approval.

Generic Drugs
A number of generic drugs are undergoing application procedures for production permits issued by the SFDA. These generic drugs can help to better utilize our existing sales channels which have been developed through our experience in selling Wei Jia. For each of these drugs, we have performed quality control tests to establish the return yield, purification process, production wastage, stability, clarity, heat tolerability and sterility. It is expected that the commercial production approval process for these drugs will commence in the second half of 2007.

We will continue to enrich our pharmaceutical product mix and strengthen our distribution network in China. By leveraging our existing network and client base, we are confident in our ability to improve our biopharmaceutical sales performance in this highly competitive market. As the PRC government is dedicated to improving the national public and private healthcare system, the prospects for infectious diseases medicine are highly promising. While we will be introducing more generic drugs to the China market, we will continue to dedicate efforts to our novel drugs under development in order to render more thorough solutions to various liver diseases in the long run.

Prospects

LIVE Baccarat system represents a new driver to the future growth of our Group. Our LIVE Baccarat system and business model are gaining more recognition amongst the market players. During first quarter of 2007, LT Game signed a collaboration agreement with Galaxy Casino, S.A., another leading gaming concessionaire in Macau, for the launch of the LIVE Baccarat system in Galaxy's Waldo Casino using a net win sharing basis. This collaboration brought the installation base of LIVE Baccarat terminals in Macau to 280 units in 5 casinos in April 2007. The net win of LIVE Baccarat has also picked up strongly in different sites since January 2007.

We also see strong demand for our gaming system in the international market. A number of casino operators in Asia and Europe have indicated their strong interest in installing the LIVE Baccarat system in their casinos. To strengthen our presence in the gaming equipment industry, we will participate in a number of gaming industry trade shows to exhibit our new gaming products in Macau and the United States in 2007.

Investors have also made their strong vote of confidence in our gaming related business. Four investors through an investment holding company subscribed a 18% interest in LT Game for about US$2 million in December 2006. These investors are experienced operators in the slot machine business and entertainment business in Japan and Korea, respectively. In March 2007, the founder of the Mocha Slot Group Limited (which runs a number of slot machines halls in Macau), subscribed HK$33 million worth of convertible notes issued by the Company, specifically for funding the Group's gaming related business. Their investments not only provide financing for LT Game, but also represent their endorsement of LT Game's business prospects and model. The Group also benefits from the expertise of these investors as they help to formulate our gaming business strategy.

Management is confident in its ability to expand the network of the LIVE Baccarat terminals in more casinos in Macau in 2007. At the same time, we plan to increase the number of terminals in existing LIVE Baccarat sites. Last but not least, we are developing other innovative casino games for the booming Macau gaming market. It is anticipated that the rapidly expanding LIVE Baccarat terminal base will give us the competitive edge to make our new games a success in Macau.

Chairman's Statement

Liquidity and Financial Resources

As at the balance sheet date, the Group's aggregate bank borrowings and finance leases stood at about HK$1,011,000 of which about HK$263,000 was payable within 12 months and about HK$748,000 was payable between 2 to 5 years. Current liabilities of the Group increased from about HK$24,964,000 to about HK$61,468,000, representing a rise of about 146%. The Group's net current assets decreased from about HK$84,235,000 to about HK$31,741,000 as at the balance sheet date. The Group's liabilities at the balance sheet date amounted to about HK$87,698,000. The percentage of total liabilities to total assets as at 31 December 2006 stood at about 29% which is higher than the corresponding figure of about 13% as of 31 December 2005.

As at 31 December 2006, the cash on hand and available credit facilities 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 do not consider specific hedges for currency fluctuation to be necessary.

CHARGES ON GROUP ASSETS

As at 31 December 2006, the assets of the Group which were subject to charges for securing bank borrowing and obligations under finance lease comprised HK$1,019,000 in respect of a property in Hong Kong and a motor vehicle with carrying amount of about HK$1,130,000 respectively.

ORGANIZATION AND STAFF

The Group has about 150 staff in total as at the balance sheet date. The majority of the staff includes sales and marketing executives located in China and service attendants of the Group's Macau gaming business. The Group is actively seeking key personnel to join the sales and marketing and research and development team in Macau in order to cope with the rapid 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.

APPRECIATION

The Group has made a number of outstanding records in 2006 in the launch of the Macau gaming related business. On behalf of the Board of Directors of the Company (the "Board"), I would like to thank our shareholders, bankers, professional parties and customers for their continuous support. I would also like to thank our executives and staff for their dedication and professionalism.

By Order of the Board
Jay Chun
Chairman

Hong Kong, 27 April 2007

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Jay Chun, aged 43, 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 16 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 44, 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 19 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 41, 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 18 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.

Mr. Law Wing Kit, Stephen, aged 54, has over 20 years of international managerial experience in the areas of investment services, corporate finance and securities. Prior to joining the Company, Mr. Law held the positions of managing director Capital Markets Group of UBS East Asia Limited in Singapore; managing director of Fidelity Investments (Singapore) Ltd. and executive director of Equity Transaction Group of Merrill Lynch Capital Markets Group respectively. Mr. Law was a director of the Singapore International Monetary Exchange Limited from 1985 to 1990.

Mr. Park Aaron Changmin, aged 30, has strong experience in corporate finance and investment market and has extensive experience in research and analysis in hotel, casino, restaurant, luxury goods and consumer products sectors. Prior to joining the Company, Mr. Park was a senior research associate at Capital International, Inc., and a senior associate of the Financial Restructuring Group at Houlihan Lokey Howard & Zukin. Mr. Park began his career in the Corporate Finance Group at Jefferies and Company and is a graduate of Cornell University.

