

Notes to the Financial Statements

31 December 2004

1. GENERAL

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands on 25 September 2000. The Company's shares are listed on the main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is engaged in investment holding and its subsidiaries are principally engaged in the manufacturing and trading of home and personal care products, industrial products, cosmetics and skin care products and biotechnology products with medical and cosmetic applications.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes 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 disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable provisions of the Rules Governing the Listing of Securities of the Stock Exchange. The financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties, leasehold land and buildings and other investments are stated at fair value.

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.

The Group has not adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already assessed the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

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2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(c) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date, whilst the profit and loss account are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(d) Intangible assets

(i) Licences

Expenditure on acquired licences is capitalised and amortised using the straight-line method over their licensing periods or estimated useful lives to the Group, whichever is shorter, ranging from 3 to 10 years.

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred in development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over the estimated commercial lives of the underlying products of not more than 5 years, commencing from the date when the products are put into commercial production, to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Intangible assets (cont'd)

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(e) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued by independent valuers at the end of each financial year. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

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2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets

(ii) Construction in progress

Construction in progress is an investment in land and buildings on which construction work has not been completed and is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. The construction in progress is reclassified to the appropriate category of fixed assets upon completion.

(iii) Leasehold land and buildings

Leasehold land and buildings are stated at valuation less accumulated depreciation and accumulated impairment losses. Independent valuations are performed on a regular basis. In the intervening years, the directors of the Company review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit.

Leasehold land and buildings are depreciated over the period of the leases or their expected useful lives to the Group, whichever is shorter, to write off their valuation less accumulated impairment losses on a straight-line basis.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets (cont'd)

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their expected useful lives to the Group on the straight-line basis. The principal annual rates used for this purpose are:

Leasehold improvements	5% or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and computer equipment	20 to 30%
Motor vehicles	20%

(v) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that any fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(vi) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties and construction in progress is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and shown as a movement in reserves.

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2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets (cont'd)

(vii) Cost of restoring and improving fixed assets

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in the long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Club debenture

Club debenture is stated at cost less any provision for impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(h) Investment in securities

(i) *Investment securities*

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Inventories

Inventories comprising of raw materials and finished goods are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

Notes to the Financial Statements

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2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(m) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to eligible employees, the assets of which are held in separate trustee administered funds. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and there are no provisions under these schemes whereby forfeited contributions may be used to reduce future contributions.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(m) Employee benefits (cont'd)

(iii) Equity compensation benefits

Share options are granted to the Directors and to the employees of the Group in accordance with the rules of the share option schemes of the Group. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, the discount is recognised in the profit and loss account as a compensation cost and recognised in the balance sheet as an increase in equity. When the options are exercised, the proceeds received net of any transactions costs are credited to share capital and share premium.

(n) Taxation

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

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

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

Notes to the Financial Statements

31 December 2004

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(n) Taxation (cont'd)

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

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

(o) Contingent liabilities

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

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

(p) Revenue recognition

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

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating lease rental income is recognised on a straight-line basis over the lease terms.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(q) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables, deposits and prepayments, and mainly exclude investment properties, payment for purchase of land and buildings, deposit for purchase of land, investment securities, other investments, deferred tax assets and bank balances and cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and intangible assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Notes to the Financial Statements

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3. TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION

Turnover represents the invoiced value of goods sold, net of value added tax, sale returns and discounts. Revenues recognised during the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Turnover – sale of goods	624,894	633,586
Other revenues		
Advertising and promotional income	2,000	–
Bank interest income	4,087	1,177
Dividend income from listed investment securities	2,901	–
Other interest income	1,513	2,209
Rental income	1,680	1,680
Royalty income	2,755	936
Gain on disposal of fixed assets	82	–
Others	682	393
	15,700	6,395
Total revenues	640,594	639,981

3. TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into the following main business segments:

- (a) Home and personal care products segment – manufacture of home and personal care products for sale to wholesalers and retailers in the general consumer market;
- (b) Industrial products segment – manufacture of industrial surfactants for sale principally to textile and garment manufacturers and traders;
- (c) Cosmetics and skin care products segment – manufacture of cosmetics and skin care products under the brand name of Marjorie Bertagne for sale to authorised distributors and retailers in the general consumer market;
- (d) Biotechnology products segment – manufacture of biotechnology products with medical and cosmetic applications; and
- (e) Others – sale of Best Micro-organism System (“BMS”) wastewater and sewage treatment equipment.

There are no sale or other transactions between the business segments.

Notes to the Financial Statements

31 December 2004

3. TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (cont'd)

Primary reporting format – business segments (cont'd)

	Home and personal care products 2004 HK\$'000	Industrial products 2004 HK\$'000	Cosmetics and skin care products 2004 HK\$'000	Bio- technology products 2004 HK\$'000	Others 2004 HK\$'000	Consolidated 2004 HK\$'000
Turnover	210,908	204,623	183,494	25,869	-	624,894
Segment results	24,626	(2,569)	90,175	10,297	(2,891)	119,638
Interest income and unallocated revenues						15,700
Corporate and unallocated expenses						(12,526)
Operating profit						122,812
Finance costs						(7,663)
Gain on disposal of investment securities						35,942
Profit before taxation						151,091
Taxation						(38,883)
Profit after taxation						112,208
Minority interests						(7,112)
Profit attributable to shareholders						105,096
Segment assets	229,400	222,578	199,169	85,505	-	736,652
Investment properties						16,000
Payment for purchase of land and buildings						111,120
Investment securities						56,944
Other investments						5,282
Bank balances and cash						630,909
Other unallocated assets						2,811
Total assets						1,559,718
Segment liabilities	28,982	28,118	25,215	4,549	-	86,864
Unallocated liabilities						254,916
Total liabilities						341,780
Capital expenditure	39,463	38,298	34,378	4,799	-	116,938
Depreciation	14,540	14,107	12,650	1,784	-	43,081
Amortisation charge	-	-	-	11,334	-	11,334
Other non-cash expenses	2,179	2,114	1,896	268	-	6,457

Notes to the Financial Statements

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3. TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION (cont'd)

Primary reporting format – business segments (cont'd)

	Home and personal care products 2003 HK\$'000	Industrial products 2003 HK\$'000	Cosmetics and skin care products 2003 HK\$'000	Bio- technology products 2003 HK\$'000	Others 2003 HK\$'000	Consolidated 2003 HK\$'000
Turnover	276,731	192,922	100,992	53,581	9,360	633,586
Segment results	32,568	23,942	49,356	27,160	4,232	137,258
Interest income and unallocated revenues						6,395
Corporate and unallocated expenses						(19,119)
Operating profit						124,534
Finance costs						(2,304)
Profit before taxation						122,230
Taxation						(31,434)
Profit after taxation						90,796
Minority interests						1,442
Profit attributable to shareholders						92,238
Segment assets	215,424	200,210	75,434	112,894	14,831	618,793
Investment properties						16,000
Deposit for purchase of land						42,056
Investment securities						63,100
Other investments						5,325
Bank balances and cash						420,329
Other unallocated assets						8,967
Total assets						1,174,570
Segment liabilities	34,533	23,292	11,720	4,872	675	75,092
Unallocated liabilities						35,349
Total liabilities						110,441
Capital expenditure	33,670	44,413	36,407	7,659	–	122,149
Depreciation	7,675	5,351	2,801	1,486	259	17,572
Amortisation charge	–	–	–	11,266	–	11,266
Other non-cash expenses	2,462	1,718	5,294	326	–	9,800

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3. TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION *(cont'd)*

Secondary reporting format – geographical segments

The Group operates in two main geographical areas:

Mainland China – manufacturing and trading of home and personal care products, industrial products, cosmetics and skin care products and biotechnology products with medical and cosmetic applications.

