1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Change in financial year end

The financial year end date of the Group and the Company has been changed from 31 December to 31 March in order to align with the business cycle of the healthcare product retailing business.

The financial statements now presented cover a period of fifteen months from 1 January 2004 to 31 March 2005. Accordingly, the comparative figures (which cover a period of twelve months from 1 January 2003 to 31 December 2003) for the consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and related notes are not comparable with those of the current period.

(c) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(d) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in controlled subsidiaries are consolidated into the consolidated financial statements, unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the Group, in which case, they are stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement and in the investment revaluation reserve respectively as they arise.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and controlled entities *(Continued)*

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the period/year are also separately presented in the consolidated income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any impairment losses (see note 1(m)), unless they are acquired and held exclusively with a view to subsequent disposal in the near future or operate under severe long-term restrictions that significantly impair their ability to transfer funds to the Company, in which case, they are stated at fair value with changes in fair value recognised in the income statement and in the investment revaluation reserve respectively as they arise.

(e) Associates and jointly controlled entities

An associate is a company in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Associates and jointly controlled entities *(Continued)*

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' or the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case, it is stated at fair value with changes in fair value recognised in the consolidated income statement and in the investment revaluation reserve respectively as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of its associates and jointly controlled entity for the year. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entity are eliminated to the extent of the Group's interest in the associates or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(m)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the income statement and in the investment revaluation reserve respectively as they arise.

(f) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see note 1(m)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised in the consolidated income statement.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries, associates and jointly controlled entity are as follows:

(i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealers' margin.

(ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.

(iii) Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of investments in securities are determined as the differences between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(h) Property, plant and equipment

(i) Land and buildings held for own use and other fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(l)) and impairment losses (see note 1(m)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers. Surpluses arising on revaluations are credited on a portfolio basis to the income statement to the extent of any deficit arising on revaluation previously charged to the income statement and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter charged to the income statement.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is transferred to the income statement for the year.

Investment properties with an unexpired lease term of 20 years or less are stated at valuation less accumulated depreciation.

(j) Intangible assets

Intangible assets represent product trademarks, patent rights for the manufacturing of healthcare products and patent rights for software development acquired by the Group and are stated at cost less accumulated amortisation and impairment losses (see note 1(m)). Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of 10 to 20 years.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(k) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Amortisation and depreciation

Depreciation is calculated to write off the cost or valuation of property, plant and equipment over their estimated useful lives on a straight-line basis as follows:

Leasehold land in Hong Kong	over the remaining lease term
Buildings in Hong Kong	50 years
Land use rights and buildings outside Hong Kong in the People's Republic of China ("PRC")	over the period of the lease
Furniture, fixtures and fittings	3 to 20 years
Plant, machinery and equipment	2 to 10 years
Motor vehicles	3 to 10 years
Investment properties	
– unexpired lease term of more than 20 years	Nil
– unexpired lease term of 20 years or less	over the remaining lease term

(m) Impairment of assets

The carrying amounts of the Group's assets, other than investment properties (see note 1(i)), inventories (see note 1(n)) and deferred tax assets (see note 1(q)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, the recoverable amount is estimated annually at balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of assets *(Continued)*

(*ii*) *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(n) Inventories

(*i*) *Trading and manufacturing*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(*ii*) *Property development*

Properties developed for sale are stated at the lower of cost and estimated net realisable value. Cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that 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 for the purpose of the consolidated cash flow statement.

(p) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period/year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

The employees of the PRC subsidiaries participate in defined contribution retirement plans managed by the local government authority whereby the subsidiaries are required to contribute to the schemes at fixed rates of the employees' salary costs. In addition to the local government defined contribution retirement plans, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs. The Group's contributions to these plans are charged to the income statement when incurred. The subsidiaries have no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

(iii) When the Group grants employees options to acquire shares of the Company at nominal consideration, no employee benefit cost or obligation is recognised at the date of grant. The nominal consideration is recognised in the income statement on cash basis. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) 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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax

(i) Income tax for the period/year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the period/year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

(iii) *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a 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 of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Fee income*

Fee income from value-added technical services is recognised when the services are rendered.

(iii) *Contract revenue*

When the outcome of contract work can be estimated reliably:

– revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

– revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition *(Continued)*

(*iii*) *Contract revenue* (*Continued*)

When the outcome of contract work cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(*iv*) *Rental income from operating leases*

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the respective leases.

(*v*) *Dividends*

– dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(*vi*) Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

(t) Translation of foreign currencies

Foreign currency transactions during the period/year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises outside Hong Kong in the PRC are translated into Hong Kong dollars at the average exchange rates for the period/year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(u) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Borrowing costs

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

(w) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(x) Segment reporting

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 and would therefore be effective for the Group's financial statements for the year ending 31 March 2006.

Hong Kong Financial Reporting Standard 3 "Business combinations" ("HKFRS 3"), Hong Kong Accounting Standard 36 "Impairment of assets" ("HKAS 36") and Hong Kong Accounting Standard 38 "Intangible assets" ("HKAS 38") issued by the HKICPA have been applied before their effective dates in the preparation of the financial statements. Details of the changes in accounting policies are set out in note 2 below.

Save as mentioned above, the Group has not early adopted any other new HKFRSs in the financial statements for the period ended 31 March 2005. The Group has commenced an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of Hong Kong Accounting Standard 1 "Presentation of financial statements" ("HKAS 1"), Hong Kong Accounting Standard 32 "Financial instruments: disclosure and presentation" ("HKAS 32") and Hong Kong Accounting Standard 39 "Financial instruments: recognition and measurement" ("HKAS 39") would have the following effects:

At present, the Group's convertible notes are measured at cost and recorded in the balance sheet as a liability. Following the adoption of HKAS 32, the convertible notes are regarded as compound financial instruments, consisting of a liability component and an equity component, which should be measured under the requirements of HKAS 39 and presented separately on the balance sheet. In accordance with the provisions of HKAS 39, the liability component is measured at fair value which is equal to the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option prevailing at the date of issue. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the fair value of the liability component. The interest expense recognised in the income statement is calculated using the effective interest method. The new standards will be applied retrospectively.

Following the adoption of HKAS 1, minority interests are required to be presented in the consolidated balance sheet within equity in accordance with the requirements of HKAS 1, whereas at present minority interests are shown in the consolidated balance sheet separately from liabilities and shareholders' equity.

The Group will be continuing with the assessment of the impact of the new HKFRSs, and other significant changes may be identified as a result.

2. CHANGES IN ACCOUNTING POLICY

(a) Business combinations

In prior years, positive goodwill arising from business combinations was amortised to the consolidated income statement on a straight line basis over its estimated useful life; negative goodwill, other than that relating to an expectation of future losses and expenses that were identified in the plan of acquisition, was recognised in the consolidated income statement over the weighted average useful life of the acquired non-monetary assets that are depreciable or amortisable.

The Group has changed its accounting policy for business combinations (as set out in note 1(f)) by early adopting the new HKFRS 3 to goodwill existing at and acquired thereafter, and to business combinations occurring from 1 January 2004, as permitted under the transitional provisions of HKFRS 3.

In respect of previously recognised positive goodwill, amortisation has been discontinued, the carrying amount of the related accumulated amortisation at 1 January 2004 has been eliminated with a corresponding decrease in goodwill, and the goodwill shall be tested for impairment in accordance with HKAS 36. Previously recognised negative goodwill has been derecognised at 1 January 2004.

As a result of the adoption of this accounting policy, the Group's profit for the period and the net assets as at 31 March 2005 have been increased by $61,637,000.

(b) Impairment of assets and intangible assets

As required under HKFRS 3, upon the adoption of HKFRS 3 from 1 January 2004, the Group also applies HKAS 36 and HKAS 38 prospectively from the same date and adopted new policies in these respects as set out in notes 1(m) and 1(j) respectively. The adoption of these accounting policies has no significant impact on the Group's financial statements for the period ended 31 March 2005 and prior periods.

3. TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacturing, distribution and sale of healthcare products, electronic and electrical products, office equipment and provision of related services, and media-related business. Further details of the principal subsidiaries are set out in note 44 on the financial statements.

Turnover represents the invoiced value of goods sold and services provided to customers by the Group less returns, discounts, business tax and value added tax, and fee income from value-added technical services. The amount of each significant category of revenue recognised in turnover during the period/year is as follows:

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Manufacturing, distribution and sale of healthcare products	**1,054,709**	–
Manufacturing, distribution and sale of electronic and electrical products, office equipment and provision of related services	**1,300,810**	1,015,277
Media-related business	**5,988**	–
	2,361,507	1,015,277

4. OTHER REVENUE

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Interest income	**4,339**	2,509
Rental received from investment properties less outgoings	**2,505**	2,254
Dividend income from listed securities	**2,964**	–
Others	**5,158**	2,237
	14,966	7,000

5. OTHER NET INCOME/(LOSS)

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Gain/(loss) on disposal of property, plant and equipment	**33,510**	(1,119)
Net exchange gain/(loss)	**1,307**	(1,037)
	34,817	(2,156)

6. NON-OPERATING INCOME

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Net realised/unrealised gain on equity/debt securities	**53,182**	1,849,377
Write-back of provision/(provision) for impairment loss on non-trading securities	**78,893**	(40,420)
(Loss)/gain on disposal of interest in subsidiaries	**(2,447)**	2,853
Gain on disposal/deemed disposal of associates	**2,212**	–
Impairment loss on goodwill	**(3,518)**	(18,041)
Revaluation surplus/(deficit) on investment properties	**878**	(5,785)
Provision for loan receivable	**–**	(11,730)
Provision for other receivables	**(10,943)**	–
Provision for diminution in value of a property held for sale	**(3,722)**	(19,887)
Reversal of impairment loss on properties	**10,102**	–
Write-off of disposal receivables	**–**	(8,199)
Others	**2,069**	(2,613)
	126,706	1,745,555

7. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

		Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
(a)	Finance costs:		
	Interest on bank advances and other borrowings repayable within five years	**9,207**	2,921
	Interest on other loan	**2,028**	682
	Other borrowing costs	**3,738**	974
	Total borrowing costs	**14,973**	4,577
(b)	Other items:		
	Cost of inventories	**1,644,450**	886,284
	Staff costs (including retirement costs of $9,295,000 (year ended 31 December 2003: $5,353,000))	**160,028**	61,833
	Amortisation of negative goodwill	**–**	(121)
	Amortisation of positive goodwill	**–**	2,299
	Amortisation of positive goodwill included in share of profits less losses of associates	**–**	2,396
	Amortisation of other intangible assets	**1,982**	–
	Research and development costs	**3,974**	2,431
	Provision for write-down in value of obsolete inventories (written back)/made	**(213)**	2,607
	Provision for bad and doubtful debts	**8,043**	13,755
	Depreciation	**13,756**	6,589
	Management fees	**4,123**	2,873
	Auditors' remuneration		
	– audit services	**3,000**	2,200
	– other services	**1,550**	550
	Operating lease charges for land and buildings	**24,613**	10,829

8. DIRECTORS' REMUNERATION

Directors' remuneration, excluding emoluments waived, disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Fees	**747**	780
Salaries and other emoluments	**5,068**	4,178
Retirement scheme contributions	**38**	13
	5,853	4,971

In addition, directors are eligible under the Company's share option scheme to subscribe for shares in the Company. There were no options granted to the directors during the period/year. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the directors' report.

The directors' remuneration is within the following bands:

	Period from 1 January 2004 to 31 March 2005 Number of directors	Year ended 31 December 2003 Number of directors
$ 0 – $1,000,000	**7**	6
$1,000,001 – $1,500,000	**4**	2

Included in the directors' remuneration were fees of $747,000 (year ended 31 December 2003: $780,000) paid to the Company's independent non-executive directors. The above number of directors also include the directors who were resigned during the respective period/year.

During the period ended 31 March 2005, two directors agreed to waive part of their emoluments totalling $14,925,000 (year ended 31 December 2003: $11,291,000) to which they are entitled under the service contracts entered into with the Company.

9. FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest emoluments comprise four (year ended 31 December 2003: three) directors whose emoluments are disclosed in note 8 and one (year ended 31 December 2003: two) employee. Details of the emoluments in respect of these employees are as follows:

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Salary, housing and other emoluments	**1,017**	1,615

The emoluments of the above employees are within the following bands:

	Period from 1 January 2004 to 31 March 2005 Number of employees	Year ended 31 December 2003 Number of employees
$ 0 – $1,000,000	**–**	2
$1,000,001 – $1,500,000	**1**	–

10. INCOME TAX

(a) Income tax in the consolidated income statement represents:

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Current tax		
Hong Kong Profits Tax	–	–
Income tax outside Hong Kong in the PRC ("PRC income tax")	2,401	1,887
Share of associates' PRC income tax	23	1
	2,424	1,888
Deferred tax		
Origination and reversal of temporary differences (note 36(a))	725	(1,304)
	3,149	584

No provision for Hong Kong Profits Tax has been made as the Hong Kong companies of the Group sustained losses for taxation purposes during the period/year. PRC income tax is calculated at the applicable rates on the estimated taxable income earned by the companies in the PRC.

10. INCOME TAX *(Continued)*

(a) Income tax in the consolidated income statement represents: (*Continued*)

Reconciliation between tax expense and accounting profit at applicable tax rates:

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Profit from ordinary activities before taxation	**241,229**	1,707,284
Notional tax on profit from ordinary activities before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**64,122**	295,664
Tax effect of non-deductible expenses	**21,430**	31,577
Tax effect of non-taxable revenue	**(100,651)**	(343,760)
Tax effect of unused tax losses not recognised	**18,248**	17,103
Actual tax expense	**3,149**	584

(b) Current taxation in the balance sheets represents:

	Group		**Company**	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Provision for Hong Kong Profits Tax – provisional profits tax paid	**(24)**	(3)	**–**	–
Provision for PRC income tax	**15,289**	15,231	**–**	–
Balance of PRC income tax recoverable relating to prior years	**(3,128)**	–	**–**	–
	12,137	15,228	**–**	–

11. PROFIT FOR THE PERIOD/YEAR ATTRIBUTABLE TO SHAREHOLDERS

The profit for the period attributable to shareholders includes a profit of $255,570,000 (year ended 31 December 2003: $507,562,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Final dividend proposed after the balance sheet date of 1.3 cents (year ended 31 December 2003: $Nil) per share	**19,642**	–
Special dividend proposed after the balance sheet date of $Nil (year ended 31 December 2003: 3 cents) per share	**–**	43,188
Special dividend in respect of the previous financial year, approved and paid during the period, of 3 cents (year ended 31 December 2003: $Nil) per share	**43,188**	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of $160,426,000 (year ended 31 December 2003: $801,186,000) and the weighted average number of approximately 1,445,239,000 shares (year ended 31 December 2003: 1,201,972,000 shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the adjusted profit for the period attributable to ordinary shareholders of $168,231,000 (year ended 31 December 2003: $802,858,000) after adding back the interest expense on the convertible notes, and the weighted average number of approximately 2,628,578,000 ordinary shares (year ended 31 December 2003: 1,340,252,000 ordinary shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option schemes and issued convertible notes.