Profile of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Frank Hu, aged 45, is a seasoned banker and businessman with over 19 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 51, has over 28 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 51, holds a master degree in business administration from Touro University International. She has over 19 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.

SENIOR MANAGEMENT

Mr. Zhu Weixiong, aged 51, 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 24 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 37, is the Group's Senior Vice President. He joined the Group in May 2002 and was appointed as Company Secretary of the Company in August 2003. Mr. Poon devoted his past 12 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, a Certified Practising Accountant registered with the CPA Australia and a fellow of the Hong Kong Institute of Certified Public Accountants.

Directors' Report

The directors present their 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 2006.

PRINCIPAL ACTIVITIES

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

RESULTS AND FINANCIAL POSITION

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 25.

The state of the Group's affairs at 31 December 2006 is set out in the consolidated balance sheet on pages 26 and 27.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

INVESTMENT PROPERTY

The investment property of the Group was re-valued on an open market value basis as at 31 December 2006 as set out in note 17 to the financial statements. There was a surplus of HK$150,000 arising on the revaluation as at 31 December 2006.

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 28 and in note 32(b) to the financial statements.

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)	
Mr. Law Wing Kit, Stephen	(Appointed on 1 April 2007)
Mr. Park Aaron Changmin	(Appointed on 1 April 2007)

Independent non-executive directors:
Mr. Frank Hu
Mr. Wang Faqi
Ms. Ma Shiwei

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 the Company's Bye-laws, Mr. Jay Chun, Mr. Shan Shiyong (alias, Mr. Sin Sai Yung), Mr. Law Wing Kit, Stephen and Mr. Park Aaron Changmin will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of Mr. Jay Chun, Mr. Shan Shiyong, Mr. Law Wing Kit, Stephen and Mr. Park Aaron Changmin does 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 terms of office of each independent non-executive director is a period up to his/her retirement by rotation in accordance with the Company's Bye-laws.

The Company 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 the Company 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' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2006, 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 set out in Appendix 10 to the Listing Rules (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) (1)	Interests in underlying shares pursuant to equity derivatives (1)	Total interests in shares/underlying shares	Approximate aggregate percentage of interests
Mr. Jay Chun	The Company	Beneficial owner	68,568,000	2,500,000	398,558,000	13.12%
	The Company	Interest of controlled corporation	327,490,000 (2)	–		
Mr. Shan Shiyong, alias, Sin Sai Yung	The Company	Interest of controlled corporation	353,190,000 (3)	–	353,190,000	11.62%
Dr. Ma Xianming, alias, Ma Yin Ming	The Company	Beneficial owner	–	2,900,000	2,900,000	0.10%

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. Jay Chun.

(3) These shares were held by Best Top Offshore Limited, a company which is wholly owned by Mr. Shan Shiyong, alias, Sin Sai Yung.

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 2006.

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 33 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:

				Number of share options			
	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Outstanding at 31.12.2006
Category: Directors							
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
Dr. Ma Xianming	30.11.2006	30.11.2006 to 29.11.2011	0.095	–	1,900,000	–	1,900,000
Category: Employees							
	13.08.2004	01.09.2004 to 12.08.2009	0.081	4,000,000	–	–	4,000,000
	03.01.2006	03.01.2006 to 02.01.2011	0.081	–	12,000,000	–	12,000,000
	20.02.2006	20.02.2006 to 19.02.2011	0.081	–	4,000,000	–	4,000,000
Category: Consultants							
	27.11.2003	27.11.2003 to 26.11.2008	0.088	23,375,000	–	–	23,375,000
	13.08.2004	01.09.2004 to 12.08.2009	0.081	125,000,000	–	(125,000,000)	–
	01.11.2004	01.11.2004 to 31.10.2009	0.086	50,000,000	–	(25,000,000)	25,000,000
	20.02.2006	20.02.2006 to 19.02.2011	0.081	–	250,000,000	(125,000,000)	125,000,000
	31.07.2006	31.07.2006 to 30.07.2011	0.091	–	280,000,000	–	280,000,000
Total all categories				205,875,000	547,900,000	(275,000,000)	478,775,000

The fair value of the options granted on 3 January 2006, 20 February 2006, 31 July 2006 and 30 November 2006 measured on the date of grant amounted to approximately HK$470,000, HK$8,253,000, HK$10,786,000 and HK$73,000 respectively. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

		3 January 2006	20 February 2006	31 July 2006	30 November 2006
1)	Expected volatility based on historical volatility of share prices	71.26%	62.37%	65.07%	56.81%
2)	Expected annual dividend yield, based on historical dividends	–	–	–	–
3)	Expected life of options	3 years	3 years	3 years	3 years
4)	Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant	4.060%	4.055%	4.326%	3.678%

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 does not necessarily provide a reliable single measure of the fair value of the share options.

The closing price of the Company's shares immediately before 3 January 2006, 20 February 2006, 31 July 2006 and 30 November 2006, the dates on which options were granted during the year, were HK$0.080, HK$0.080, HK$0.090 and HK$0.093 per share respectively.

HK$19,582,000 has been charged to the consolidated income statement for the year in respect of the value of options granted during the year.

As at the date of this report, the total number of options available for issue under the Existing Share Option Scheme is 3,929,791 options, representing 10% of the shares of the Company in issue as at the date of refreshment of the scheme mandate limit on 29 May 2006 less the number of options granted under the Existing Share Option Scheme pursuant to the scheme mandate limit as refreshed.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2006, so far as is known to the directors, the interests and short positions of the persons or corporations, other than 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 [(1)]	Approximate percentage of interests
Best Top Offshore Limited	353,190,000	11.62%
August Profit Investments Limited	327,490,000	10.78%

Note:

(1) All interests in shares stated above represent long positions.

Save as disclosed above, as at 31 December 2006, 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 2006, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 45.2% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 13.9% of the Group's total turnover.