Hong Kong – trading of home and personal care products, industrial products and cosmetic and skin care products.

The Group's inter-segment transactions mainly consist of trading of home and personal care products, industrial products and cosmetics and skin care products between subsidiaries located in different geographical areas. The transactions were entered into similar to those terms with independent third parties and were eliminated on consolidation.

	Turnover	Segment	Total	Capital
	2004	results	assets	expenditure
	HK\$'000	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	594,524	135,252	1,222,723	114,377
Hong Kong	30,370	(15,614)	270,112	2,561
	624,894	119,638	1,492,835	116,938
Investment securities			56,944	
Other unallocated assets			9,939	
Total assets			1,559,718	

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3. TURNOVER, OTHER REVENUES AND SEGMENT INFORMATION *(cont'd)*

Secondary reporting format – geographical segments *(cont'd)*

	Turnover 2003 HK\$'000	Segment results 2003 HK\$'000	Total assets 2003 HK\$'000	Capital expenditure 2003 HK\$'000
Mainland China	587,028	147,371	970,832	121,126
Hong Kong	46,558	(10,113)	124,466	1,023
	<u>633,586</u>	<u>137,258</u>	1,095,298	<u>122,149</u>
Investment securities			63,100	
Other unallocated assets			<u>16,172</u>	
Total assets			<u>1,174,570</u>	

4. OTHER OPERATING EXPENSES

	Group	
	2004 HK\$'000	2003 HK\$'000
Research and development costs	21,114	9,224
Loss on disposal of other investments	617	–
Impairment loss of goodwill	987	–
Bad debts	154	–
	<u>22,872</u>	<u>9,224</u>

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5. OPERATING PROFIT

Operating profit is stated after crediting/(charging) the following:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Crediting		
Written back for slow moving inventories	669	–
Charging		
Amortisation of intangible assets (<i>note 13</i>)	11,334	11,266
Auditors' remuneration	1,200	3,760
Cost of inventories sold	331,790	347,326
Depreciation:		
Owned fixed assets	42,878	16,106
Leased fixed assets	203	1,466
Net exchange losses	413	553
Operating leases of land and buildings	11,861	10,041
Loss/(gain) on disposal of other investments	617	(296)
Unrealised loss/(gain) on other investments	179	(190)
Provision for slow moving inventories	–	6,000
Provision for doubtful debts	–	3,800

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6. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loan and overdraft interest	3,547	1,668
Finance lease interest	180	636
Bank loan arrangement and handling fees	3,885	–
Other interest	51	–
	7,663	2,304

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the members of the Group operate.

The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	158	927
Overseas taxation	39,056	29,463
	39,214	30,390
Deferred taxation relating to the origination and reversal of temporary difference (<i>note 31</i>)	(331)	(637)
Deferred taxation resulting from a decrease in tax rate (<i>note 31</i>)	–	1,681
	(331)	1,044
	38,883	31,434

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7. TAXATION (cont'd)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the members of the Group as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	151,091	122,230
Tax at applicable tax rates (note a)	44,309	45,790
Income not subject to taxation	(601)	(52)
Expenses not deductible for taxation purposes	2,062	5,058
Tax losses not recognized	11,024	4,978
Utilisation of previously unrecognised tax losses	-	(51)
Decrease in opening deferred tax assets resulting from a decrease in tax rate	-	1,681
Preferential tax treatment (note b)	(18,032)	(26,938)
Others	121	968
Taxation charge	38,883	31,434

Notes:

- (a) The applicable taxation rates represent the rates of taxation prevailing in the countries in which the Group companies operate.
- (b) Overseas tax provision is required to be made in respect of Dongguan Proamine Co., Limited ("Dongguan Proamine"), Dongguan Gao Bao Chemicals Co., Limited, Global Cosmetics (China) Co., Limited ("Global Cosmetics"), and Dongguan Polygene Biotech Co., Limited, all of them are subsidiaries of the Company established in the mainland China. In accordance with the relevant income tax rules and regulations, the enacted income tax rate is 33%.

7. TAXATION (cont'd)

Notes: (cont'd)

On 30 May 2003, Dongguan Proamine was accredited by the Department of Science and Technology of Guangdong Province as a Hi-Tech Enterprise of Guangdong Province. On 16 January 2004, Dongguan Proamine received a written confirmation from Dongguan Local Tax Bureau that it is entitled to a reduced income tax rate of 15% for the period from 1 January 2003 to 31 December 2005.

Pursuant to a letter of approval issued by the local tax authority on 8 April 2005, Global Cosmetics was exempted from EIT for the first two profitable years of operations after offsetting prior year losses and are entitled to a 50% reduction on the EIT for the following three years. Global Cosmetics began its first profitable year in the year ended 31 December 2004 and therefore exempted from EIT for the years ended 31 December 2004 and 2005.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately HK\$11,269,000 (2003: HK\$29,965,000).

9. DIVIDENDS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interim, paid, of HK\$Nil (2003:HK\$0.02) per ordinary share	–	16,664
Final, proposed, of HK\$0.02 (2003: HK\$0.02) per ordinary share	18,567	16,722
	18,567	33,386

At a meeting held on 25 April 2005, the Directors proposed a final dividend of HK\$0.02 per ordinary share of the Company, which will be subject to the approval of the shareholders at the Company's forthcoming annual general meeting scheduled to be held. The proposed final dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ended 31 December 2005.

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10. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of the earnings per share is based on the profit attributable to shareholders of approximately HK\$105,096,000 (2003: HK\$92,238,000) and the weighted average number of 874,888,760 (2003: 746,035,823) ordinary shares in issue during the year.

b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the profit attributable to shareholders of approximately HK\$105,096,000 (2003: HK\$92,238,000) and the weighted average number of 900,800,271 (2003: 759,704,349) ordinary shares after adjusting for the effects of share options and convertible bonds.

