1. CORPORATE INFORMATION

The registered office of Yanion International Holdings Limited is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

During the year, the principal activity of the Group's subsidiaries was manufacturing, trading and contracting of Chinese medicine products in the People's Republic of China ("PRC").

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

During the year, the Group adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(SIC)-Int") (collectively "HKFRSs") issued by The Hong Kong Institute of Certified Public Accountants which are relevant to the Group's operations and effective for accounting periods beginning on or after 1 January 2005. The applicable HKFRSs are set out as follows:

– HKAS 1	Presentation of Financial statements
– HKAS 2	Inventories
– HKAS 7	Cash Flow Statements
– HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
– HKAS 10	Events after the Balance Sheet Date
– HKAS 12	Income Taxes
– HKAS 14	Segment reporting
– HKAS 16	Property, Plant and Equipment
– HKAS 17	Leases
– HKAS 18	Revenue
– HKAS 19	Employee Benefits
– HKAS 21	The Effects of Changes in Foreign Exchange Rates
– HKAS 24	Related Party Disclosures
– HKAS 27	Consolidated and Separate Financial Statements
– HKAS 32	Financial Instruments: Disclosure and Presentation
– HKAS 33	Earnings per Share
– HKAS 36	Impairment of Assets
– HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
– HKAS 38	Intangible Assets
– HKAS 39	Financial Instruments: Recognition and Measurement
– HKFRS 2	Share-based Payments
– HKFRS 3	Business Combinations

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

Effect of adopting new HKFRSs

The summary effect as a result of adoption of the above HKFRSs on the Group is as follows:

(i) HKAS 1 has affected the presentation of minority interests and other disclosures.

(ii) HKAS 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 27, 33, 36, 37 and 39 did not result in substantial changes to the accounting policies of the Group and did not have a significant impact on its results of operations and financial position.

(iii) HKAS 21 has no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard and no changes to the functional currency of each Group entity or the presentation currency for the consolidated financial statements.

(iv) HKAS 24 has affected the identification of related parties and some other related parties disclosures.

(v) HKAS 38 had no material effect on the Group's policy. The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

(vi) HKFRS 3 and HKAS 36 resulted in a change in the accounting policy for goodwill. Prior to this, the goodwill was:

- amortised on a straight-line basis over a period of not exceeding 20 years; and
- assessed for impairment periodically.

In accordance with the transitional provisions of HKFRS 3:

- the Group ceased the amortisation of goodwill from 1 January 2005;
- the accumulated amortisation of goodwill has been eliminated against the cost as of 31 December 2004 and the comparative amount has not been restated;
- from the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment. Any impairment loss will be charged to the profit and loss account directly.

The change in policy has reduced the Group's loss after taxation for the year ended 31 December 2005 by approximately HK$10,282,000.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES (continued)

Effect of adopting new HKFRSs (continued)

(vii) HKFRS 2 resulted in a change in the accounting policy for share-based payments. Prior to this, the provision of share options to employees did not result in a charge to profit and loss account. Following the adoption of HKFRS 2, the cost of share option is charged to the consolidation profit and loss account which resulted in an expense of approximately HK$3,971,000 in respect of share-based payments relating to share options granted during the year.

(viii) HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Previously, convertible notes were classified as liability on the balance sheet. Though HKAS 32 requires retrospective application, the adoption of HKAS 32 did not have a significant impact on the results of operation and financial position and related disclosure of the Group for the current and prior period.

The Group has not early adopted the following new standards or interpretations that have been issued but are not yet effective. The directors anticipate that the application of these standards or interpretations in future periods will have no material impact on the financial statements of the Group.

		Effective for accounting periods beginning on or after
HKAS 39 (Amendment)	The Fair Value Option	1 January 2006
HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The financial statements have been prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries for the each fiscal year ended 31 December.

The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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 and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

(c) Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss account.

(d) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received or receivable.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of fixed assets over their anticipated useful lives on a straight-line basis. The principal annual rates used for this purpose are as follows:

Plant, machinery and equipment	10% – 15%
Furniture and fixtures	10%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying value of the relevant asset.

(f) Chinese medicine intellectual property and knowhow

Chinese medicine intellectual property and knowhow is stated at cost less impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying medicine products ranging from seven to twenty years, commencing from the date of acquisition.