13. EARNINGS PER SHARE *(Continued)*

(c) Reconciliations

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Profit attributable to shareholders used in calculating basic earnings per share	**160,426**	801,186
Interest expense on the convertible notes	**7,805**	1,672
Profit attributable to shareholders used in calculating diluted earnings per share	**168,231**	802,858

	Period from 1 January 2004 to 31 March 2005 Number of shares '000	Year ended 31 December 2003 Number of shares '000
Weighted average number of ordinary shares used in calculating basic earnings per share	**1,445,239**	1,201,972
Deemed issue of ordinary shares for no consideration	**37,546**	31,115
Deemed issue of ordinary shares from conversion of convertible notes	**1,145,793**	107,165
Weighted average number of ordinary shares used in calculating diluted earnings per share	**2,628,578**	1,340,252

(Expressed in Hong Kong dollars)

14. RETIREMENT SCHEMES

Pursuant to the requirements of the Mandatory Provident Fund Schemes Ordinance ("MPF Scheme") and related guidelines, the Group's and employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant staff. The Group's contributions payable to the MPF Scheme are charged to the income statement. Retirement costs for the MPF Scheme for the period were $172,000 (year ended 31 December 2003: $199,000).

The employees of the subsidiaries in the PRC are members of the Central Pension Scheme operated by the Government of the PRC. The subsidiaries are required to contribute a certain percentage of the employees' payroll to the Central Pension Scheme to fund the benefits. The obligation for the Group with respect to the Central Pension Scheme is the required contributions under the Central Pension Scheme.

Other than the above, certain subsidiaries also participate in supplementary defined contribution retirement plans managed by independent insurance companies whereby the subsidiaries are required to make contributions to the retirement plans at fixed rates of the employees' salary costs.

Retirement costs for the Central Pension Scheme and supplementary retirement plans for the period were $9,123,000 (year ended 31 December 2003: $5,154,000).

15. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financing reporting.

Business segments
The Group comprises the following main business segments:

Healthcare	:	The manufacture, distribution and sale of healthcare products.
Electronics	:	The manufacture, distribution and sale of electronic and electrical products and office equipment and provision of related services.
Media-related business	:	The provision of ancillary services for the development of the cable television and other media-related business.

15. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Healthcare		Electronics		Media-related business		Unallocated		Consolidated	
	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000	**Period from 1 January 2004 to 31 March 2005 $'000**	Year ended 31 December 2003 $'000	**Period from 1 January 2004 to 31 March 2005 $'000**	Year ended 31 December 2003 $'000	**Period from 1 January 2004 to 31 March 2005 $'000**	Year ended 31 December 2003 $'000	**Period from 1 January 2004 to 31 March 2005 $'000**	Year ended 31 December 2003 $'000
Revenue from external customers	**1,054,709**	–	**1,300,810**	1,015,277	**5,988**	–	**–**	–	**2,361,507**	1,015,277
Other revenue from external customers	**355**	–	**4,789**	2,230	**14**	7	**9,808**	4,763	**14,966**	7,000
Total	**1,055,064**	–	**1,305,599**	1,017,507	**6,002**	7	**9,808**	4,763	**2,376,473**	1,022,277
Segment result	**172,762**	–	**(6,060)**	(1,407)	**(4,494)**	(307)	**(14,924)**	(16,798)	**147,284**	(18,512)
Non-operating income									**126,706**	1,745,555
Finance costs									**(14,973)**	(4,577)
Share of profits less losses of associates	**–**	–	**(16,491)**	(15,182)	**–**	–	**123**	–	**(16,368)**	(15,182)
Share of profits less losses of a jointly controlled entity	**–**	–	**–**	–	**(1,420)**	–	**–**	–	**(1,420)**	–
Income tax									**(3,149)**	(584)
Minority interests									**(77,654)**	(905,514)
Profit for the period/year attributable to shareholders									**160,426**	801,186

15. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Healthcare		Electronics		Media-related business		Unallocated		Consolidated	
	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Depreciation and amortisation for the period/year	3,707	–	8,817	7,621	732	–	2,482	1,146	15,738	8,767
Impairment loss/(reversal of impairment loss)	–	–	3,518	18,041	–	–	(10,102)	–	(6,584)	18,041
Significant non-cash expenses (other than depreciation and amortisation)	2,021	–	6,752	14,408	–	–	10,000	1,954	18,773	16,362
Segment assets	1,451,388	–	691,536	636,863	16,684	678	1,218,241	2,378,650	3,377,849	3,016,191
Interest in associates	–	–	42,951	159,565	–	–	10,514	10,391	53,465	169,956
Interest in a jointly controlled entity	–	–	–	–	185,296	–	–	–	185,296	–
Total assets									3,616,610	3,186,147
Segment liabilities	87,777	–	225,632	195,936	864	664	851,417	331,943	1,165,690	528,543
Capital expenditure incurred during the period/year	4,977	–	6,245	8,621	4,556	–	3,852	61,295	19,630	69,916

Geographical segments

No analysis of the Group's turnover and contribution from operations by geographical segment has been presented as almost all the Group's operating activities are carried out in the PRC. There is no other geographical segment with segment assets equal to or greater than 10 per cent of the Group's total assets.

16. INVESTMENT PROPERTIES

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Valuation:				
At 1 January	**84,411**	61,537	**4,100**	–
Exchange adjustments	**224**	(258)	**–**	–
Additions during the period	**21**	30,488	**21**	4,100
Disposals during the period	**(900)**	–	**–**	–
Surplus/(deficit) on revaluation	**878**	(5,785)	**(221)**	–
Transfer to fixed assets (*note* 17(*a*))	**(625)**	(1,571)	**–**	–
At 31 March/31 December	**84,009**	84,411	**3,900**	4,100

(a) The analysis of valuation of investment properties is as follows:

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Held in Hong Kong under long-term leases	**1,700**	2,050	**–**	–
Held outside Hong Kong in the PRC under medium-term leases	**82,309**	82,361	**3,900**	4,100
	84,009	84,411	**3,900**	4,100

(b) The investment properties held in Hong Kong and outside Hong Kong in the PRC were revalued at 31 March 2005 by Jointgoal Surveyors and DTZ Debenham Tie Leung Limited respectively who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis. The revaluation surplus of $878,000 (31 December 2003: deficit of $5,785,000) has been transferred to the consolidated income statement.

(c) The gross carrying amounts of investment properties of the Group held for use in operating leases were $84,009,000 (31 December 2003: $84,411,000).

16. INVESTMENT PROPERTIES *(Continued)*

(d) The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Within 1 year	**2,006**	1,094	**255**	164

17. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Land and buildings held for own use $'000	**Furniture, fixtures and fittings** $'000	**Plant, machinery and equipment** $'000	**Motor vehicles** $'000	**Total** $'000
Cost or valuation:					
At 1 January 2004	137,606	4,096	19,012	27,179	187,893
Transfer from investment properties (*note* 16)	625	–	–	–	625
Additions through acquisition of a subsidiary	–	1,301	–	1,484	2,785
Other additions	1,747	5,381	6,894	5,587	19,609
Reductions through disposal of subsidiaries	(3,054)	(187)	(561)	(660)	(4,462)
Other disposals	(9,726)	(538)	(1,062)	(283)	(11,609)
Exchange adjustments	282	4	84	113	483
At 31 March 2005	127,480	10,057	24,367	33,420	195,324
Representing:					
Cost	126,787	10,057	24,367	33,420	194,631
Valuation in 1992	693	–	–	–	693
	127,480	10,057	24,367	33,420	195,324

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Group

	Land and buildings held for own use $'000	Furniture, fixtures and fittings $'000	Plant, machinery and equipment $'000	Motor vehicles $'000	Total $'000
Accumulated amortisation and depreciation:					
At 1 January 2004	60,291	2,401	13,552	15,460	91,704
Charge for the period	3,513	1,145	3,329	5,769	13,756
Additions through acquisition of a subsidiary	–	18	–	25	43
Reductions through disposal of subsidiaries	(1,174)	(123)	(528)	(517)	(2,342)
Written back on disposal	(2,122)	(235)	(641)	(157)	(3,155)
Reversal of impairment loss (*Note*)	(10,102)	–	–	–	(10,102)
Exchange adjustments	127	4	59	61	251
At 31 March 2005	50,533	3,210	15,771	20,641	90,155
Net book value:					
At 31 March 2005	76,947	6,847	8,596	12,779	105,169
At 31 December 2003	77,315	1,695	5,460	11,719	96,189

Note: Due to the recovery of Hong Kong property market, the Group reassessed the recoverable amount of the land and buildings held for the own use as at 31 March 2005 and $10,102,000 of the recognised impairment loss was reversed (included in "Non-operating income"). The estimates of recoverable amount were determined on an open market value basis by an independent firm of surveyors, Vigers Appraisal & Consulting Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors.