	No. of shares	
	2004	2003
Weighted average number of ordinary shares in issue during the year	874,888,760	746,035,823
Add: Number of ordinary shares deemed to be issued on full conversion of the convertible bonds	2,716,954	18,909
Add: Number of ordinary shares deemed to be issued at no consideration on exercise of all outstanding share options	23,194,557	13,649,647
Weighted average number of ordinary shares used in calculating diluted earnings per share	900,800,271	759,704,379

11. STAFF COSTS

The staff costs, excluding directors' emoluments, of the Group for the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	23,471	27,816
Pension costs – defined contribution retirement schemes	541	507
Unutilised annual leave	224	224
	24,236	28,547

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Fees		
Non-executive Directors	40	20
Independent Non-executive Directors	40	40
Other emoluments – Executive Directors		
Basic salaries and housing allowances	4,988	4,698
Contributions to pension schemes	45	48
	5,113	4,806

Notes to the Financial Statements

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12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(a) Directors' emoluments (cont'd)

Other than the directors' fees disclosed above, there were no other emoluments payable to the Independent Non-executive Directors for the year (2003: Nil).

The emoluments of the Directors fell within the following bands:

Emolument bands	Number of Directors	
	2004	2003
Nil – HK\$1,000,000	8	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	1

During the year, there were 610,000 share options granted to the Directors in respect of their services to the Group (2003: Nil). The benefits arising from the exercise of share options granted to the Directors amounted to approximately HK\$2,555,000 (2003: HK\$969,000). Details of the total share options exercised by the Directors during the year are set out in the Report of the Directors.

No Directors have waived emoluments for the years ended 31 December 2004 and 2003.

During the year, no amounts have been paid by the Group to the Directors as an inducement to join the Group (2003: Nil) and no amounts have been paid as compensation for loss of office to the Directors (2003: Nil).

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual during the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salary and housing allowances	960	1,350
Contributions to pension scheme	12	12
	972	1,362

The emoluments of the individual fell within the following bands:

	Number of individual	
	2004	2003
Emolument bands		
Nil – HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	–	1

During the year, there were 2,100,000 share options granted to the highest paid non-director employee in respect of her services to the Group (2003: 1,000,000). The highest paid non-director employee had not exercised any share option during the year ended 31 December 2004. For the year ended 31 December 2003, the benefits arising from the exercise of share options granted to the highest paid non-director employee amounted to approximately HK\$250,000.

Notes to the Financial Statements

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13. INTANGIBLE ASSETS

	Goodwill HK\$'000	Licenses HK\$'000	Total HK\$'000
Cost			
At 1 January 2004	–	81,515	81,515
Addition	–	1,018	1,018
Arising from acquisition of a subsidiary	987	–	987
At 31 December 2004	<u>987</u>	<u>82,533</u>	<u>83,520</u>
Accumulated amortization and impairment loss			
At 1 January 2004	–	19,937	19,937
Amortisation charge (<i>note 5</i>)	–	11,334	11,334
Impairment loss	987	–	987
At 31 December 2004	<u>987</u>	<u>31,271</u>	<u>32,258</u>
Net book value			
At 31 December 2004	<u>–</u>	<u>51,262</u>	<u>51,262</u>
At 31 December 2003	<u>–</u>	<u>61,578</u>	<u>61,578</u>

Licences comprise licence rights acquired from independent third parties to exploit technical know-how for the manufacture of certain biotechnology products with medical and cosmetic applications. The underlying products relating to the licences acquired have been put into commercial production. Amortisation on the cost of licences has been provided on a straight-line basis over their estimated useful lives to the Group.

Notes to the Financial Statements

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14. FIXED ASSETS

Group

	Investment properties HK\$'000	Construction in progress HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation								
At 1 January 2004	16,000	14,544	46,000	17,822	190,637	19,543	3,817	308,363
Additions	-	6,139	-	1,977	103,252	469	4,083	115,920
Acquisition of a subsidiary (note 32a)	-	-	-	-	703	-	-	703
Transfer	-	(3,982)	-	3,982	-	-	-	-
Revaluation (note 30)	-	-	8,000	-	-	-	-	8,000
Disposals	-	-	-	-	-	-	(480)	(480)
At 31 December 2004	16,000	16,701	54,000	23,781	294,592	20,012	7,420	432,506
Accumulated depreciation and impairment								
At 1 January 2004	-	-	-	3,789	31,841	10,266	2,235	48,131
Charge for the year	-	-	1,154	1,887	37,039	2,172	829	43,081
Acquisition of a subsidiary (note 32a)	-	-	-	-	317	-	-	317
Eliminated on revaluation (note 30)	-	-	(1,154)	-	-	-	-	(1,154)
Eliminated on disposals	-	-	-	-	-	-	(352)	(352)
At 31 December 2004	-	-	-	5,676	69,197	12,438	2,712	90,023
Net book value								
At 31 December 2004	16,000	16,701	54,000	18,105	225,395	7,574	4,708	342,483
At 31 December 2003	16,000	14,544	46,000	14,033	158,796	9,277	1,582	260,232
The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:								
At cost	-	16,701	-	23,781	294,592	20,012	7,420	362,506
At valuation	16,000	-	54,000	-	-	-	-	70,000
	16,000	16,701	54,000	23,781	294,592	20,012	7,420	432,506
The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:								
At cost	-	14,544	-	17,822	190,637	19,543	3,817	246,363
At valuation	16,000	-	46,000	-	-	-	-	62,000
	16,000	14,544	46,000	17,822	190,637	19,543	3,817	308,363
Net book value of leased assets								
At 31 December 2004	-	-	-	-	-	-	237	237
At 31 December 2003	-	-	-	-	12,203	-	440	12,643

Notes to the Financial Statements

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14. FIXED ASSETS (cont'd)

- (a) The Group's interests in investment properties and leasehold land and buildings at their net book value are analysed as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	70,000	62,000

- (b) The investment properties and leasehold land and buildings were revalued at 31 December 2004 on the basis of their open market value by AA Property Services Limited, an independent firm of chartered surveyors. The surplus on revaluation of leasehold land and buildings of approximately HK\$9,154,000 (2003: HK\$2,154,000) was recognised in the asset revaluation reserves (note 30).
- (c) The carrying amount of the leasehold land and buildings would be approximately HK\$37,254,000 (2003: HK\$38,143,000) had they been stated at cost less accumulated depreciation.
- (d) At 31 December 2003, the fixed assets with net book value of approximately HK\$29,065,000 was pledged as security for the Group's long-term liabilities (note 37).