(g) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Such impairment losses are recognised in the profit and loss account.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 profit and loss account in the year in which the reversals are recognised.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of purchase of materials computed using the FIFO method and, in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions.

(j) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contracted provision of the instrument.

Accounts and other receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Borrowings

Borrowings are recognised initially at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised in the profit and loss account over the term of the borrowings.

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

Convertible notes/bonds

Convertible notes/bonds are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes/notes and fair value assigned to the liability component, representing the embedded option for the holder to convert the note/bond into equity of the Group, is included in equity (capital reserves).

Issue costs are apportioned between the liability and equity components of the convertible notes/bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate of similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note/bond.

Accounts payable

Accounts payable are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

(k) Share-based compensation

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Taxation

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

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

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is provided for on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company 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.

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) from contracting revenues, when services have been rendered or substantially performed in accordance with the terms of the contract; and

(iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(p) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds. Upon contribution to the MPF Scheme, the Group's employer contributions are vested with the employees subject to a scale based on length of service. Prior to the MPF Scheme being effective, the Group did not have any pension arrangements for its employees.

The employees of the Group's subsidiaries in the PRC are members of central pension schemes operated by the local governments in the PRC and these subsidiaries make mandatory contributions to these central pension schemes to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiaries are based on certain percentages of the employees' salaries cost in accordance with the relevant regulations in the PRC, and are charged to the profit and loss account as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the central pension schemes operated by the local governments in the PRC.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Foreign currency translation

The Company's principal subsidiary is located in the People's Republic of China (the "PRC") whose functional and presentation currencies are in RMB.

Functional and presentation currency

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

Transactions and balances

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

Translated differences on non-monetary items, such as equity instruments held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

On consolidation, the balance sheet of subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date while the profit and loss is translated at an average rate. The resulting translation differences are included in the exchange fluctuation reserve.

(r) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may effect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

The Group also makes estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.:–

(i) The Group tests annually whether goodwill has suffered any impairment in accordance with the new accounting policy as referred to in Note 3(g) above. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates.

(ii) Share option expense is subject to the limitations of the Black Scholes pricing model and the uncertainly in estimates used by management in the assumptions. The Black Scholes pricing model is modified for the early exercise of share options in limited open exercise periods. Should the estimates including limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life and the relevant parameters of the share option model be changed, there would be material changes in the amount of share option benefits recognised in the profit and loss account and employee share-based compensative reserve.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed by product segments. Each of the Group's product segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other product segments.

During the years ended 31 December 2004 and 2005, the turnover and operating profit of the Group are entirely derived from one business segment which is the manufacturing, trading and contracting of Chinese Medicine products in the PRC. Accordingly, no analysis by business or geographic segment is provided.

6. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for goods returned and trade discounts, and contracted revenue earned. An analysis of turnover and revenue is as follows:

Group

	2005 HK$'000	2004 HK$'000
Turnover	**18,007**	20,863
Interest income	**10**	9
Exchange gains, net	**–**	32
Other income	**3**	20
Other revenue	**13**	61
Total revenue	**18,020**	20,924

7. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	Group 2005 HK$'000	Group 2004 HK$'000
Cost of inventories sold	**7,156**	8,052
Provision against inventories*	**575**	5,186
Amortisation of Chinese medicine intellectual property and knowhow	**4,103**	3,987
Depreciation	**1,298**	2,166
Auditors' remuneration:		
Current year	**636**	409
Under provision in prior year	**8**	11
Net foreign exchange loss	**2**	–
Staff costs (excluding directors' remuneration *(note 8)*)**		
Salaries and wages (include long service payment provision)	**3,574**	5,808
Pension fund contributions	**486**	743
	4,060	6,551
Loss on disposal of fixed assets	**891**	1,640

* Provision against inventories is included in "Cost of sales" in the consolidated profit and loss account.