For the year ended 31 December 2006, the aggregate amount of purchase attributable to the Group's five largest suppliers accounted for approximately 83.7% of the Group's total purchase and the turnover attributable to the Group's largest supplier was approximately 26.9% of the Group's total purchase.

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.

CONVERTIBLE SECURITIES, OPTIONS, OR SIMILAR RIGHTS

Other than the share option schemes disclosed under the section headed "Share Options", the Company had no outstanding convertible securities or other similar rights as at 31 December 2006.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY's SHARES

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

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.

CORPORATE GOVERNANCE

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices ("the Code") set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2006 except for certain deviations. For further information on the Company's corporate governance practices and details of deviations, please refer to the Corporate Governance Report on pages 18 to 21.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as its code of conduct regarding directors' securities transactions of Listed Issuers. Having made specific enquiry of all directors, the directors have confirmed that they have complied with the requirements set out in the Model Code 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 date 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

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. RSM Nelson Wheeler as auditors of the Company.

On behalf of the Board

Jay Chun
Chairman

Hong Kong, 27 April 2007

Corporate Governance Report

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2006 except for certain deviations disclosed herein.

Directors' Securities Transactions

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

Board of Directors

The Board is responsible for the leadership and control of the Group and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director.

During the year, the Board consisted of three Executive Directors and three Independent non-executive Directors. One of our Independent non-executive Directors has relevant financial management expertise required by the Listing Rules.

The Board schedules four meetings a year and also meets as and when required. During the year, the Board held two regular meetings. The number of regular meetings held during the year fell short of the four times a year as set out in A.1.1 of the Code was due to the conflicting schedules of the members of the Board which rendered it complicated to arrange for such meetings.

The members of the Board and the attendance of each member are as follows:

Directors	**Number of attendance**
Executive Director	
Mr. Jay Chun *(Chairman and Managing Director)*	2/2
Mr. Shan Shiyong	0/2
Dr. Ma Xianming	0/2
Independent non-executive Directors	
Mr. Frank Hu	2/2
Mr. Wang Faqi	0/2
Ms. Ma Shiwei	0/2

The Company has received annual confirmations of independence from Mr. Frank Hu, Mr. Wang Faqi and Ms. Ma Shiwei and the Company considers them to be independent.

Given the nature and business objective of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of directors and their respective biographies are set out on pages 9 to 10 of this annual report respectively.

Chairman and Managing Director

Mr. Jay Chun is the Chairman and the Managing Director of the Company. In the opinion of the Board, the roles of the managing director and the chief executive officer are the same. Although under A.2.1 of the Code, the roles of the Chairman and chief executive officer should be separated and should not be performed by the same individual, the Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. Hence, the Board believes that it is in the best interest of the shareholders of the Company that Mr. Jay Chun will continue to assume the roles of the Chairman of the Board and the Managing Director of the Company. However, the Company will review the current structure as and when it becomes appropriate in future.

The annual general meeting held on 29 May 2006 was chaired by Mr. Frank Hu, one of our Independent Non-executive Directors, instead of Mr. Jay Chun. Mr. Jay Chun did not attend the annual general meeting 2006 as he was engaged in other business of the Company. In accordance with the Code, Mr. Jay Chun should attend the annual general meeting of the Company.

Independent Non-executive directors

Under A.4.1 of the Code, the non-executive directors should be appointed for a specific term, subject to re-election. Currently, none of the three Independent Non-executive Directors is appointed for a specific term. However, all Directors (including the Independent Non-executive Directors) are subject to retirement by rotation at least once every three years at the annual general meeting of the Company in accordance with the provision of the Bye-laws of the Company, and their appointment will be reviewed when they are due for re-election.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on, among other things, the Company's policy and structure for the remuneration of all directors and senior management of the Company and is delegated by the Board with the responsibility to determine on behalf of the Board the specific remuneration packages for all Executive Directors and senior management of the Company.

During the year the Remuneration Committee held one meeting. Members of the Remuneration Committee and the attendance of each member are as follows:

Directors	**Number of attendance**
Executive Director	
Mr. Jay Chun	1/1
Independent non-executive Directors	
Mr. Frank Hu (Chairman)	1/1
Ms. Ma Shiwei	0/1

During the year, the Remuneration Committee reviewed the remuneration of the Executive Directors and recommended the Board to approve their remuneration.

Corporate Governance Report

Nomination of Directors

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no director being involved in fixing his/her own terms of appointment and no Independent Non-executive Director being involved in assessing his/her own independence.

Auditors' remuneration

During the year, the Group was charged about HK$800,000 for auditing services. The Group had not engaged the external auditors for any non-audit services.

Audit Committee

The Audit Committee is responsible for reviewing and supervising the financial reporting process and internal control system of the Group and providing advice and comments to the Board.

During the year, the Audit Committee held two meetings. Members of the Audit Committee and the attendance of each member are as follows:

Directors	**Number of attendance**
Independent Non-executive Directors	
Mr. Frank Hu *(Chairman)*	2/2
Mr. Wang Faqi	2/2
Ms. Ma Shiwei	0/2

During the year, the Audit Committee has performed the following duties:

– reviewed with the management and the external auditors the audited financial statements for the year ended 31 December 2005 and the unaudited interim financial statements for the six months ended 30 June 2006, with recommendations to the Board for approval;

– reviewed reports on internal control system covering financial, operational, procedural compliance and risk management functions; and

– reviewed the compliance issues with the regulatory and statutory requirements.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 31 December 2006.

The Chairman of the Audit Committee, Mr. Frank Hu, possesses relevant financial management expertise and meets the requirements of Rule 3.21 of the Listing Rules.