15. PAYMENT FOR PURCHASE OF LAND AND BUILDINGS

On 10 September 2004, Global Cosmetics (China) Co., Limited ("Global Cosmetics") entered into a sale and purchase agreement to purchase a piece of land in Dongguan, mainland China with a lease term of 50 years at a consideration of RMB113,100,000 (equivalent to approximately HK\$105,701,000). As at 31 December 2004, full payment had been made to the seller. In addition, an administrative fee of RMB5,798,000 (equivalent to approximately HK\$5,419,000) had been made for obtaining the land use right certificate. On 12 April 2005, the land bureau of Dongguan issued a letter to approve of the purchase of the land by Global Cosmetics (the "Letter of Approval"). The deposit for purchase of land and buildings will be transferred and classified as fixed assets when Global Cosmetics obtain the land use right certificate within 60 days from the date of the Letter of Approval.

16. DEPOSIT FOR PURCHASE OF LAND

On 16 December 2002, Dongguan Proamine Chemicals Co., Limited (“Dongguan Proamine”) entered into a sale and purchase agreement with the provincial government of Dongguan, mainland China to purchase a piece of land with a lease term of 50 years at a consideration of RMB60 million (equivalent to approximately HK\$56,075,000). As at 31 December 2003, a deposit of RMB45 million (equivalent to approximately HK\$42,056,000) was paid to the vendor. Pursuant to the sale and purchase agreement, the remaining balance of RMB15 million (equivalent to approximately HK\$14,019,000) (note 34) will be paid upon the successful transfer of ownership of the land to Dongguan Proamine. In case the transfer of ownership cannot be successfully completed due to the change of the local government policy, Dongguan Proamine is entitled to obtain the refund of the full amount of deposit paid.

According to the latest legal opinion obtained in March 2004 by the Group from the legal representative in mainland China, there have certain changes been made to the land development policy of Dongguan area in mainland China which may restrict Dongguan Proamine to complete the transfer of ownership of land in accordance with the original plan. In view of that, the Directors of the Company have decided not to proceed with the purchase of land from the vendor. The Directors are of the opinion that this decision is in the best interest of the Company and as such Dongguan Proamine has sought for refund of the deposit paid of RMB45 million from the vendor. On 16 April 2004, Dongguan Proamine entered into a refund agreement with the vendor so that the vendor agreed to refund the deposit of RMB45 million to Dongguan Proamine. The amount was subsequently received by Dongguan Proamine.

17. DEPOSIT FOR PURCHASE OF OTHER FIXED ASSETS

At 31 December 2003, the Group paid a total sum of approximately HK\$92,134,000 as deposits for the acquisition of certain fixed assets, which comprise mainly of plant and machinery used in the manufacturing operations of the Group. The deposits had been capitalised when the fixed assets were delivered to the Group during the year. Capital commitments of the Group in respect of the remaining unpaid balances of approximately HK\$23,638,000 for these purchases are disclosed in note 34 to the financial statements.

Notes to the Financial Statements

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18. DEPOSIT FOR PURCHASE OF INTANGIBLE ASSETS

At 31 December 2004, the Group paid a total sum of approximately HK\$9,106,000 (2003: HK\$Nil) as deposit for the purchase of the licences rights for the manufacturing of enzymes. The underlying products relating to the licenses acquired will put into commercial production. The deposit and further contract sums will be capitalised as intangible assets upon subsequent completion and transfer of the intangible assets to the Group. Capital commitments of the Group in respect of the remaining unpaid balances of approximately HK\$3,438,000 (2003: HK\$Nil) for these acquisitions are disclosed in note 34 to the financial statements.

19. OTHER DEPOSITS AND CLUB DEBENTURE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Rental deposits	360	360
Club debenture	460	460
	820	820
Less: Provision for impairment in value of club debenture	(160)	(160)
	660	660

20. INVESTMENT SECURITIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Overseas listed equity securities, at cost	25,444	–
Unlisted equity securities, at cost	31,500	63,100
	56,944	63,100
Market value of overseas listed equity securities	122,640	–

20. INVESTMENT SECURITIES (cont'd)

Name	Place of incorporation and operation	Principal activities	Percentage of interest
Bio-Treat Technology Limited	Bermuda/ mainland China	Investment holding company whose subsidiaries are principally engaged in the provision of wastewater treatment services and the development, manufacture and sale of wastewater treatment and waste management products	4.9%
Bio-Tech Pharm Group Limited	The British Virgin Islands/ mainland China	Investment holding company whose subsidiaries are principally engaged in research and development, manufacture and trading of biotechnology products	4.5%

In February 2004, Bio-Treat Technology Limited ("Bio-Treat") was successfully listed on the Singapore Exchange Securities Trading Limited. After the invitation by Bio-Treat to the public to subscribe its new shares, the Group's equity interest in Bio-Treat changed from 8% (being 49,360,000 shares out of the total issued shares of 617,000,000 before the invitation) to 6.39% (being 49,360,000 shares out of the total issued shares of 773,000,000 after the invitation).

During the year ended 31 December, 2004, the Group purchased of 500,000 shares and disposed of 11,895,000 shares of Bio-Treat, therefore, the Group's equity interest in Bio-Treat was reduced to 4.9%.

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21. INVESTMENT IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	89,402	89,402
Amounts due from subsidiaries (<i>note a</i>)	621,396	708,336
	710,798	797,738

- (a) The amounts are unsecured and interest-free and have no fixed terms of repayment.
- (b) The following is a list of the significant subsidiaries at 31 December 2004:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Global Success Properties Limited	The British Virgin Islands	Investment holding/ Hong Kong	200 ordinary shares of US\$1 each	100% (1)
Global Bio-Engineering Limited	Hong Kong	Trading of wastewater and sewage treatment equipment/Hong Kong	2 ordinary shares of HK\$1 each	100% (1)
GCC Finance Company Limited	Hong Kong	Money lending/Hong Kong	2 ordinary shares of HK\$1 each	100% (1)
Global Chemicals (China) Company Limited (<i>Note (i)</i>)	Hong Kong	Trading of home and personal care products, industrial products and cosmetics and skin care products/Hong Kong	10,000 ordinary shares of HK\$1 each and 1,000,000 non-voting deferred ordinary shares of HK\$1 each	100%

21. INVESTMENT IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Dongguan Proamine Chemicals Co., Limited* (Note (ii))	Mainland China	Manufacture and sale of home and personal care products, industrial products, cosmetics and skin care products and biotechnology products/ Mainland China	Approximately HK\$111,319,000	100%
Global Cosmetics (China) Co., Limited* (Note (iii))	Mainland China	Manufacture and sale of professional and saloon skin care products/ Mainland China	HK\$50,000,000	70%
Dongguan Gao Bao Chemicals Co., Limited* (Note (iv))	Mainland China	Manufacture and sale of chemicals products/ Mainland China	RMB1,000,000	100%
Dongguan Polygene Biotech Co., Limited* (Note (v))	Mainland China	Research and development of bio-engineering products/ Mainland China	HK\$20,000,000	100%
High Billion Investment Limited*	Hong Kong	Holding of licence/Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Enzymes Technology Limited	Hong Kong	Development of large-scale production process for industrial enzymes/ Hong Kong	6,153,846 ordinary shares of HK\$1 each	65%

* Not audited by CCIF CPA Limited.