** At 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

8. REMUNERATION OF DIRECTORS

	Group 2005 HK$'000	2004 HK$'000
Directors' Fees		
Executive Directors	**2,850**	–
Independent Non-executive Directors	**387**	217
Basic remuneration, housing, other allowances and benefits in kind	**7,659**	4,770
Mandatory provident fund contributions	**76**	43
	10,972	5,030

Directors' remuneration related information disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors fees *HK$000*	Remuneration, allowances and benefits in kind *HK$000*	Share-based payments *HK$000*	Pension fund contributions *HK$000*	2005 Total ***HK$000***
Executive Directors					
Cheng Shu Wing	–	95	225	4	**324**
Fung Chi Kin	2,100	–	794	–	**2,894**
Guo Duen How, Tom	–	260	225	12	**497**
Ho Yuk Ming, Hugo	462	–	794	–	**1,256**
Kao Ying Lun	–	2,110	225	30	**2,365**
Wu Fred Fong	–	2,110	225	30	**2,365**
Zhang Zhiyuan, Nathan	288	–	398	–	**686**
Independent non-executive Directors					
Choy Tak Ho	100	–	79	–	**179**
Loke Yu, Alias Loke Hoi Lam	75	–	–	–	**75**
Loo Chung Keung, Steve	75	–	–	–	**75**
Tsui Chun Chung, Arthur	100	–	79	–	**179**
Wong Chun Wah	37	–	40	–	**77**
	3,237	4,575	3,084	76	**10,972**

8. REMUNERATION OF DIRECTORS (continued)

	Directors fees HK$000	Remuneration, allowances and benefits in kind HK$000	Share-based payments HK$000	Pension fund contributions HK$000	2004 Total HK$000
Executive Directors					
Cheng Shu Wing	–	195	–	9	204
Guo Duen How, Tom	–	240	–	12	252
Kao Ying Lun	–	2,110	–	30	2,140
Wu Fred Fong	–	2,093	–	30	2,123
Cheng Kwok Choi, Godwin	–	132	–	(38)	94
Independent non-executive Directors					
Choy Tak Ho	100	–	–	–	100
Tsui Chun Chung, Arthur	100	–	–	–	100
Wong Chun Wah	17	–	–	–	17
	217	4,770	–	43	5,030

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Group during the year included five (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of remuneration of the remaining nil (2004: two) highest paid employees during the year were as follows:–

	2005 ***HK$'000***	2004 *HK$'000*
Basic salaries, housing, other allowances and benefit in kind	–	1,052
Mandatory provident fund contributions	–	24
	–	1,076

During the year, no emoluments were paid by the Group to the highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of offices.

10. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	**1,697**	1,351

11. TAXATION

(a) No provision for profits tax has made as the Group has sustained tax losses for the year.

(b) The taxation charge for the year can be reconciled to the accounting loss as follows:–

	2005	2004
	HK$'000	*HK$'000*
Loss before tax	**(70,148)**	(103,639)
Taxation calculated at Hong Kong profits tax of 17.5%	**(12,276)**	(18,137)
Tax effect of expenses not deductible for taxation purposes	**10,647**	13,499
Deferred tax assets not recognised	**1,276**	3,200
Effect of different tax rates of subsidiaries operating in other jurisdictions	**353**	1,438
Tax charge for the year	**–**	–

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2005 dealt with in the financial statements of the Company is HK$72,498,000 (2004: HK$98,644,000).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$67,595,000 (2004: HK$74,328,000) and the weighted average of 622,494,509 (2004: 571,902,728) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2005 and 2004 have not been shown as the share options outstanding during both years had an anti-dilutive effect on the basic loss per share for both years.

14. FIXED ASSETS

Group

	Plant, machinery and equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
Cost:			
At 1 January 2004	11,961	1,480	13,441
Additions	507	–	507
Disposals	(3,808)	(91)	(3,899)
At 31 December 2004	8,660	1,389	10,049
Additions	899	342	1,241
Disposals	(2,644)	(770)	(3,414)
Exchange adjustments	450	38	488
At 31 December 2005	**7,365**	**999**	**8,364**
Accumulated depreciation and impairment:			
At 1 January 2004	2,425	185	2,610
Charge for the year	1,918	248	2,166
Write back on disposal	(2,234)	(25)	(2,259)
At 31 December 2004	2,109	408	2,517
Charge for the year	873	425	1,298
Write back on disposal	(1,925)	(404)	(2,329)
Exchange adjustments	261	13	274
At 31 December 2005	**1,318**	**442**	**1,760**
Net book value:			
At 31 December 2005	**6,047**	**557**	**6,604**
At 31 December 2004	6,551	981	7,532