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Company

	Furniture, fixtures and fittings $'000	Motor vehicles $'000	Total $'000
Cost or valuation:			
At 1 January 2004	1,890	3,229	5,119
Additions	832	92	924
Disposals	(13)	–	(13)
At 31 March 2005	2,709	3,321	6,030
Accumulated amortisation and depreciation:			
At 1 January 2004	1,503	2,637	4,140
Charge for the period	410	583	993
Written back on disposal	(7)	–	(7)
At 31 March 2005	1,906	3,220	5,126
Net book value:			
At 31 March 2005	803	101	904
At 31 December 2003	387	592	979

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(c) The analysis of cost or valuation of land and buildings is as follows:

	Group	
	31 March 2005	31 December 2003
	$'000	$'000
Held in Hong Kong under long-term leases	**47,084**	47,084
Held outside Hong Kong in the PRC under medium-term leases	**76,177**	86,294
Held outside Hong Kong in the PRC under short-term leases	**4,219**	4,228
	127,480	137,606

(d) Land and buildings held by a subsidiary with carrying value of $22,600,000 (31 December 2003: $13,842,000) was pledged as security for banking facilities amounting to $40,000,000 (31 December 2003: $97,100,000), which were utilised to the extent of $4,000,000 at 31 March 2005 (31 December 2003: $16,563,000) (note 29).

18. GOODWILL

Group

	Positive goodwill	**Negative goodwill**	**Total**
	$'000	$'000	$'000
At 1 January 2004	3,518	(1,534)	1,984
Addition arising on acquisition of a subsidiary (*Note*)	1,136,614	–	1,136,614
Impairment loss	(3,518)	–	(3,518)
Derecognition	–	1,534	1,534
At 31 March 2005	1,136,614	–	1,136,614

18. GOODWILL *(Continued)*

Group (*Continued*)

Note:

(i) In March 2004, the Group acquired the entire issued share capital of Central New International Limited ("Central New") which holds a 75% interest in Shanghai GoldPartner Biotech Co., Ltd at a consideration of approximately $1,172 million, satisfied as to $600 million by cash and as to the remaining of approximately $572 million by the issue of convertible notes of the Company (note 32(b)). This acquisition has given rise to goodwill of approximately $1,137 million.

Goodwill primarily related to the distribution network of "Naobaijin" and "GoldPartner" which is the main purpose of the acquisition and the synergy effect that can be achieved by centralising the logistical arrangements of the healthcare product distribution network and that of the consumer electronic and electrical products.

(ii) Impairment test for cash-generating unit containing goodwill

The healthcare manufacturing and distribution unit contains the whole of the goodwill arising from the acquisition of Central New. The impairment test of this unit is based on value in use calculations. Those calculations use cash flow projections based on actual operating results for the period ended 31 March 2005 and approved budget for the year ending 31 March 2006. Cash flows for the years ending 31 March 2007 and 2008 are extrapolated using a 13 per cent growth rate and remain constant thereafter for a further 13-year period. This growth rate is consistent with the growth rate for the industry. Pre-tax discount rates ranging from 11 to 12 per cent have been used in discounting the projected cash flows.

The key assumption is the annual growth of the turnover of the healthcare products and it is determined based on the statistical analysis of the annual consumption of healthcare products in the PRC adjusted for actual experience. The turnover growth of the healthcare products is considered to be in line with the cash flow projections.

The carrying amount of the unit approximates to its recoverable amount. Any adverse change in the key assumption could reduce the recoverable amount below carrying amount.

19. OTHER INTANGIBLE ASSETS

Group

	Trademark and patent rights $'000	Computer software $'000	Total $'000
Cost:			
At 1 January 2004	–	10,178	10,178
Additions arising on acquisition of a subsidiary	36,605	–	36,605
At 31 March 2005	36,605	10,178	46,783
Accumulated amortisation/ impairment loss:			
At 1 January 2004	–	10,178	10,178
Amortisation for the period	1,982	–	1,982
At 31 March 2005	1,982	10,178	12,160
Carrying amount:			
At 31 March 2005	34,623	–	34,623
At 31 December 2003	–	–	–

The amortisation charge for the period is included in "Other operating expenses" in the consolidated income statement.

20. INTEREST IN SUBSIDIARIES

	Company	
	31 March 2005 $'000	31 December 2003 $'000
Unlisted investments, at cost	**326,065**	301,307
Amounts due from subsidiaries	**1,889,541**	689,486
Amounts due to subsidiaries	**(2,719)**	(1,784)
	2,212,887	989,009
Impairment loss	**(184,765)**	(175,389)
	2,028,122	813,620

Details of the principal subsidiaries are set out in note 44 on the financial statements.

21. INTEREST IN ASSOCIATES

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Unlisted investments, at cost	**–**	–	**25,191**	112,520
Share of net assets	**69,209**	144,276	**–**	–
Goodwill	**1,759**	43,183	**–**	–
	70,968	187,459	**25,191**	112,520
Impairment loss	**(17,503)**	(17,503)	**(14,800)**	(14,800)
	53,465	169,956	**10,391**	97,720

(a) Following additional capital contributions made by the other shareholder of Renesas Stone Semiconductor (Beijing) Company Limited ("RSSC"), one of the associates of the Group, in January 2004, the Group's equity interest in RSSC was diluted from 21.7% at 31 December 2003 to 17.9% at 30 June 2004. The directors consider that the Group no longer has significant influence over RSSC and the investment in this associate has been reclassified as non-trading securities (note 23).

(b) Details of the principal associates are set out in note 45 on the financial statements.

22. INTEREST IN A JOINTLY CONTROLLED ENTITY

	31 March 2005 $'000	31 December 2003 $'000
Share of net assets	**14,134**	–
Amount due from a jointly controlled entity	**171,162**	–
	185,296	–

During the period, for the purpose of investment in China Cable Information Network Company Limited ("China Cable"), the Group entered into a shareholders' agreement (the "Agreement") with Suntop Investments Limited ("Suntop"), an independent third party, to establish a jointly controlled entity, China Cable Media Group Limited ("CCMG"), to which the Group and Suntop will each contribute US$25,000,000 in return for a 50% interest therein. According to the Agreement, the Group's contribution will be satisfied by cash of US$10,000,000 and the remaining US$15,000,000 by its holding of 20,000,000 shares in China Cable (the "China Cable Shares"); while the contribution of Suntop will be satisfied wholly by cash.

During the period, each of the Group and Suntop injected US$2,000,000 into CCMG and in return 2,000,000 shares of CCMG of US$1 each were allotted and issued at par to each party. In addition, the Group has completed injection of a further US$8,000,000 and the China Cable shares into CCMG as at 31 March 2005, but injection by Suntop as at 31 March 2005 amounted to US$5,000,000. As the contribution by Suntop has not been completed, the amount of contributions made by the Group and Suntop in excess of the value of shares allotted by CCMG has been treated as shareholders' loans as at 31 March 2005. In December 2004, a further shareholders' loan in the amount of US$3,000,000 was made by the Group to CCMG, this loan is interest bearing at 12% per annum and will be converted into the shares of CCMG.

During the period, CCMG established two wholly owned foreign enterprises in the PRC via which investment in China Cable was made. As at 31 March 2005, CCMG owned approximately 17.38% equity interest in China Cable.