(1) Shares held directly by the Company

Notes to the Financial Statements

31 December 2004

21. INVESTMENT IN SUBSIDIARIES (cont'd)

Notes:

- (i) The non-voting deferred shares carry no rights as to dividends, no rights to attend or vote at general meetings, and no rights to receive any surplus in return of capital in a winding-up of Global Chemicals (China) Company Limited ("Global Chemicals") (other than 1% of the surplus assets of Global Chemicals available for distribution after a total of HK\$1,000,000,000,000 has been distributed to holders of the ordinary shares of Global Chemicals in such winding-up).
- (ii) Dongguan Proamine is a foreign wholly owned enterprise established by the Company in mainland China for an operating period of 12 years commencing from the date of the issuance of its business licence on 29 August 1995. The registered capital of Dongguan Proamine was HK\$112,000,000 of which approximately HK\$111,319,000 was paid up by the Group as at 31 December 2004 (2003: HK\$111,319,000).
- (iii) Global Cosmetics (China) Co., Limited ("Global Cosmetics") is a foreign wholly owned enterprise established by the Company in mainland China for an operating period of 30 years commencing from the date of the issuance of its business licence on 1 April 2004. The registered capital of Global Cosmetics was HK\$50,000,000 which was fully paid up by the Group as at 31 December 2004.
- (iv) Dongguan Gao Bao is a foreign wholly owned enterprise acquired by the Company in mainland China in June 2004 for an operating period of 10 years commencing from the date of the issuance of its business licence on 11 December 1998. The registered capital of Dongguan Gao Bao was RMB1,000,000 (equivalent to approximately HK\$935,000) which was fully paid up by the Group as at 31 December 2004.
- (v) Dongguan Polygene Biotech Co., Limited is a foreign wholly owned enterprise established by the Company in mainland China for an operating period of 30 years commencing from the date of the issuance of its business licence on 18 July 2003. The registered capital of Dongguan Polygene Biotech Co., Limited was HK\$20,000,000 of which approximately HK\$7,000,000 was paid up by the Group as at 31 December 2004 (2003: HK\$Nil).

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Notes to the Financial Statements

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22. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	31,659	45,581
Finished goods	15,095	15,672
	<hr/>	<hr/>
	46,754	61,253
Less: Provision	(5,331)	(6,000)
	<hr/>	<hr/>
	41,423	55,253
	<hr/>	<hr/>

At 31 December 2004, no inventories were carried at net realisable value (2003: Nil).

23. TRADE AND BILLS RECEIVABLES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables	258,795	131,693
Bills receivables	2,649	–
	<hr/>	<hr/>
	261,444	131,693
	<hr/>	<hr/>

Notes to the Financial Statements

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23. TRADE AND BILLS RECEIVABLES (cont'd)

The normal credit period granted to the customers of the Group is 30 to 180 days (2003: 30 to 90 days). At 31 December 2004, the aging analysis of the trade and bills receivables was analysed as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 30 days	72,892	67,676
31 – 60 days	60,300	38,189
61 – 90 days	65,090	19,637
Over 90 days	70,142	13,171
	268,424	138,673
Less: Provision	(6,980)	(6,980)
	261,444	131,693

24. AMOUNTS DUE FROM RELATED COMPANIES

The information in relation to the amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

Name	Balance at 1 January 2004 HK\$'000	Balance at 31 December 2004 HK\$'000	Maximum amount outstanding during the year HK\$'000
北京博康健基因科技有限公司	4,597	3,473	4,597
深圳華生元基因工程發展 有限公司	4,716	2,802	4,716
Golden Idea Bio-Engineering (Dongguan) Co., Ltd.	840	840	840
	<u>10,153</u>	<u>7,115</u>	

The above balances are unsecured, interest-free and repayable on demand. No provision was made against the balances at 31 December 2004 (2003: Nil).

Details of relationships and transactions with these companies are set out in note 36 to the financial statements.

25. OTHER INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Equity securities listed outside Hong Kong, at market value	<u>5,282</u>	<u>5,325</u>

Notes to the Financial Statements

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26. TRADE AND BILLS PAYABLE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade payables	29,815	27,644
Bills payable	10,750	10,190
	40,565	37,834

At 31 December 2004, the aging analysis of the trade and bills payable was analysed as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 30 days	25,595	29,021
31 – 60 days	6,798	2,106
61 – 90 days	3,430	1,600
Over 90 days	4,742	5,107
	40,565	37,834

Notes to the Financial Statements

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27. LONG-TERM LIABILITIES

	Note	Group	
		2004 HK\$'000	2003 HK\$'000
Secured bank loans repayable within one year:		-	8,155
Unsecured bank loans repayable:			
Within one year		58,750	-
In the second year		117,500	-
In the third to fifth year		58,750	-
Total unsecured bank loans	(a)	235,000	-
Obligations under finance leases repayable:			
Within one year		120	7,566
In the second year		-	137
		120	7,703
Less: Future finance charges on finance leases		(10)	(444)
Present value of obligations under finance leases	(b)	110	7,259
Total long-term liabilities		235,110	15,414
Current portion of long-term liabilities		(58,860)	(15,304)
Non-current portion		176,250	110

Notes to the Financial Statements

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27. LONG-TERM LIABILITIES (cont'd)

- (a) On 19 January 2004, Global Chemicals entered into a term loan facility agreement (the "Agreement") with certain banks (the "Banks") for financing general corporate funding requirements of the Group.

Maximum available facility under the Agreement is HK\$235,000,000, which can be drawn at a maximum number of three loans during the period from 19 January 2004 to 18 July 2004 (the "Availability Period") in accordance with the terms of the Agreement.

Global Chemicals shall repay the loans outstanding at the end of the Availability Period by four successive half-year instalments, the first instalment to be paid on the date falling 18 months after the date of the Agreement (i.e. 18 July 2005) and thereafter on the last day of each successive half-yearly period.

The outstanding loans bear an interest rate at HIBOR plus 1% per annum and the interest payments will be made by the end of each interest period as selected by Global Chemicals at the time when it draws the loans pursuant to the Agreement. Global Chemicals may select an interest period of one, two, three or six months or any other period agreed between Global Chemicals and the Banks.

The Company has executed an irrevocable and unconditional guarantee in favour of the Banks with respect to this term loan facility offered to Global Chemicals.

During the year, Global Chemicals fully utilised the bank term loan facility of HK\$235,000,000 and it selected an interest period of six months as agreed with the Banks.