14. FIXED ASSETS (continued)

Company

	Furniture and fixtures HK$'000
Cost:	
At 1 January 2004 and at 31 December 2004	253
Disposals	(253)
At 31 December 2005	**–**
Accumulated depreciation:	
At 1 January 2004	25
Charge for the year	114
At 31 December 2004	139
Charge for the year	30
Written back on disposal	(169)
At 31 December 2005	**–**
Net book value:	
At 31 December 2005	**–**
At 31 December 2004	114

15. INTANGIBLE ASSETS

Group

	Chinese medicine intellectual property and knowhow *HK$'000*
Cost:	
At 1 January 2004 and at 31 December 2004	37,551
Exchange adjustments	1,083
At 31 December 2005	**38,634**
Accumulated amortisation:	
At 1 January 2004	4,014
Charge for the year	3,987
At 31 December 2004	8,001
Charge for the year	4,103
Exchange adjustments	230
At 31 December 2005	**12,334**
Net book value:	
At 31 December 2005	**26,300**
At 31 December 2004	29,550

16. GOODWILL

The amount of the goodwill capitalised as an asset, arising from the acquisition of subsidiaries, is as follows:

	Group *HK$'000*
Cost:	
At 1 January 2004 and 31 December 2004	150,328
Opening adjustment to eliminate accumulated amortisation	(72,354)
At 31 December 2005	**77,974**
Accumulated amortisation:	
At 1 January 2004	62,071
Amortisation for the year	10,283
At 31 December 2004	72,354
Opening balance adjustment to eliminate against cost	(72,354)
At 31 December 2005	**–**
Impairment:	
Impairment loss recognised in the year and balance at **31 December 2005**	**40,950**
Net book value:	
At 31 December 2005	**37,024**
At 31 December 2004	77,974

Goodwill is allocated to the Group's cash generating unit ("CGU") identified to country of operation and business segment. The carrying amount solely related to the Group's Chinese Medicine business in the PRC.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. As at 31 December 2005, the Group engaged a professional appraiser to conduct a valuation of the tangible assets and intellectual properties, including patent, trademarks and related technologies of its subsidiary, Huayi, to test goodwill created from acquiring the CGU. The recoverable amount of goodwill is determined from value in use calculations and the appraiser applied a combination of approaches, including the income approach, market approach and cost approach as considered appropriate to determine the value of the CGU.

In respect of the income approach, the discount rate applied in the valuation is 21.8%. Net revenue generated by the intellectual properties is forecasted by management based on estimation of the market size for each product and the market share of the product supported by reasonable promotional expenditure in the next 5 years. In respect of the market approach, the value of the intellectual properties is estimated through the analysis of recent sales of comparable intellectual properties including by reference to recent publicly available auction prices as benchmarks.

As a result of the valuation, the Group has reduced its recoverable amount of the carrying value of goodwill through recognition of an impairment loss of HK$40,950,000 for the year.

17. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares/capital contributions, at cost	**1**	1
Due from subsidiaries	**517,810**	504,181
	517,811	504,182
Provision for impairment	**(467,539)**	(405,193)
	50,272	98,989

The amounts due are unsecured, interest-free and are not repayable within the twelve months following the balance sheet date.

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
China Medicine International Limited	Hong Kong	HK$2	100	–	Provision of administrative services
Yacata Limited	British Virgin Islands	US$1	100	–	Investment holding
Korning Investments Limited	British Virgin Islands	US$1	–	94	Investment holding
Star Wisdom Investments Limited	British Virgin Islands	US$1	–	94	Investment holding
Huayi Pharmaceutical Company Limited ("Huayi")	People's Republic of China	RMB126,000,000	–	56	Manufacturing, trading and contracting of Chinese medicine products

18. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**442**	585
Work in progress	**2,229**	512
Finished goods	**3,203**	2,081
	5,874	3,178