Accountability

The directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give true and fair view of the state of affairs, the results of operations and cashflows of the Group. In preparing the accounts for the six months ended 30 June 2006 and for the year ended 31 December 2006, the directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

Internal Controls

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions. The internal control system is designed to provide reasonable, but not absolute, assurance of no material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievements of the Group's objectives.

Independent Auditor's Report

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

TO THE SHAREHOLDERS OF LIFETEC GROUP LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of LifeTec Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 83, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as described in the "Basis for qualified opinion" paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Basis for qualified opinion

(1) Scope limitation – Impairment of intangible assets, payments for investments and property, plant and equipment in connection with the Group's biopharmaceutical business

In connection with the Group's biopharmaceutical business, as at 31 December 2006, the Group had intangible assets of HK$90,471,000 stated in the consolidated balance sheet as at 31 December 2006 relating to beneficial rights to drugs under development not yet available for use as detailed in note 18 to the financial statements; payments for investments representing deposits paid for the acquisition of beneficial rights to drugs under development not yet available for use and the corresponding consultancy fees stated in the consolidated balance sheet as at 31 December 2006 at HK$56,994,000 and detailed in note 20 to the financial statements; and leasehold improvements and plant and machinery with carrying amounts totaling HK$32,206,000 acquired for the research and development of the drugs under development by the Group and included in property, plant and equipment shown in the consolidated balance sheet as at 31 December 2006.

We have not been provided with sufficient information and explanations to assess whether any impairment in value should be recognised in respect of the abovementioned intangible assets, payments for investments and property, plant and equipment. There are no other satisfactory audit procedures that we could adopt to determine whether any impairment in value should be made in the financial statements in respect of them. Any adjustments found to be necessary might have consequential effects on the net assets of the Group as at 31 December 2006, the results of the Group for the year then ended and the related disclosures thereof in the financial statements.

(2) Scope limitation – Prior year's audit scope limitation affecting opening balances of intangible assets and payments for investments in connection with the Group's biopharmaceutical business

As detailed in our report dated 27 April 2006 on the financial statements of the Group for the year ended 31 December 2005, 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 of HK$65,037,000 and payments for investments of HK$74,791,000 as stated in the consolidated balance sheet as at 31 December 2005. Any adjustments found to be necessary in respect thereof had we obtained sufficient evidence would have had consequential effects on the net assets of the Group as at 31 December 2005, the results of the Group for the years ended 31 December 2006 and 2005 and the related disclosures thereof in the financial statements.

Independent Auditor's Report

Qualified opinion arising from limitation of audit scope

In our opinion, except for any adjustments that might have been determined to be necessary had we been able to obtain sufficient evidence concerning the opening balances mentioned in point 2 of the "Basis for qualified opinion" paragraphs; and the intangible assets, payments for investments and property, plant and equipment as mentioned in point 1 of the "Basis for qualified opinion" paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
Hong Kong

27 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	6	**94,669**	85,478
Cost of sales and services		**(79,619)**	(59,568)
Gross profit		**15,050**	25,910
Other operating income	7	**6,603**	4,714
Marketing, selling and distribution costs		**(16,426)**	(19,981)
Administrative expenses		**(51,283)**	(29,159)
Research and development expenditure		**(2,690)**	(1,706)
Impairment loss for doubtful debts	9	**(2,867)**	(2,873)
Loss from operations	10	**(51,613)**	(23,095)
Finance costs	12	**(229)**	(108)
Gain on disposal of subsidiaries	34(b)	**4,097**	–
Loss before taxation		**(47,745)**	(23,203)
Taxation	13	**73**	(1,197)
Loss for the year		**(47,672)**	(24,400)
Attributable to:			
Equity holders of the Company		**(47,704)**	(24,095)
Minority interests		**32**	(305)
		(47,672)	(24,400)
Loss per share (HK cents)	15		
– Basic		**(1.65)**	(0.90)
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

At 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**57,412**	4,715
Investment properties	17	**3,630**	3,480
Intangible assets	18	**90,471**	65,037
Interests in an associate	19	**–**	–
Payments for investments	20	**56,994**	74,791
		208,507	148,023
Current assets			
Inventories	21	**1,526**	37
Debtors and prepayments	22	**31,357**	30,799
Advances to consulting companies	23	**48,287**	51,650
Bank and cash balances	24	**12,039**	26,713
		93,209	109,199
Less: **Current liabilities**			
Creditors and accrued charges	25	**53,003**	20,472
Amounts due to directors	40	**1,383**	1,124
Amount due to a related party	40	**663**	–
Bank borrowings-due within one year	26	**36**	135
Obligation under finance lease-due within one year	27	**227**	–
Derivative component of redeemable voting preference shares	28	**2,947**	–
Taxation payable		**3,209**	3,233
		61,468	24,964
Net current assets		**31,741**	84,235
Total assets less current liabilities		**240,248**	232,258

Consolidated Balance Sheet

At 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current liabilities			
Bank borrowings – due after one year	26	**–**	36
Obligation under finance lease – due after one year	27	**748**	–
Redeemable voting preference shares	28	**12,075**	–
Deferred tax liabilities	29	**13,407**	9,654
		26,230	9,690
NET ASSETS		**214,018**	222,568
Capital and reserves			
Share capital	30	**30,383**	27,633
Reserves		**183,635**	191,420
Equity attributable to equity holders of the Company		**214,018**	219,053
Minority interests		**–**	3,515
TOTAL EQUITY		**214,018**	222,568

Approved by the Board of Directors on 27 April 2007.