27. LONG-TERM LIABILITIES (cont'd)

(b) The present value of obligations under finance leases is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	110	7,149
In the second year	-	110
	110	7,259

28. SHARE CAPITAL

	Group	
	2004	2003
	HK\$'000	HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
905,077,283 (2003: 836,076,914) ordinary shares of HK\$0.10 each	90,508	83,608

Notes to the Financial Statements

31 December 2004



28. SHARE CAPITAL (cont'd)

	<i>Note</i>	Number of shares	Share capital HK\$'000
At 1 January 2003		599,741,366	59,974
Exercise of share options		133,275,500	13,328
Conversion of convertible bonds		3,059,561	306
Placement of shares		100,000,000	10,000
Exercise of warrants		487	–
<hr/>			
At 31 December 2003 and at 1 January 2004		836,076,914	83,608
Exercise of share options	<i>(a)</i>	46,478,200	4,648
Conversion of convertible bonds	<i>(b)</i>	42,642,169	4,264
Shares repurchased and cancelled	<i>(c)</i>	(20,120,000)	(2,012)
<hr/>			
At 31 December 2004		<u>905,077,283</u>	<u>90,508</u>

Note:

- (a) During the year, 3,907,000 and 42,571,200 ordinary shares of HK\$0.10 each of the Company were issued under the Old Scheme and the New Scheme (as defined in note 29) respectively to the share option holders on the exercise of their share options at a total cash consideration of approximately HK\$32,010,000. A summary of the Company's share option schemes is set out in note 29 to the financial statements.
- (b) On 30 January 2004, Credit Suisse First Boston (Hong Kong) Limited ("CSFB") exercised an additional option and new convertible bonds of US\$4,080,000 (equivalent to approximately HK\$31,824,000) were issued (the "Additional Tranche 1 Bonds") according to an subscription agreement entered into between CSFB and the Company on 13 December 2001. During the year, 42,642,169 ordinary shares of HK\$0.10 each of the Company were issued upon the conversions of the Additional Tranche 1 Bonds. The share capital and share premium of the Company have been increased by approximately HK\$4,264,000 and HK\$27,560,000 (note 30) respectively following the said conversion.

28. SHARE CAPITAL (cont'd)

Note: (cont'd)

- (c) During the year, the Company repurchased a total of 20,120,000 of its ordinary shares of HK\$0.10 each on the Stock Exchange. Details of the repurchases are summarised as follows:

Month of repurchase	Number of Shares Repurchased	Purchase price per share		Aggregate purchase price HK\$'000
		Highest	Lowest	
		HK\$	HK\$	
October 2004	13,760,000	0.67	0.55	8,277
November 2004	6,360,000	0.72	0.66	4,425
	<u>20,120,000</u>			<u>12,702</u>

The repurchased shares were subsequently cancelled upon repurchase and accordingly, the issued capital of the Company was reduced by the par value thereof. The premium payable on repurchase of the shares was charged against the share premium account of the Company as set out in the consolidated statement of changes in equity and note 30 to the financial statements.

- (d) Subsequent to the balance sheet date, 29,500,000, ordinary shares of HK\$0.10 each of the Company were issued under the New Scheme to the share option holders on the exercise of their share options (note 39). The share capital of the Company has been increased by approximately HK\$2,950,000 following the exercise of share options.
- (e) Subsequent to the balance sheet date, the Company repurchased a total of 6,204,000 of its ordinary shares of the Company each on the Stock Exchange at average price of HK\$0.643 with an aggregate purchase price of approximately HK\$3,989,000 (note 39).

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29. SHARE OPTIONS

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the "Old Scheme") was terminated and another share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remained in force and all share options granted prior to such termination continued to be valid and exercisable in accordance therewith. Under the share option schemes, the Directors of the Company may, at their discretion, invite eligible participants, to take up options to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein.

Movements in the number of share options outstanding during the year are as follows:

Date of grant	4 January 2001	22 March 2002	29 July 2002	8 January 2003	9 June 2003	7 June 2004	Total
Exercise price	HK\$0.67	HK\$1.33	HK\$1.50	HK\$1.23	HK\$1.15	HK\$0.63	
No. of share options	In'000	In'000	In'000	In'000	In'000	In'000	In'000
At 1 January 2004	3,907	1,200	10,300	6,380	15,349	-	37,136
Granted during the year	-	-	-	-	-	86,100	86,100
Exercised during the year	(3,907)	-	-	-	(4,971)	(37,600)	(46,478)
At 31 December 2004	-	1,200	10,300	6,380	10,378	48,500	76,758

The share options outstanding as at 31 December 2004 are exercisable in 3 years from the date of grant as determined by the Directors and therefore they will expire in the period from 21 March 2005 to 6 June 2007. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of approximately 76,758,000 additional ordinary shares and cash proceeds to the Company of approximately HK\$67,378,000 before the related share issue expenses.

An aggregate of 29,500,000 ordinary shares were issued subsequent to the balance sheet date upon the exercise of the outstanding share options at an average exercise price of HK\$0.63 each. Total cash proceeds received thereon before any related expenses was approximately HK\$18,585,000.

Notes to the Financial Statements

31 December 2004

30. RESERVES

(a) Group

	Share premium HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserves HK\$'000	Assets revaluation reserves HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserves HK\$'000	Subtotal HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2003	365,761	900	137	6,347	34,541	212	407,898	240,951	648,849
Changes in accounting policy – provision of net deferred tax assets	-	-	(37)	(1,712)	-	-	(1,749)	5,531	3,782
At 1 January 2003, as restated	365,761	900	100	4,635	34,541	212	406,149	246,482	652,631
Issue of shares	267,417	-	-	-	-	-	267,417	-	267,417
Conversion of convertible bonds into shares	3,126	-	-	-	-	-	3,126	-	3,126
Share issue expenses	(5,415)	-	-	-	-	-	(5,415)	-	(5,415)
Surplus on revaluation	-	-	-	2,154	-	-	2,154	-	2,154
Movements of deferred taxes	-	-	16	439	-	-	455	-	455
Profit for the year	-	-	-	-	-	-	-	92,238	92,238
Transfer to statutory reserve	-	-	-	-	13,230	-	13,230	(13,230)	-
2002 final dividend paid	-	-	-	-	-	-	-	(11,995)	(11,995)
2002 additional final dividend paid	-	-	-	-	-	-	-	(4,120)	(4,120)
2003 interim dividend paid	-	-	-	-	-	-	-	(16,664)	(16,664)
At 31 December 2003	630,889	900	116	7,228	47,771	212	687,116	292,711	979,827
Representing:									
2003 final dividend proposed									16,722
Others									275,989
									292,711
At 1 January 2004	630,889	900	116	7,228	47,771	212	687,116	292,711	979,827
Issue of shares	27,362	-	-	-	-	-	27,362	-	27,362
Premium on repurchase of shares	(10,690)	-	-	-	-	-	(10,690)	-	(10,690)
Conversion of convertible bonds into shares	27,560	-	-	-	-	-	27,560	-	27,560
Expenses on shares repurchased	(84)	-	-	-	-	-	(84)	-	(84)
Surplus on revaluation (note 14)	-	-	-	9,154	-	-	9,154	-	9,154
Movements of deferred taxes	-	-	-	(1,373)	-	-	(1,373)	-	(1,373)
Profit for the year	-	-	-	-	-	-	-	105,096	105,096
Transfer to statutory reserve (note (c))	-	-	-	-	(47,771)	-	(47,771)	47,771	-
2003 final dividend paid	-	-	-	-	-	-	-	(16,722)	(16,722)
2003 additional final dividend paid	-	-	-	-	-	-	-	(506)	(506)
At 31 December 2004	675,037	900	116	15,009	-	212	691,274	428,350	1,119,624
Representing:									
2004 final dividend proposed									18,567
Others									409,783
									428,350