19. ACCOUNTS RECEIVABLE

An aging analysis of the accounts receivable as at the balance sheet date, based on payment due date, and net of provisions is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 month	**866**	1,410
2 to 3 months	**1,438**	1,270
4 to 6 months	**647**	668
7 to 12 months	**1,228**	364
Over 1 year	**566**	1,003
	4,745	4,715

20. DEPOSIT FOR INVESTMENT

On 21 March, 2003, Huayi has entered into an agreement to acquire from an independent third party (i) 40% equity interest in two Sino-foreign joint venture companies and (ii) the right of exploitation of wild herbs (collectively referred to as the "Investment") at a total consideration of approximately HK$67,888,000. The purpose of the investment was to develop a Chinese medicinal centre and wild herbs harvesting area. Partial payments for the consideration in the total of approximately HK$48,879,000 were made in July 2003. The vendor has agreed with Huayi on 31 December 2003 that the balance of consideration in the amount of approximately HK$19,009,000 be payable by 31 May 2004. As of 31 December 2005, the balance of consideration has not been paid and no settlement agreement has been reached by Huayi and the vendor. Full provision for the deposit paid has been made in the financial statements in the previous year. The current status of the investment is detailed in note 28.

21. ACCOUNTS PAYABLE

An aging analysis of the accounts payable as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 month	**288**	209
2 to 3 months	**–**	58
4 to 6 months	**115**	136
7 to 12 months	**18**	584
Over 1 year	**895**	1,185
	1,316	2,172

22. CONVERTIBLE NOTES

On 20 April 2004, the Company entered into a subscription agreement with DBS Bank Limited ("DBS"), whereby DBS has agreed to conditionally subscribe in tranches for an aggregate principal amount of up to HK$24,940,000 of unsecured convertible notes for the period ending on 15 June 2004. On 26 April 2004, convertible notes in the amount of HK$21,500,000 were issued. The notes were to mature on 30 April 2006, unless redeemed earlier by the Company or converted into shares by the noteholder prior to the maturity date. The notes had a coupon interest rate of 2% per annum and may be convertible into new conversion shares of the Company at a conversion price of HK$0.43 per share. Costs relating to the issuance of the convertible notes in the amount of HK$865,000 was charged against share premium account.

On 28 December 2004, 23,000,000 shares at par value of HK$0.01 per share were issued at the conversion price of HK$0.43 per share on conversion of HK$9,890,000 convertible notes by the noteholder. On 18 January 2005, further 27,000,000 shares at par value of HK$0.01 per share were issued at the same conversion price of HK$0.43 per share on conversion of the balance of the convertible notes of HK$11,610,000 (note 25) and through the conversions, the entire debt was extinguished. The new shares rank pari passu in all respects with the existing share of the Company.

23. OTHER BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other borrowings – unsecured	**24,005**	23,948	**20,543**	20,543
Other borrowings repayable:				
– within one year *(note)*	**21,957**	21,957	**20,543**	20,543
– after one year	**2,048**	1,991	**–**	–
	24,005	23,948	**20,543**	20,543
Portion classified as current liabilities	**(21,957)**	(21,957)	**(20,543)**	(20,543)
Long term portion	**2,048**	1,991	**–**	–

Note:

Included in other borrowings is a balance of HK$20,543,000 due to an independent financial institution which is unsecured, interest bearing at Hong Kong dollar prime rate plus 2% per annum, payable upon repayment of principals and was repayable by 31 July 2005. Short term extensions were granted by the financial institution and the amount was fully repaid as to principal and interest on 8 February 2006.

As at 31 December 2005, save for the unsecured other borrowings which was subsequently repaid, the Group did not have any other bank debts, corporate guarantee or pledge of assets remained outstanding from the prior year.

24. DEFERRED TAXATION

No provision for deferred tax had been made by the Group. The net deferred tax asset position not recognised in the financial statements are as follows:

	2005	2004
	HK$'000	*HK$'000*
Tax losses	**7,316**	10,004

The Company had unprovided deferred tax assets in respect of tax losses in the amount of HK$4,835,000 at the balance sheet date (2004: HK$7,180,000).