JAY CHUN
Director

FRANK HU
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note a)	Warrant reserve HK$'000	Option reserve HK$'000 (Note b)	Translation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005	25,745	306,214	88,643	20,058	17,461	239	(233,050)	225,310	3,792	229,102
Exchange differences arising on translation of financial statements of foreign subsidiaries	–	–	–	–	–	710	–	710	4	714
Net income recognised directly in equity	–	–	–	–	–	710	–	710	4	714
Loss for the year	–	–	–	–	–	–	(24,095)	(24,095)	(305)	(24,400)
Total recognised income and expense for 2005	–	–	–	–	–	710	(24,095)	(23,385)	(301)	(23,686)
Movement in equity on expiry of warrants	–	–	–	(14,681)	–	–	14,681	–	–	–
Issue of shares on exercise of share options and warrants	1,888	27,871	–	(5,377)	(7,254)	–	–	17,128	–	17,128
Capital injection from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	24	24
	1,888	27,871	–	(20,058)	(7,254)	–	14,681	17,128	24	17,152
At 31 December 2005	27,633	334,085	88,643	–	10,207	949	(242,464)	219,053	3,515	222,568

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note a)	Warrant reserve HK$'000	Option reserve HK$'000 (Note b)	Translation reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006	27,633	334,085	88,643	-	10,207	949	(242,464)	219,053	3,515	222,568
Exchange differences arising on translation of financial statements of foreign subsidiaries	-	-	-	-	-	1,248	-	1,248	11	1,259
Net income recognised directly in equity	-	-	-	-	-	1,248	-	1,248	11	1,259
Loss for the year	-	-	-	-	-	-	(47,704)	(47,704)	32	(47,672)
Total recognised income and expense for 2006	-	-	-	-	-	1,248	(47,704)	(46,456)	43	(46,413)
Issue of shares on exercise of share options	2,750	32,079	-	-	(12,429)	-	-	22,400	-	22,400
Disposal of subsidiaries	-	-	-	-	-	(561)	-	(561)	(3,558)	(4,119)
Recognition of share based payments	-	-	-	-	19,582	-	-	19,582	-	19,582
	2,750	32,079	-	-	7,153	(561)	-	41,421	(3,558)	37,863
At 31 December 2006	30,383	366,164	88,643	-	17,360	1,636	(290,168)	214,018	-	214,018

Notes:

(a) 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 accumulated losses, took place in 1999.

(b) Option reserve represents the aggregate of:

(i) the fair value of unexercised share options granted for the consultancy services provided or to be provided by certain consultants to the Group in the prior years in relation to the scope of services as set out in note 33.

(ii) the fair value of share options granted in the current year which are yet to be exercised in relation to the share-based transactions as set out in note 33.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		**(47,745)**	(23,203)
Adjustment for:			
Finance cost		**229**	108
Interest income		**(678)**	(899)
Gain on disposal of subsidiaries		**(4,097)**	–
Fair value gain on investment properties		**(150)**	–
Fair value gain on derivative component of redeemable voting preference shares		**(724)**	–
Exchange gains		**(4,278)**	–
Impairment loss for doubtful debts		**2,867**	2,873
Depreciation of property, plant and equipment		**3,145**	856
Loss on disposal of property, plant and equipment		**136**	269
Employee share options benefits		**673**	–
Equity-settled consultancy fees		**18,909**	–
Impairment of goodwill		**–**	555
Inventories written off		**–**	179
Operating loss before working capital changes		**(31,713)**	(19,262)
Increase in inventories		**(1,457)**	(216)
(Increase)/decrease in debtors and prepayments		**(8,734)**	34,828
Increase in creditors and accrued charges		**22,197**	4,614
Increase in amounts due to directors		**253**	600
Increase in amount due to a related party		**663**	–
Cash (used in)/generated from operations		**(18,791)**	20,564
Tax paid		**(75)**	(372)
Interest paid		**(9)**	(108)
Finance lease charge paid		**(74)**	–
Net cash (used in)/generated from operating activities		**(18,949)**	20,084
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary	34(a)	**(1,665)**	(1,395)
Disposal of subsidiaries	34(b)	**(16)**	–
Advances to an associate		**(867)**	(852)
Advances to consulting companies		**(18,215)**	(2,628)
Promissory notes repaid		**–**	10,259
Deposits paid for the acquisition of beneficial rights to drugs under development		**–**	(18,269)
Purchases of property, plant and equipment		**(13,899)**	(1,644)
Proceeds from disposal of property, plant and equipment		**195**	–
Interest received		**678**	899
Net cash used in investing activities		**(33,789)**	(13,630)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	**2006** **HK$'000**	2005 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**22,400**	17,128
Capital injection from minority shareholders of subsidiaries		**–**	24
Proceeds from issue of redeemable voting preference shares by a subsidiary		**15,600**	–
Repayment of bank borrowings		**(135)**	(2,724)
Repayment of obligation under finance lease		**(329)**	–
Net cash generated from financing activities		**37,536**	14,428
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(15,202)**	20,882
Effect of foreign exchange rate changes		**528**	(2,080)
CASH AND CASH EQUIVALENT AT 1 JANUARY		**26,713**	7,911
CASH AND CASH EQUIVALENT AT 31 DECEMBER		**12,039**	26,713
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**12,039**	26,713

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act of Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The activities of its subsidiaries and principal associate are set out in notes 41 and 42 respectively.

2. ADOPTION OF NEW AND REVISED HKFRSs

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

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

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

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

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

(b) Business combination and goodwill

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Revenue recognition

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

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

Service income is recognised when the service is rendered.