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30. RESERVES

(b) Company

	Share premium HK\$'000	Capital reserve HK\$'000	Subtotal HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2003	365,761	89,247	455,008	28,762	483,770
Issue of shares	267,417	–	267,417	–	267,417
Conversion of convertible bonds into shares	3,126	–	3,126	–	3,126
Share issue expenses	(5,415)	–	(5,415)	–	(5,415)
Profit for the year	–	–	–	29,965	29,965
2002 final dividend paid	–	–	–	(11,995)	(11,995)
2002 additional final dividend paid	–	–	–	(4,120)	(4,120)
2003 interim dividend paid	–	–	–	(16,664)	(16,664)
At 31 December 2003	<u>630,889</u>	<u>89,247</u>	<u>720,136</u>	<u>25,948</u>	<u>746,084</u>
Representing:					
2003 final dividend proposed					16,722
Others					<u>9,226</u>
Retained earnings at 31 December 2003					<u>25,948</u>
At 1 January 2004	630,889	89,247	720,136	25,948	746,084
Issue of shares	27,362	–	27,362	–	27,362
Premium on repurchase of shares	(10,690)	–	(10,690)	–	(10,690)
Conversion of convertible bonds into shares	27,560	–	27,560	–	27,560
Expenses on shares repurchased	(84)	–	(84)	–	(84)
Profit for the year	–	–	–	11,269	11,269
2003 final dividend paid	–	–	–	(16,722)	(16,722)
2003 additional final dividend paid	–	–	–	(506)	(506)
At 31 December 2004	<u>675,037</u>	<u>89,247</u>	<u>764,284</u>	<u>19,989</u>	<u>784,273</u>
Representing:					
2004 final dividend proposed					18,507
Others					<u>1,482</u>
Retained earnings at 31 December 2004					<u>19,989</u>

30. RESERVES (cont'd)

(b) Company (cont'd)

- (a) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium and capital reserve assets are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business.
- (b) As at 31 December 2004, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$784,273,000 (2003: HK\$746,084,000), subjected to the restrictions stated in note (a) above.
- (c) In accordance with the relevant regulations in mainland China, Dongguan Proamine, a wholly-foreign-owned enterprise established by the Group in mainland China, is required to transfer a certain percentage of its profit after tax, if any, to the statutory reserve until such reserve reaches 50% of the registered capital of Dongguan Proamine. Subject to certain restrictions set out in the relevant regulations, the statutory reserve may be used to offset any accumulated losses of Dongguan Proamine.
- (d) The capital reserve of the Group represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired pursuant to the Group reorganisation carried on 28 November 2000, over the nominal value of the share capital of the Company issued in exchange therefore.

The capital reserve of the Company arose as a result of the same Group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

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31. DEFERRED TAXATION

The movement on the deferred tax assets is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1 January	(3,193)	(3,782)
Deferred taxation (credited from)/charged to consolidated profit and loss account (note 7)	(331)	1,044
Taxation charged to/(credited from) equity	1,373	(455)
At 31 December	(2,151)	(3,193)

Deferred tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefits through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$101,089,000 (2003: HK\$60,385,000) to carry forward against future taxable income.

31. DEFERRED TAXATION (cont'd)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Revaluation of properties		Others		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	1,296	1,751	160	-	1,456	1,751
Charged to consolidated profit and loss account	-	-	(56)	160	(56)	160
Charged to/(credited from) equity	1,373	(455)	-	-	1,373	(455)
As at 31 December	2,669	1,296	104	160	2,773	1,456

Deferred tax assets

	Accelerated tax depreciation		Tax losses		Provisions		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	(1,802)	(3,460)	-	(279)	(2,043)	(1,001)	(804)	(793)	(4,649)	(5,533)
Charged to/(credited from) consolidated profit and loss account	(405)	1,658	-	279	(674)	(1,042)	804	(11)	(275)	884
As at 31 December	(2,207)	(1,802)	-	-	(2,717)	(2,043)	-	(804)	(4,924)	(4,649)

Notes to the Financial Statements

31 December 2004

31. DEFERRED TAXATION (cont'd)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Deferred tax assets to be recovered after more than 12 months	(2,151)	(3,193)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	386	–
Inventories	5,371	–
Trade receivables	6,079	–
Prepayments, deposits and other receivables	1,086	–
Bank balances and cash	3,965	–
Trade and bills payable	(3,543)	–
Accrued liabilities and other payables	(4,985)	–
	<hr/>	<hr/>
Net assets	8,359	–
Goodwill	987	–
	<hr/>	<hr/>
Consideration	9,346	–
	<hr/>	<hr/>
Satisfied by:		
Cash consideration paid	9,346	–
	<hr/>	<hr/>
Analysis of net cash outflow in respect of the acquisition of a subsidiary		
Cash consideration paid	(9,346)	–
Bank balances and cash acquired	3,965	–
	<hr/>	<hr/>
Net cash outflow in respect of the acquisition of a subsidiary	(5,381)	–
	<hr/>	<hr/>

Notes to the Financial Statements

31 December 2004

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Major non-cash transactions

- (i) During the year, the balance of convertible bonds of approximately HK\$31,824,000 has been converted into ordinary shares of the Company as detailed in note 28(b) to the financial statements.
- (ii) During the year, deposits for purchases of fixed assets of approximately HK\$92,134,000 were capitalised as fixed assets upon delivery of the fixed assets to the Group.

33. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties under an operating lease negotiated for a term of four years. The terms of the lease provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2004, the Group had future aggregate minimum lease receipts under the non-cancellable operating lease as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	840	1,680
In the second to fifth years	–	840
	840	2,520

33. OPERATING LEASE COMMITMENTS (cont'd)

(b) As lessee

The Group leases certain land and buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to fifty years.

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	4,723	5,727
In the second to fifth years	4,486	4,278
Over fifth years	3,751	–
	12,960	10,005

34. CAPITAL AND OTHER COMMITMENTS

At 31 December 2004, the Group had the following commitments in addition to the operating lease commitments as detailed in note 33:

		Group	
	<i>Note</i>	2004	2003
		HK\$'000	HK\$'000
Contracted but not provided for:			
Purchase of land	16	–	14,019
Purchases of other fixed assets	17	–	23,638
Purchases of intangible assets	18	3,438	–
		3,438	37,657

The Company did not have any capital commitments at 31 December 2004 (2003: Nil).