23. OTHER FINANCIAL ASSETS

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Non-trading securities – equity securities				
Listed in Hong Kong	**9,193**	11,180	**9,193**	11,180
Unlisted	**147,972**	31,862	**125,091**	4,793
	157,165	43,042	**134,284**	15,973
Loan receivable	**15,300**	15,300	**15,300**	15,300
Less: Provision	**(15,300)**	(15,300)	**(15,300)**	(15,300)
	–	–	**–**	–
	157,165	43,042	**134,284**	15,973
Market value of listed securities	**9,193**	11,180	**9,193**	11,180

(a) Included in unlisted equity securities as at 31 December 2003 was a 5.54% equity interest in (or 20,000,000 shares of) China Cable with a carrying value of $22,678,000. During the period, management reviewed the market demands and financial viability of the business of China Cable in the foreseeable future and considered that the circumstances that led to the provision for impairment made in prior years have ceased to exist. Accordingly, provision for impairment loss in respect of China Cable of $85,603,000 has been written back. This investment was then transferred into a jointly controlled entity established during the period (note 22).

The balance as at 31 March 2005 mainly represents investment in RSSC (note 21).

(b) Loan receivable is the amount advanced to the founders of an associate, Beijing East.net Information Technology Co., Ltd. ("East.net") which is secured by the 51% equity interest in East.net owned by these founders.

24. INVESTMENTS

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Equity securities, at market value				
Listed in Hong Kong	**1,050**	1,740	**–**	–
Listed outside Hong Kong	**606,221**	1,678,950	**–**	–
	607,271	1,680,690	**–**	–
Debt securities, at fair value				
Unlisted	**39,202**	–	**39,202**	–
	646,473	1,680,690	**39,202**	–

Equity securities listed outside Hong Kong represent ordinary shares of SINA Corporation ("SINA") with nominal value of US$0.133 (equivalent to $1.04) each. SINA is incorporated in the Cayman Islands and listed on NASDAQ in the United States.

25. INVENTORIES

	Group	
	31 March 2005 $'000	31 December 2003 $'000
Trading and manufacturing		
Raw materials	**12,678**	14,510
Work in progress	**1,143**	3,599
Finished goods	**142,581**	128,434
	156,402	146,543
Property development		
Properties held for sale	**6,457**	10,131
	162,859	156,674

The amount of trading and manufacturing inventories carried at net realisable value is $25,060,000 (31 December 2003: $21,168,000).

Properties held for sale are carried at net realisable value based on management estimates by reference to prevailing market conditions.

26. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Debtors, prepayments and other receivables	**427,648**	360,610	**67,815**	244,204
Gross amount due from customers for contract work	**17,753**	10,897	**–**	–
Amounts due from associates	**11,232**	14,182	**5,198**	5,066
Amounts due from related companies	**26,827**	23,207	**1,794**	1,786
	483,460	408,896	**74,807**	251,056

26. TRADE AND OTHER RECEIVABLES *(Continued)*

All of the trade and other receivables are expected to be recovered within one year.

A credit period of 60 days to 90 days is normally granted to trade customers. Debtors with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

Included in the Group's debtors, prepayments and other receivables are bills receivable of $12,801,000 (31 December 2003: $Nil) pledged to a bank for banking facilities granted by the bank to a subsidiary.

Included in the Group's debtors, prepayments and other receivables are trade debtors (net of specific and general provision for bad and doubtful debts) with the following ageing analysis:

	Group	
	31 March 2005 $'000	31 December 2003 $'000
Current	**190,916**	45,206
Due over 6 months but within 12 months	**3,913**	629
Due over 12 months but within 24 months	**315**	819
	195,144	46,654

27. PLEDGED DEPOSITS

	Group		**Company**	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Pledged deposits with banks	**33,815**	15,530	**33,000**	15,530

At 31 March 2005, fixed deposits of $33,000,000 and $815,000 respectively were pledged as securities against bank loan facilities (note 29) and trade finance banking facilities extended to certain subsidiaries. At 31 December 2003, fixed deposits of $15,530,000 were pledged as security against general banking facilities extended to a subsidiary.

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Deposits with banks and other financial institutions	**76,990**	233,023	**15,896**	170,160
Cash at bank and in hand	**427,520**	290,511	**174,110**	165,812
Cash and cash equivalents in the balance sheets and cash flow statement	**504,510**	523,534	**190,006**	335,972

29. BANK LOANS

	Group	
	31 March 2005 $'000	31 December 2003 $'000
Secured (*Note*)	**32,275**	16,563
Unsecured	**2,828**	18,530
	35,103	35,093
Bank loans are repayable as follows:		
Within 1 year or on demand	**35,103**	31,093
Between 1 year and 2 years	**–**	4,000
	35,103	35,093

Note: At 31 March 2005, the banking facilities of certain subsidiaries of the Group are secured by fixed deposits of $33,000,000 (31 December 2003: $15,530,000) (note 27) and mortgages over land and buildings with carrying value of $22,600,000 (31 December 2003: mortgages over land and buildings with an aggregate carrying value of $13,842,000 and an investment property of a related company with carrying value of $3,000,000) (note 17(d)). At 31 March 2005, such banking facilities amounting to $68,275,000 (31 December 2003: $97,100,000), were utilised to the extent of $32,275,000 (31 December 2003: $16,563,000).

30. OTHER LOAN

	Group	
	31 March 2005 $'000	31 December 2003 $'000
Secured and repayable within 1 year or on demand	**–**	116,475

The other loan was secured by 2,000,000 ordinary shares of SINA held by the Group with carrying value of US$67.5 million (equivalent to approximately $524 million) as at 31 December 2003. The other loan bore interest at a rate of LIBOR plus 1% per annum and has been fully repaid during the period.

31. TRADE AND OTHER PAYABLES

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Creditors, accruals and other payables	**271,669**	141,877	**16,520**	5,623
Amounts due to associates	**419**	518	**–**	–
Amounts due to related companies	**12,900**	9,352	**99**	275
	284,988	151,747	**16,619**	5,898

Included in the Group's creditors, accruals and other payables are trade creditors with the following ageing analysis:

	Group	
	31 March 2005 $'000	31 December 2003 $'000
Due within 6 months or on demand	**112,770**	53,700
Due after 6 months but within 12 months	**620**	2,697
Due after 12 months but within 24 months	**218**	1,153
Due after 24 months but within 36 months	**252**	1,173
	113,860	58,723

32. CONVERTIBLE NOTES

	Group and Company	
	31 March 2005 $'000	31 December 2003 $'000
Balance at 31 March/31 December	**832,955**	210,000

(a) On 6 June 2003, the Company and a placing agent entered into an agreement whereby (i) the placing agent agreed to procure subscribers to subscribe as principals for the convertible notes (the "Original Notes") of a principal amount of at least $50 million, and (ii) the Company granted to the placing agent the option (the "Option") to require the Company to issue additional convertible notes up to an additional principal amount of $350 million for subscription by the subscribers upon the terms and conditions of the placing agreement. The Option is exercisable by the placing agent on or before 13 January 2005. In 2003, Original Notes of $220 million were issued. The Original Notes bear interest at a rate of 3% per annum, payable annually in arrears with the first interest payment to be made on the date falling twelve months from the date of issue of such convertible notes. During the year ended 31 December 2003, $10 million Original Notes were converted into 19,230,769 ordinary shares of the Company.

During the period, additional Original Notes of $180 million were issued pursuant to the placing agreement.

The Original Notes will be redeemed at 100% of the principal amount plus any accrued and unpaid interest on the maturity date. The Company can redeem in whole or in part the issued Original Notes prior to their maturity dates by serving at least seven calendar days written notice and payment of 100% of the principal amount plus an early redemption fee of 7% on the redeemed amount and any accrued and unpaid interest. The Original Notes holders can, by written notice to the Company, within fourteen days immediately after the expiry of a six-month period following the date of issue of the respective Original Notes, require the Company to redeem the Original Notes at an amount equivalent to 100% of the principal amount of the Original Notes plus a 1.7% premium.