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

(d) Property, plant and equipment

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

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Investment properties

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

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

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

(f) Impairment of assets

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

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

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Patents and beneficial rights to drugs under development

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

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

(h) Associates

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

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

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Inventories

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

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

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

(k) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Leases

(i) Operating leases

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

(ii) Finance leases

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

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

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

(m) Research and development expenditure

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

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

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

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

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

(n) Financial liabilities and equity instruments

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

(p) Redeemable voting preference shares

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

(q) Trade and other payables

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

(r) Equity instruments

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

(s) Foreign currencies translation

(i) Functional and presentation currency

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

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Foreign currencies translation (continued)

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

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

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

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

(t) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(u) Share-based payments

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

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(w) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(w) Taxation (continued)

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

(x) Related parties

A party is related to the Group if:

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

(ii) the party is an associate;

(iii) the party is a joint venture;

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

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

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

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

(y) Segment reporting

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(y) Segment reporting (continued)

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

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

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

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

(z) Events after the balance sheet date

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

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

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

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group will account for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. The Group considers each property separately in making its judgement.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment for intangible assets and payments for investments

In connection with the carrying amount of intangible assets and payments for investments, the Group performs ongoing evaluation of status of the drug projects concerned. An independent valuer has also issued a valuation report for the drug projects. The valuation of each drug project as stated in the respective valuation report is no less than the respective carrying amount of each drug. For this reason, the Group believes that there is no impairment for the carrying amount of intangible assets and payments for investments.

Impairment loss for doubtful debts

The Group assesses impairment loss for doubtful debts based upon evaluation of the recoverability of the trade and other debtors at each balance sheet date. The estimates are based on the ageing of the trade and other debtors balances and the historical write-off experience, net of recoveries. If the financial condition of the customers and the other debtors were to deteriorate, additional impairment may be required.

Impairment of property, plant and equipment

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

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi ("RMB"). It did not have significant exposure to foreign exchange risk. Nevertheless, the exchange rate of RMB to Hong Kong dollar is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

During the year, the Group had not entered into any forward exchange contracts.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to increase the proportion of cash sales and to ensure that credit sales are made to customers with an appropriate credit history or background.

In view of advances to consulting companies, the Group performs ongoing credit evaluations of consulting companies' financial conditions. After the balance sheet date, most advances to consulting companies have been repaid on demand, there is no significant exposure to the credit risk as regards advances to consulting companies.

(c) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents to meet its liquidity requirements.

(d) Interest rate risk

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

(e) Fair values

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

6. TURNOVER

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

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

7. OTHER OPERATING INCOME

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

8. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into two main business segments:

Biopharmaceutical – research, development and sale of biopharmaceutical products

Gaming – development and operation of electronic gaming system

8. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2006

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

At 31 December 2006

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

8. SEGMENT INFORMATION (continued)

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

For the year ended 31 December 2006

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

For the year ended 31 December 2005

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

8. SEGMENT INFORMATION (continued)

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

At 31 December 2005

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

For the year ended 31 December 2005

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

8. SEGMENT INFORMATION (continued)

(b) Secondary reporting format – geographical segments

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

9. IMPAIRMENT LOSS FOR DOUBTFUL DEBTS

Impairment loss for doubtful debts is analysed as follows:

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

10. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

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

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

11. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Directors' remuneration

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

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

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

Directors' remuneration (continued)

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

Name	Fees HK$'000	Salaries and other benefit HK$'000	Accom-modation benefit HK$'000	Employee share option benefits HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors						
Mr. Jay Chun	–	2,160	840	–	12	3,012
Mr. Shan Shiyong, alias, Mr. Sin Sai Yung	–	2,400	–	–	–	2,400
Dr. Ma Xianming, alias, Dr. Ma Yin Ming	–	172	–	–	–	172
Independent non-executive directors						
Mr. Frank Hu	120	–	–	–	–	120
Mr. Wang Faqi	120	–	–	–	–	120
Ms. Ma Shiwei	111	–	–	–	–	111
Total	351	4,732	840	–	12	5,935

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

Details of share options granted to the executive and independent non-executive directors are set out in note 33. None of the directors has waived any emoluments during the year.

Highest paid employees

The five highest paid employees of the Group included two directors (2005: two directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid employees of the Group, other than directors, were as follows:

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

Their emoluments were within the following band:

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

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

The Group remunerates its employees mainly based on industry's practices and individual's performance and experience. On top of regular remuneration, share options may be granted to eligible staff under the share option scheme adopted by the Company on 15 July 2002 by reference to the Group's performance as well as individual's performance.

12. FINANCE COSTS

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

13. TAXATION

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

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

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

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

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

13. TAXATION (continued)

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

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

14. DIVIDEND

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

15. LOSS PER SHARE

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

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

Number of shares:

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

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

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, Fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2005	9,126	–	4,294	3,557	2,784	19,761
Additions	–	–	188	1,456	–	1,644
Disposals	–	–	(618)	(1,763)	–	(2,381)
Exchange realignment	155	–	73	14	24	266
At 31 December 2005	9,281	–	3,937	3,264	2,808	19,290
Additions	–	2,401	51,761	115	1,304	55,581
Disposals	–	(325)	–	(7)	(907)	(1,239)
Disposal of a subsidiary	(8,059)	–	(3,276)	(216)	–	(11,551)
Exchange realignment	78	39	671	23	50	861
At 31 December 2006	1,300	2,115	53,093	3,179	3,255	62,942
Depreciation and impairment loss						
At 1 January 2005	8,056	–	3,978	2,239	1,324	15,597
Provided for the year	25	–	97	459	275	856
Disposals	–	–	(618)	(1,494)	–	(2,112)
Exchange realignment	156	–	67	6	5	234
At 31 December 2005	8,237	–	3,524	1,210	1,604	14,575
Provided for the year	25	71	2,168	452	429	3,145
Disposals	–	–	–	(1)	(907)	(908)
Disposal of a subsidiary	(8,059)	–	(3,276)	(119)	–	(11,454)
Exchange realignment	78	1	63	12	18	172
At 31 December 2006	281	72	2,479	1,554	1,144	5,530
Carrying amount						
At 31 December 2006	1,019	2,043	50,614	1,625	2,111	57,412
At 31 December 2005	1,044	–	413	2,054	1,204	4,715

16. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

17. INVESTMENT PROPERTIES

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

The investment properties were revalued as at 31 December 2006 by Dudley Surveyors Limited, an independent firm of professional valuers, on an open market value basis.