Notes to the Financial Statements

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35. CONTINGENT LIABILITIES

At 31 December 2004, the Company had provided corporate guarantees to banks for banking facilities provided to its subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$245,750,000 (2003: HK\$29,245,000) as at the balance sheet date.

36. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following significant related party transactions in its ordinary course of business and on terms mutually agreed between the relevant parties:

- (a) Global Bio-Engineering Limited (“Global Bio-Eng”), a wholly owned subsidiary of the Company, has entered into a tenancy agreement with Oriental Fame Investments Limited (“Oriental Fame”), in which Mr. Choi Woon Man, a Director of the Company, has a controlling interest. Rental expenses paid to Oriental Fame during the year amounted to HK\$996,000 (2003: HK\$996,000). The commitment under the operating lease as at the balance sheet date has been included in note 33(b) to the financial statements.
- (b) Chan, Yip, So & Partners, an associate of Mr. Yip Wai Leung, Jerry, an Independent Non-executive Director of the Company, rendered services to the Group in return for professional fees of approximately HK\$253,000 (2003: HK\$170,000) during the year.
- (c) For the year ended 2003, Dongguan Proamine has purchased certain sewage treatment equipment from Shanghai Jindi Bio-Technology Engineering Co., Ltd. (“Shanghai GI”) at a total contract sum of approximately HK\$1,757,000. Shanghai GI is a subsidiary of Bio-Treat in which the Group has an equity interest of 4.9%. As at 31 December 2004, approximately HK\$1,230,000 (2003: HK\$351,000) was paid to Shanghai GI and the remaining balance of approximately HK\$527,000 (2003: HK\$1,406,000) is unsecured, interest free and repayable on demand.

36. RELATED PARTY TRANSACTIONS (cont'd)

- (d) The Group sold biotechnology products totalling approximately HK\$10,945,000 (2003: HK\$20,238,000) to 北京博康健基因科技有限公司 (“北京博康健”), a wholly owned subsidiary of Bio-Tech Pharm Group Limited (“Bio-Tech Pharm”), in which the Group has an equity interest of 4.5%. The trade receivable from 北京博康健 as at 31 December 2004 was approximately HK\$3,473,000 (2003: HK\$4,597,000). The balance is unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers.
- (e) The Group biotechnology products totalling approximately HK\$11,058,000 (2003: HK\$21,763,000) to 深圳華生元基因工程發展有限公司 (“深圳華生元”). 深圳華生元 is another wholly owned subsidiary of Bio-Tech Pharm. The trade receivable from 深圳華生元 as at 31 December 2004 was approximately HK\$2,802,000 (2003: HK\$4,716,000). The balance is unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers.
- (f) On 30 June 2002, Dongguan Proamine entered into a tenancy agreement with Golden Idea Bio-Engineering (Dongguan) Co. Ltd. (“Dongguan GI”), a wholly owned subsidiary of Bio-Treat. Dongguan Proamine leases its investment properties located in mainland China to Dongguan GI. Rental income recognised during the year amounted to HK\$1,680,000 (2003: HK\$1,680,000). At 31 December 2004, the balance due from Dongguan GI was HK\$840,000 (2003: HK\$840,000) and was unsecured and interest-free and repayable on demand. The future aggregate minimum lease receipts under the operating lease as at the balance sheet date are set out in note 33(a) to the financial statements.
- (g) On 30 October 2003, Ocean Force, GI Group and Global Bio-Eng entered into a licence agreement pursuant to which Ocean Force granted to Global Bio-Eng an exclusive right to utilize BMS wastewater treatment and waste management products in Hong Kong and Singapore for an initial term of 10 years (commencing 2 May 2002) with an option for renewal for up to five years. For the year ended 31 December 2004, Global Bio-Eng did not sale any BMS wastewater treatment and waste management products, therefore, no royalty fee had been paid to Ocean Force. For the year ended 31 December 2003, Global Bio-Eng paid Ocean Force a royalty fee of HK\$936,000, being 10% of the income from the sale of equipment. At 31 December 2004, the balance due to Ocean Force was HK\$936,000 (2003: HK\$936,000) and is unsecured and interest-free and repayment on demand.

Notes to the Financial Statements

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36. RELATED PARTY TRANSACTIONS *(cont'd)*

- (h) On 1 January 2004, Global Chemicals entered into an agreement for royalty fee and advertising subsidy with Crystal Marketing Management Limited ("Crystal"), a minority shareholder of the Group. For the year ended 31 December 2004, Crystal paid Global Chemicals a royalty fee of HK\$2,755,000 (2003: Nil), being 28% of net income generated from sales of MB products to the customers, services income generated from services rendered to the customers and any other income incidental to the sales of MB products or services rendered to the customers in the flagship stores. Crystal also paid Global Chemicals advertising and promotional expenses of HK\$2,000,000 (2003: Nil), being HK\$100,000 per month from January 2004 to April 2004 and HK\$200,000 per month from May 2004 and thereafter.

37. BANKING FACILITIES

At 31 December 2004 and 2003, all the banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Company.

As at 31 December, 2003, the long-term bank loans of approximately HK\$7,455,000 were secured by the fixed assets of the Group (note 14(d)). The remaining long-term bank loans of approximately HK\$700,000, together with the short term bank loans of approximately HK\$168,000, were secured by fixed deposits of the Group of approximately HK\$5,113,000, of which approximately HK\$3,080,000 represented pledged bank deposits of the Company.

38. PENDING LITIGATION

A subsidiary of the Company, namely Global Chemicals has been involved in a litigation arising in the ordinary course of its business. After seeking legal advice, the directors are of the opinion that adequate provision has been made in the financial statements to cover any potential liabilities arising from the litigation.

39. SUBSEQUENT EVENTS

Save as disclosed in other notes to the financial statements, the Group has the following significant subsequent events:

- (a) An aggregate of 29,500,000 ordinary shares of HK\$0.10 each were issued subsequent to the balance sheet date upon the exercise of the outstanding share options. Please refer to details set out in note 28(d) to the financial statements.
- (b) An aggregate of 6,204,000 ordinary shares were repurchased subsequent to the balance sheet date. Please refer to details set out in note 28(e) to the financial statements.
- (c) On 25 April 2005, the Directors proposed a bonus issue of 2007 warrants and bonus issue of 2008 warrants for every 10 existing shares held by the shareholders (except for overseas shareholders) whose names appear on the Company's register of members on 27 May 2005. The bonus issues are conditional upon the approval by shareholders at the forthcoming annual general meeting and the Listing Committee of the Stock Exchange granting listing of and permission to deal in the warrants. Details of the bonus issues are set out in the Company's announcement dated 25 April 2005.