The Original Notes are convertible at any time on the day following 90 calendar days after the date of issue of the Original Notes up to the fourteenth days prior to and exclusive of the maturity date at a conversion price of $0.52 per share, subject to adjustments. The maturity date of each Original Notes is the date falling sixty months from (and inclusive of) the date of issue of such convertible notes.

32. CONVERTIBLE NOTES *(Continued)*

(b) On 4 March 2004, convertible notes of approximately $572 million (the "Notes") were issued to Ready Finance Limited as part of the consideration for the acquisition of a subsidiary. The Notes are non-interest bearing and will mature in 5 years after the issue date.

The Company has the right to redeem the Notes at 100% of the principal amount in amounts of $500,000 or integral multiples thereof prior to the maturity date by giving not less than seven business days written notice.

The Notes comprise Series A, Series B and Series C Notes in the principal amounts of $190 million, $190 million and $192 million respectively, and are convertible by the vendor at any time after 12 months, 15 months and 27 months respectively from the date of issue of the Notes at a conversion price of $0.76 per share, subject to adjustments.

(c) During the period, $129 million convertible notes were converted into 244,433,176 ordinary shares of the Company (note 34).

33. EQUITY COMPENSATION BENEFITS

The Group adopted a new share option scheme (the "New Scheme") pursuant to the shareholders' resolution in a general meeting on 12 April 2002, following the amendments on the Listing Rules which came into effect from September 2001. Pursuant to the New Scheme, no further options will be granted under the old share option scheme that was adopted on 23 July 1993 (the "Old Scheme") after 12 April 2002 but the provisions of the Old Scheme remain in force and all options granted prior thereto will continue to be valid and exercisable in accordance with the provisions of the Old Scheme. During the year ended 31 December 2003, all options issued under the Old Scheme lapsed.

Under the terms of the New Scheme, the directors may at their discretion invite employees and directors of the Company or any of its subsidiaries and associates to take up options to subscribe for shares of the Company. The New Scheme shall be valid and effective for a period of ten years, ending on 11 April 2012, after which no further options will be granted. The exercise price of options is determinable by the Board and is the highest of (i) the nominal value of the shares; (ii) the average of the closing prices of the shares on the Stock Exchange for five business days immediately preceding the date of the grant; and (iii) the closing price of the shares on the Stock Exchange on the date of the offer.

The exercise period of the options granted is determinable by the Board, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant. A nominal consideration of $1 is payable on acceptance of the grant of options. Each option gives the holder the right to subscribe for one share.

(Expressed in Hong Kong dollars)

33. EQUITY COMPENSATION BENEFITS *(Continued)*

(a) Movements in share options

	31 March 2005 Number	31 December 2003 Number
At 1 January 2004/2003	**209,262,000**	265,363,000
Lapsed	**(7,950,000)**	(55,851,000)
Exercised (*note* 34)	**(10,000,000)**	(250,000)
At 31 March/31 December	**191,312,000**	209,262,000
Options vested at 31 March 2005/31 December 2003	**173,787,000**	170,112,000

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	**Exercise period**	**Exercise price**	**31 March 2005 Number**	31 December 2003 Number
22 May 2002	22 May 2002 to 21 May 2012	$0.792	**17,356,000**	17,356,000
22 May 2002	22 August 2002 to 21 May 2012	$0.792	**17,525,000**	19,325,000
22 May 2002	22 August 2003 to 21 May 2012	$0.792	**17,525,000**	19,575,000
22 May 2002	22 August 2004 to 21 May 2012	$0.792	**17,525,000**	19,575,000
22 May 2002	22 August 2005 to 21 May 2012	$0.792	**17,525,000**	19,575,000
31 December 2002	31 December 2002 to 30 December 2012	$0.476	**103,856,000**	113,856,000
			191,312,000	209,262,000

33. EQUITY COMPENSATION BENEFITS *(Continued)*

(c) Details of share options exercised during the period

Exercise date	Exercise price	Market value per share at exercise date	Proceeds received	Number of shares
5 January 2004	$0.476	$0.83	$4,760,000	10,000,000

34. SHARE CAPITAL

	31 March 2005		31 December 2003	
	Number of shares '000	Amount $'000	Number of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.1 each	**5,000,000**	**500,000**	3,000,000	300,000
Issued and fully paid:				
At 1 January 2004/2003	**1,218,046**	**121,805**	1,198,565	119,856
Shares issued under share option scheme (*note* 33(*a*))	**10,000**	**1,000**	250	25
Shares issued upon conversion of convertible notes (*note* 32(*c*))	**244,433**	**24,443**	19,231	1,924
At 31 March 2005/ 31 December 2003	**1,472,479**	**147,248**	1,218,046	121,805

35. RESERVES

(a) Group

	Capital redemption reserve $'000	Share premium $'000	Capital reserve $'000	Investment revaluation reserve $'000	Exchange fluctuation reserve $'000	Retained profits $'000	Total $'000
At 1 January 2004	151	1,030,815	14,257	–	1,565	606,027	1,652,815
Dividend approved and paid during the period	–	–	–	–	–	(43,188)	(43,188)
Unrealised loss on revaluation of investments in securities	–	–	–	(6,711)	–	–	(6,711)
Impairment loss realised	–	–	–	6,711	–	–	6,711
Share premium on issue of shares							
– under share option scheme	–	3,756	–	–	–	–	3,756
– upon conversion of convertible notes	–	104,409	–	–	–	–	104,409
Capital reserve released on disposal of subsidiaries	–	–	(152)	–	–	–	(152)
Exchange differences arising on consolidation	–	–	–	–	2,479	–	2,479
Profit for the period	–	–	–	–	–	160,426	160,426
At 31 March 2005	151	1,138,980	14,105	–	4,044	723,265	1,880,545
Attributable to:							
The Company and subsidiaries	151	1,138,980	14,105	–	(5,263)	759,605	1,907,578
Associates	–	–	–	–	9,043	(34,920)	(25,877)
Jointly controlled entity	–	–	–	–	264	(1,420)	(1,156)
	151	1,138,980	14,105	–	4,044	723,265	1,880,545

35. RESERVES *(Continued)*

(a) Group *(Continued)*

	Capital redemption reserve $'000	Share premium $'000	Capital reserve $'000	Investment revaluation reserve $'000	Exchange fluctuation reserve $'000	Retained profits/ (accumulated losses) $'000	Total $'000
At 1 January 2003	151	1,022,607	15,274	(24,080)	(2,325)	(195,159)	816,468
Share premium on issue of shares							
– under share option scheme	–	169	–	–	–	–	169
– upon conversion of convertible notes	–	8,039	–	–	–	–	8,039
Capital reserve released on disposal of a subsidiary	–	–	(1,017)	–	–	–	(1,017)
Exchange differences arising on consolidation	–	–	–	–	3,890	–	3,890
Unrealised loss on revaluation of investments in securities	–	–	–	(16,340)	–	–	(16,340)
Impairment loss realised	–	–	–	40,420	–	–	40,420
Profit for the year	–	–	–	–	–	801,186	801,186
At 31 December 2003	151	1,030,815	14,257	–	1,565	606,027	1,652,815
Attributable to:							
The Company and subsidiaries	151	1,030,815	14,257	–	(7,503)	624,556	1,662,276
Associates	–	–	–	–	9,068	(18,529)	(9,461)
	151	1,030,815	14,257	–	1,565	606,027	1,652,815

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital reserve and exchange fluctuation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on or derived from acquisition or disposal of subsidiaries and associates and the foreign currency translation.

The investment revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted for the gain or loss on revaluation and disposal of non-trading securities.