The investment properties are situated in Hong Kong and are held under long lease.

18. INTANGIBLE ASSETS

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

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

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

19. INTERESTS IN AN ASSOCIATE

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

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

The amount due from an associate is unsecured, interest free and has no fixed terms of repayment.

Summarised financial information in respect of the Group's associates is set out below:

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

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

20. PAYMENTS FOR INVESTMENTS

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

Notes:

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

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

(b) On 2 June 2004, Hainan Kangwei Medicine Co., Ltd ("Hainan Kangwei"), a subsidiary of the Company, entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB15,000,000 (equivalent to HK$15,000,000 (2005: HK$14,423,000)). The amount paid by the Group amounting to RMB14,000,000 (equivalent to HK$14,000,000 (2005: HK$13,462,000)) at 31 December 2005 and 31 December 2006 represents the partial consideration paid under the agreement.

On 8 October 2004, Hainan Kangwei entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB12,000,000 (equivalent to HK$12,000,000 (2005: HK$11,538,000)). The amount paid by the Group amounting to RMB11,000,000 (equivalent to HK$11,000,000 (2005: HK$10,577,000)) at 31 December 2005 and 31 December 2006 represents the partial consideration paid under the agreement.

On 2 November 2004, Hainan Kangwei entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB12,800,000 (equivalent to HK$12,800,000 (2005: HK$12,308,000)). The amount paid by the Group amounting to RMB11,800,000 (equivalent to HK$11,800,000 (2005: HK$11,346,000)) at 31 December 2005 and 31 December 2006 represents the partial consideration paid under the agreement.

On 5 January 2005, Hainan Kangwei entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB10,000,000 (equivalent to HK$10,000,000 (2005: HK$9,615,000)). The amount paid by the Group amounting to RMB9,000,000 (equivalent to HK$9,000,000 (2005: HK$8,654,000)) at 31 December 2005 and 31 December 2006 represents the partial consideration paid under the agreement.

On 18 February 2005, Hainan Kangwei entered into an agreement with an independent party to acquire the beneficial rights to a drug development project for a cash consideration of RMB11,000,000 (equivalent to HK$11,000,000 (2005: (HK$10,577,000)). The amount paid by the Group amounting to RMB10,000,000 (equivalent to HK$10,000,000 (2005: HK$9,615,000)) at 31 December 2005 and 2006 represents the partial consideration paid under the agreement.

21. INVENTORIES

	2006 HK$'000	2005 HK$'000
Finished goods	**1,526**	37

22. DEBTORS AND PREPAYMENTS

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

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

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

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

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

23. ADVANCES TO CONSULTING COMPANIES

The amount represents the outstanding receivables from four (2005: five) consulting companies established in the PRC. Pursuant to the agreements entered into between these consulting companies and Shanghai Youheng Biotechnology Limited ("Youheng"), a subsidiary of the Company, Youheng has appointed these consulting companies:

(a) to solicit potential biopharmaceutical investments projects in the PRC and to provide consultancy services to the related investments for a service fee of 3% on the amount to be invested in the projects by Youheng; and

(b) to make payment of earnest money for potential investment projects or cost of investment on behalf of the Group after obtaining the approval from Youheng.

The outstanding receivables are unsecured, carry interests at 1% per annum and RMB48,281,000 (equivalent to HK$48,281,000) have been settled after the balance sheet date.

24. BANK AND CASH BALANCES

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

25. CREDITORS AND ACCRUED CHARGES

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

26. BANK BORROWINGS

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

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

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

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

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

27. OBLIGATION UNDER FINANCE LEASE

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

27. OBLIGATION UNDER FINANCE LEASE (continued)

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

All finance lease payables are denominated in Hong Kong dollars.

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

28. REDEEMABLE VOTING PREFERENCE SHARES

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

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

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

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

28. REDEEMABLE VOTING PREFERENCE SHARES (continued)

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

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

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

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

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

29. DEFERRED TAX LIABILITIES

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

The balances as at 31 December 2005 and 31 December 2006 represent the deferred tax liabilities recognised in respect of the temporary difference attributable to the intangible assets acquired through the acquisition of interests in certain subsidiaries.

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

30. SHARE CAPITAL

	2006 Number of shares	2005 Number of shares	**2006 HK$'000**	2005 HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning and at end of the year	**10,000,000,000**	10,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of the year	**2,763,297,919**	2,574,552,919	**27,633**	25,745
Issue of shares upon exercise of share options (note 33)	**275,000,000**	114,325,000	**2,750**	1,144
Issue of shares upon exercise of warrants	**–**	74,420,000	**–**	744
At end of the year	**3,038,297,919**	2,763,297,919	**30,383**	27,633

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

31. BALANCE SHEET OF THE COMPANY

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

32. RESERVES

(a) The Group

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

(b) The Company

	Share premium HK$'000	Contributed surplus HK$'000	Warrant reserve HK$'000	Option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	306,214	110,223	20,058	17,461	(254,391)	199,565
Issue of shares on exercise of share options and warrants	27,871	–	(5,377)	(7,254)	–	15,240
Movement in equity on expiry of warrants	–	–	(14,681)	–	14,681	–
Loss for the year	–	–	–	–	(23,385)	(23,385)
At 31 December 2005	334,085	110,223	–	10,207	(263,095)	191,420
Issue of shares on exercise of share options	32,079	–	–	(12,429)	–	19,650
Recognition of share-based payments	–	–	–	19,582	–	19,582
Loss for the year	–	–	–	–	(6,497)	(6,497)
At 31 December 2006	366,164	110,223	–	17,360	(269,592)	224,155

33. SHARE OPTIONS

The existing share option scheme was adopted by the Company on 15 July 2002 (the "Share Option Scheme") for the purpose of providing incentives or rewards for the contribution by the directors and employees of the Group; any supplier of goods or services to the Group; any customer of the Group; any adviser or consultant of the Group; any person or entity that provides research, development or other technological support to the Group; or any shareholders of the Group. The period within which the shares must be taken up under an option of the Share Option Scheme shall not be more than 5 years from the date of the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK$1 is payable on acceptance of an option within 21 days from the date of grant.