35. RESERVES *(Continued)*

(b) Company

	Capital redemption reserve $'000	Share premium $'000	Investment revaluation reserve $'000	Retained profits/ (accumulated losses) $'000	Total $'000
At 1 January 2004	151	1,030,815	–	166,281	1,197,247
Dividend approved and paid during the period	–	–	–	(43,188)	(43,188)
Unrealised loss on revaluation of investments in securities	–	–	(4,951)	–	(4,951)
Impairment loss realised	–	–	4,951	–	4,951
Share premium on issue of shares					
– under share option scheme	–	3,756	–	–	3,756
– upon conversion of convertible notes	–	104,409	–	–	104,409
Profit for the period	–	–	–	255,570	255,570
At 31 March 2005	151	1,138,980	–	378,663	1,517,794
At 1 January 2003	151	1,022,607	(24,080)	(341,281)	657,397
Unrealised loss on revaluation of investments in securities	–	–	(16,340)	–	(16,340)
Impairment loss realised	–	–	40,420	–	40,420
Share premium on issue of shares					
– under share option scheme	–	169	–	–	169
– upon conversion of convertible notes	–	8,039	–	–	8,039
Profit for the year	–	–	–	507,562	507,562
At 31 December 2003	151	1,030,815	–	166,281	1,197,247

At 31 March 2005, the amount of distributable reserves of the Company amounted to $378,663,000 (31 December 2003: $166,281,000).

36. DEFERRED TAXATION

(a) Deferred tax assets and liabilities recognised:

(*i*) *Group*

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the period/year are as follows:

	Depreciation allowances in excess of related depreciation $'000	Deferred revenue $'000	Provision for obsolete inventories $'000	Provision for bad and doubtful debts $'000	Reversal of overprovision and accruals $'000	Tax losses $'000	Total $'000
Deferred tax arising from:							
At 1 January 2003	131	(472)	(1,117)	(2,658)	310	(131)	(3,937)
(Credited)/charged to consolidated income statement	(64)	(328)	(605)	(284)	(87)	64	(1,304)
At 31 December 2003	67	(800)	(1,722)	(2,942)	223	(67)	(5,241)
At 1 January 2004	**67**	**(800)**	**(1,722)**	**(2,942)**	**223**	**(67)**	**(5,241)**
(Credited)/charged to consolidated income statement	**646**	**219**	**(186)**	**281**	**(96)**	**(139)**	**725**
At 31 March 2005	**713**	**(581)**	**(1,908)**	**(2,661)**	**127**	**(206)**	**(4,516)**

36. DEFERRED TAXATION *(Continued)*

(a) Deferred tax assets and liabilities recognised: *(Continued)*

(ii) Company

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the period/year are as follows:

	Depreciation allowances in excess of related depreciation	Tax losses	Total
	$'000	$'000	$'000
At 1 January 2003	131	(131)	–
(Credited)/charged to income statement	(64)	64	–
At 31 December 2003	67	(67)	–
At 1 January 2004	**67**	**(67)**	**–**
(Credited)/charged to income statement	**(39)**	**39**	**–**
At 31 March 2005	**28**	**(28)**	**–**

	Group		Company	
	31 March 2005	31 December 2003	**31 March 2005**	31 December 2003
	$'000	$'000	**$'000**	$'000
Net deferred tax assets recognised on the consolidated balance sheet	**(5,023)**	(5,241)	**–**	–
Net deferred tax liabilities recognised on the consolidated balance sheet	**507**	–	**–**	–
	(4,516)	(5,241)	**–**	–

(b) Deferred tax assets not recognised:

The Group has not recognised deferred tax assets in respect of unused tax losses of $33,946,000 (31 December 2003: $28,178,000) and deductible temporary differences of $32,901,000 (31 December 2003: $37,273,000) as it is not probable that there will be sufficient taxable profits available against which the unused tax losses and deductible temporary differences can be utilised. The tax losses do not expire under current tax legislation.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

During the period, the Group acquired the entire issued share capital of Central New and an additional 25% equity interest in Shenzhen Shentong Printing Equipment Co., Ltd ("SSPE") from the minority shareholders of SSPE. From the respective dates of acquisition to 31 March 2005, Central New and SSPE contributed net profit of $129,439,000 and net loss of $372,000 respectively to the consolidated net profit for the period. If the acquisition of the additional 25% equity interest in SSPE had occurred on 1 January 2004, the Group's turnover would have been $2,361,507,000 and net profit would have been $159,685,000. Since the group structure of Central New did not exist before the acquisition by the Group, its contribution to the Group's turnover and net profit as though the acquisition had occurred on 1 January 2004 are therefore not available for disclosure.

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Net assets acquired:		
Property, plant and equipment	**2,743**	–
Intangible assets	**36,605**	–
Other financial assets	**47**	–
Inventories	**1,956**	–
Trade and other receivables	**40,561**	–
Cash at bank and in hand	**58,108**	–
Trade and other payables	**(60,226)**	–
Minority shareholders' interests	**(19,416)**	4,033
	60,378	4,033
Goodwill on acquisition of subsidiaries	**1,135,220**	3,553
Total consideration	**1,195,598**	7,586
Satisfied by:		
Cash consideration	**380,218**	4,961
Other financial assets	**4,807**	–
Issue of convertible notes	**571,955**	–
Other receivables	**238,618**	–
Trade and other payables	**–**	2,625
	1,195,598	7,586

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

Goodwill has arisen on acquisition of Central New amounting to $1,136,614,000 because the distribution network of "Naobaijin" and "GoldPartner" did not meet the criteria for recognition as an intangible asset at the date of acquisition (note 18). The excess of the Group's interest in the net fair value of SSPE's identifiable assets, liabilities and contingent liabilities over cost of acquisition amounting to $1,394,000 is recognised as "Non-operating income" in the consolidated income statement.

(b) Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Cash consideration	**(380,218)**	(4,961)
Cash and cash equivalents acquired	**58,108**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(322,110)**	(4,961)

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of interests in subsidiaries

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Net assets disposed of:		
Property, plant and equipment	**2,120**	1,304
Other financial assets	**(256)**	–
Inventories	**2,554**	–
Trade and other receivables	**6,933**	3,688
Cash at bank and in hand	**6,576**	5,381
Trade and other payables	**(4,083)**	(8,369)
Minority shareholders' interests	**(3,004)**	(3,232)
	10,840	(1,228)
Capital reserve released on disposal	**(152)**	(1,017)
(Loss)/profit on disposal	**(2,447)**	2,853
	8,241	608
Satisfied by:		
Cash consideration	**3,933**	–
Trade and other receivables	**4,308**	608
	8,241	608

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Analysis of the net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries

	Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
Net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries represents cash at bank and in hand disposed of	**(2,643)**	(5,381)

(e) Major non-cash transactions

During the period, the Group acquired the entire issued share capital of Central New at a consideration of approximately $1,172 million (note 18). Out of the total consideration, $600 million was satisfied by cash and the remaining balance of $572 million was satisfied by the issue of convertible notes (note 32 (b)). An earnest money of $237 million for this transaction was made in 2003 and was included in "Trade and other receivables" at 31 December 2003.

38. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at balance sheet date not provided for in the financial statements were as follows:

	Group		**Company**	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Contracted for	**837**	15,017	**–**	833

38. COMMITMENTS *(Continued)*

(b) Operating lease commitments

At balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Within 1 year	**6,245**	4,786	**1,022**	312
After 1 year but within 5 years	**9,285**	4,419	**–**	252
After 5 years	**501**	1,305	**–**	–
	16,031	10,510	**1,022**	564

39. CONTINGENT LIABILITIES

	Group		Company	
	31 March 2005 $'000	31 December 2003 $'000	**31 March 2005 $'000**	31 December 2003 $'000
Guarantees given to banks in respect of credit facilities granted to subsidiaries	**–**	–	**105,000**	121,848
Letters of credit issued but not yet utilised	**1,315**	–	**–**	–
Counter guarantee for bank loans given to an investee company	**7,621**	–	**7,621**	–
Counter guarantee for bank loans given to an associate	**–**	36,363	**–**	36,363
	8,936	36,363	**112,621**	158,211

40. MATERIAL RELATED PARTY TRANSACTIONS

The following material transactions with related parties were, in the opinion of the directors, carried out in the ordinary course of business and on normal commercial terms:

		Period from 1 January 2004 to 31 March 2005 $'000	Year ended 31 December 2003 $'000
(a)	Transactions with and amounts paid to or received from Stone Group Corporation ("SGC"), a minority shareholder of the Group:		
	Sale of traded products	**23,560**	20,072
	Purchase of traded products and component parts	**155**	167
	Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services (*note (i)*)	**4,123**	2,873
	Interest received	**–**	51
	Rental paid for staff quarters	**1,245**	999
	Rental income on properties (*note (ii)*)	**954**	1,212
	Handling fee (*note (iii)*)	**62**	784
(b)	Purchase of traded products and component parts from a minority shareholder of a subsidiary	**7,040**	32,981
(c)	Transactions with associates of the Group:		
	– Sales of traded products	**315**	23
	– Purchases of traded products and component parts	**4,651**	–
	– Interest received	**–**	75
(d)	Sales of traded products to companies controlled by a director	**10,412**	–

40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(e) One of the subsidiaries of SGC ("SGC Company") entered into an agreement with a non-wholly owned subsidiary of the Group, whereby certain units of the investment property owned by this subsidiary are leased to SGC Company. SGC Company may sub-lease the units and will bear all the expenses of the investment property. The Group is entitled to share a portion of the net profit but not the loss, after deduction of expenses and relevant taxes, generated by SGC Company. A profit of RMB688,000 (equivalent to approximately $648,000) was shared by the Group in this arrangement for the period ended 31 March 2005 (year ended 31 December 2003: $375,000).

(f) The Group placed deposits totalling $4,933,000 as at 31 December 2003 with Beijing Stone Finance Company, a subsidiary of SGC and a licensed financial company in the PRC. No such deposit was placed at 31 March 2005.

(g) On 28 February 2004, Beijing Stone New Technology Industrial Company Limited, a wholly owned subsidiary of the Group, entered into a sale and purchase agreement with Mr Ji Guoming, a minority shareholder of Wuxi Stone New Electric Company Limited which is a 51% owned subsidiary of the Group, for the disposal of its property situated at Wuxi, the PRC to Mr Ji at a consideration of RMB2,050,000 (equivalent to approximately $1,932,000). Details of the transaction were announced by the directors of the Company on 20 September 2004.

Notes:

(i) On 24 September 2003, the Company entered into a management contract whereby SGC agreed to provide secretarial and other related services and the use of office equipment to the Group at reimbursement cost which shall not exceed $3,500,000 per annum for a term of five years commencing from 23 July 2003.

(ii) A subsidiary of the Group acquired the Stone Building situated in Beijing from SGC during 1996 and leased various units of the Stone Building to SGC for a lease term of three years commencing from 1 August 1996. The lease term has been renewed on an annual basis thereafter. The rental income received for the period ended 31 March 2005 was calculated at a daily rate of RMB6 per square metre which was considered to be not materially different from the then market rental.

(iii) In March 1999, Beijing Stone New Technology Industrial Company Limited ("Beijing New Technology") entered into an agreement with SGC, pursuant to which Beijing New Technology appointed SGC to act as its agent to deal with all import procedural matters during the year 2000. The agreement may be renewed on an annual basis thereafter. A handling fee was payable to SGC pursuant to the agreement and was calculated at 1.3% of the cost of goods shipped which was considered to be not materially different from the then market price.

41. POST BALANCE SHEET EVENT

On 7 March 2005, the Company entered into a Sale and Purchase Agreement with Yearbase International Limited (The "Vendor") to acquire 40% interest in Me To You Holdings Ltd. at consideration of US$19,200,000 (equivalent to approximately $149,760,000). As at 31 March 2005, the Group has paid US$6,720,000 to the Vendor as a deposit, which has been included in "Trade and other receivables" in the Group's consolidated balance sheet. This transaction was completed on 7 April 2005.

(Expressed in Hong Kong dollars)

42. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 March 2005 to be Beijing Stone Investment Company Limited, a company established in the PRC.

43. COMPARATIVE FIGURES

Other revenue and other net income have been separately disclosed in the consolidated income statement for the period ended 31 March 2005 in order to present better the results of the Group. Accordingly, comparative figures have been reclassified to conform to the current period's presentation.

44. SUBSIDIARIES

Details of the principal subsidiaries, which materially affected the results or assets of the Group at 31 March 2005, are as follows:

	Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
	Stone Advance Technology Limited	Hong Kong	$1,000,000	100%	Sourcing and trading of electronic and office equipment, and component parts
	Prexton Investment Limited	Hong Kong	$10,000	100%	Property investment
	Key Success Trading Limited	Hong Kong	$2	100%	Property investment
	Gold Vantage Investments Limited	Hong Kong	$2	100%	Property Investment
~	Shanghai GoldPartner Biotech Co., Ltd.*	PRC	$50,000,000	^75%	Manufacture, sale and distribution of healthcare products
~	Beijing Stone Electronic Technology Co., Ltd.	PRC	US$20,000,000	100%	Investment holding

(Expressed in Hong Kong dollars)

44. SUBSIDIARIES *(Continued)*

	Name of company	Place of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
#	Beijing Stone New Technology Industrial Co., Ltd.*	PRC	RMB175,000,000	100%	Investment holding and distribution and sale of electronic and electrical products and office equipment
#	Shenzhen Shentong Printing Equipment Co., Ltd.	PRC	US$3,000,000	80%	Manufacture of invoice printers
#	Shanghai Stone-MTI Computer Engineering Co., Ltd.	PRC	RMB30,800,000	71%	Provision of comprehensive GIS solutions, software development and integration
#	Beijing Stone Industrial Control Technology Company Limited*	PRC	RMB30,000,000	61.67%	Sale of industrial controllers products
#	Beijing Stone Computer Co., Ltd.* ("Beijing Stone Computer")	PRC	RMB50,000,000	51%	Manufacture and distribution of computers and network components
	Sun Stone Media Group Limited*	British Virgins Island	US$1	##51%	Investment holding
•	Guangdong Sunnet Cafe Development Co., Ltd.	PRC	RMB30,000,000	51%	Operation of internet cafe chain
#	Tianjin Stone Computer Equipment Corporation Limited*	PRC	US$800,000	75%	Manufacture and sale of fluorescent electronic ballasts
#	Stone Online Sci & Tech Co., Ltd. (Beijing)*	PRC	RMB22,500,000	80%	Investment holding

(Expressed in Hong Kong dollars)

44. SUBSIDIARIES *(Continued)*

* *Indirect holding.*

This subsidiary is 100% owned by Sun Stone New Media Limited in which the Company has 51% direct interest.

^ *This subsidiary is 75% owned by Central New International Ltd in which the Company has 100% indirect interest.*

~ *Wholly Owned Foreign Enterprise.*

Limited Liability Company.

• *Sino-Foreign Equity Joint Venture Enterprise.*

45. ASSOCIATES

Details of the principal associates, which materially affected the results or assets of the Group at 31 March 2005, are as follows:

Name of company	Place of establishment and operation	Registered capital	Attributable interest	Principal activities
Beijing GOT Business Computer Systems Co., Ltd.*	PRC	US$5,000,000	20%	Manufacture of electronic cash registers
Beijing Stone Zhi Neng Technology Company*	PRC	RMB16,000,000	23.5%	Provision of terminal network system and mobile messaging system services
Beijing Stone Digital Technology Co., Ltd.*	PRC	RMB50,000,000	30%	Provision of electronic commerce service
Beijing East.net Information Technology Co., Ltd*	PRC	RMB8,276,800	49%	Provision of internet related services
Dailan Free-trading Zone Hua Qing International Engineering & Trading Co., Ltd	PRC	RMB24,000,000	51%	Provision of e-commerce and logistic management
Censoft Company Limited*	PRC	RMB30,000,000	30%	Development and distribution of application software

* *Indirect holding.*