Initially, the total number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares in issue as at 15 July 2002, being the date of adoption of the Share Option Scheme, without prior approval from the Company's shareholders. Pursuant to ordinary resolutions passed by the shareholders at a special general meeting held on 19 April 2004 and at annual general meetings held on 18 July 2005 and 29 May 2006, the numbers of shares in respect of which options may be granted have been refreshed to 10% of the numbers of shares in issue as at 19 April 2004, 18 July 2005 and 29 May 2006 respectively. The total number of shares issued and to be issued upon exercise of the options granted to each individual in any twelve-month period up to the date of grant shall not exceed 1% of the shares in issue at the date of grant without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

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

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

33. SHARE OPTIONS (continued)

Details of the movements in share options granted under the Share Option Scheme during each of the two years ended 31 December 2006 are set out as follows:

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

33. SHARE OPTIONS (continued)

			Number of share options			
Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
Category: Directors						
27.11.2003	27.11.2003 to 26.11.2008	0.0880	3,500,000	–	–	3,500,000
Category: Employees						
27.11.2003	27.11.2003 to 26.11.2008	0.0880	39,325,000	–	(39,325,000)	–
13.08.2004	01.09.2004 to 12.08.2009	0.0810	4,000,000	–	–	4,000,000
Category: Consultants						
27.11.2003	27.11.2003 to 26.11.2008	0.0880	23,375,000	–	–	23,375,000
13.08.2004	01.09.2004 to 12.08.2009	0.0810	200,000,000	–	(75,000,000)	125,000,000
01.11.2004	01.11.2004 to 31.10.2009	0.0860	50,000,000	–	–	50,000,000
Total all categories			320,200,000	–	(114,325,000)	205,875,000
Weighted average exercise price (HK$)			0.0832	–	0.0834	0.0831

33. SHARE OPTIONS (continued)

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

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

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

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

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

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

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

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

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

The fair values of the 250,000,000 share options and 280,000,000 share options granted by the Company to the consultants on 20 February 2006 and 31 July 2006 amounted to HK$8,123,000 and HK$10,786,000 respectively. In the opinion of the directors of the Company, as the future economic benefits in relation to the services to be provided by these consultants are uncertain, the whole amount of HK$18,909,000 had been charged to the income statement for the year.

33. SHARE OPTIONS (continued)

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

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

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 250 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Total consideration received during the year from directors, employees and consultants for accepting the options granted amounted to HK$26 (2005: Nil).

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

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

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

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

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

(b) Disposal of subsidiaries

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

Net liabilities at the date of disposal were as follows:

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

(c) Major non-cash transaction

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

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

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

35. CONTINGENT LIABILITIES

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

36. OPERATING LEASE COMMITMENTS

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

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

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

37. CAPITAL AND OTHER COMMITMENTS

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

38. RETIREMENT BENEFIT SCHEMES

Hong Kong

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

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

The Group's contribution under the MPF Scheme for the year amounted to HK$117,000 (2005: HK$119,000).

PRC

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

The Group's contribution under the respective schemes for the year amounted to HK$382,000 (2005: HK$131,000).

39. POST BALANCE SHEET EVENTS

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

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

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

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

40. RELATED PARTY TRANSACTIONS

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

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

Notes:

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

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

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

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

41. SUBSIDIARIES

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

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

41. SUBSIDIARIES (continued)

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

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

41. SUBSIDIARIES (continued)

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

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

41. SUBSIDIARIES (continued)

Notes:

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

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

Apart from Hainan Kangwei Medicine Co., Ltd., Shanghai Youheng Biotechnology Limited and Weihai Genen Biotech Limited which carry out their principal activities in the PRC; and LT Game Limited and LT (Macau) Limited which carry out their principal activities in Macau, the principal activities of the remaining subsidiaries are carried out in Hong Kong.

42. ASSOCIATE

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

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

43. APPROVAL OF FINANCIAL STATEMENTS

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

FINANCIAL SUMMARY

	For the year ended 31 December				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000	**2006** **HK$'000**
RESULTS					
Turnover	31,009	57,213	64,179	85,478	**94,669**
(Loss)/profit before taxation	(18,107)	38,559	(58,280)	(23,203)	**(47,745)**
Taxation	–	(7)	(2,504)	(1,197)	**73**
(Loss)/profit for the year	(18,107)	38,552	(60,784)	(24,400)	**(47,672)**
Attributable to:					
Equity holders of the Company	(23,318)	36,848	(60,992)	(24,095)	**(47,704)**
Minority Interests	5,211	1,704	208	(305)	**32**
	(18,107)	38,552	(60,784)	(24,400)	**(47,672)**

ASSETS AND LIABILITIES

	At 31 December				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000	**2006** **HK$'000**
Total assets	151,295	289,834	257,364	257,222	**301,716**
Total liabilities	(32,428)	(30,545)	(28,262)	(34,654)	**(87,698)**
Total equity	118,867	259,289	229,102	222,568	**214,018**