25. SHARE CAPITAL

Share capital

	2005 *HK$'000*	2004 *HK$'000*
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
636,650,673 (2004: 594,650,673) ordinary shares of HK$0.01 each	**6,367**	5,947

The movements in the issued share capital of the Company during the year were as follows:

	Number of ordinary shares	**Share capital** *HK$'000*
At 1 January 2004	571,650,673	5,717
Shares issued on conversion of convertible notes *(note 22 & 26 (ii))*	23,000,000	230
At 1 January 2005	594,650,673	5,947
Shares issued on conversion of convertible notes *(note 22 & 26 (ii))*	27,000,000	270
Shares issued on exercise of share options *(note 26(iii))*	15,000,000	150
At 31 December 2005	**636,650,673**	**6,367**

26. RESERVES

Company

	Share premium HK$'000	Contributed surplus HK$'000 (note i)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	82,700	76,838	(5,066)	154,472
Convertible note issue costs *(note 22)*	(865)	–	–	(865)
Shares issued on conversion of convertible notes *(note ii)*	9,660	–	–	9,660
Net loss for the year	–	–	(98,644)	(98,644)
At 31 December 2004	91,495	76,838	(103,710)	64,623
Shares issued on conversion of convertible notes *(note ii)*	11,340	–	–	11,340
Shares issued on exercise of share options *(note iii)*	7,050	–	–	7,050
Net loss for the year	–	–	(72,498)	(72,498)
At 31 December 2005	**109,885**	**76,838**	**(176,208)**	**10,515**

Note:

(i) The Company's contributed surplus is derived from the difference between the fair value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefore pursuant to the Group reorganisation in 1991. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of its contributed surplus under certain circumstances.

(ii) On 28 December 2004, 23,000,000 new ordinary shares with a par value of HK$0.01 each were issued on conversion of convertible notes at a conversion price of HK$0.43 per share. On 18 January 2005, 27,000,000 new ordinary shares with a par value of HK$0.01 each was issued on conversion of convertible notes at the same conversion price of HK$0.43 per share. The excess of the share consideration over the nominal value of the issued shares was credited to the share premium account in those years. The new shares rank pari passu in all respects with the existing share of the Company.

(iii) On 26 October 2005, 9,000,000 new ordinary shares with a par value of HK$0.01 each were issued on exercise of share options at subscription price of HK$0.48 per share. On 20 December 2005, a further 6,000,000 new ordinary shares with a par value of HK$0.01 each were issued on exercise of share options at the same subscription price of HK$0.48 per share. The new shares rank pari passu in all respects with the existing shares of the Company.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before taxation to net cash used in operations:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(70,148)**	(103,639)
Provision for deposit for investment	**–**	48,879
Provision against inventories	**575**	5,186
Provision for doubtful debts	**865**	9,089
Depreciation	**1,298**	2,166
Amortisation of intangible assets	**4,103**	3,987
Amortisation of goodwill	**–**	10,283
Impairment of goodwill	**40,950**	–
Loss on disposal of fixed assets	**891**	1,640
Interest income	**(10)**	(9)
Interest expense	**1,697**	1,351
Share based payment in respect of granting of share options	**3,971**	–
Operating loss before working capital changes	**(15,808)**	(21,067)
(Increase)/decrease in inventories	**(3,271)**	1,795
(Increase)/decrease in accounts receivable	**(895)**	63
Decrease in prepayments and other receivables	**1,870**	4,364
Decrease in accounts payable	**(856)**	(214)
Increase/(decrease) in other payables and accruals	**13,531**	(1,391)
Increase/(decrease) in amounts due to a related company	**171**	(896)
Effect of foreign exchange rates changes	**(234)**	–
Net cash used in operations	**(5,492)**	(17,346)

28. CONTINGENT LIABILITIES

As detailed in note 20 to the financial statements, in 2003 Huayi has contracted for the acquisition of (i) 40% equity interest in two Sino-foreign joint venture companies and (ii) the right of exploitation of wild herbs for the purpose of development of a Chinese medicinal centre and wild herbs harvesting area. As of 31 December 2005, partial payments of approximately HK$50,288,000 (2004: HK$48,879,000) have been made and the remaining consideration of approximately HK$19,558,000 (2004: HK$19,009,000) has been disclosed under capital commitments (note 30).

In accordance with the sale and purchase agreement, the vendor has the right to cancel acquisition and claim for losses to be extent the vendor has suffered, which is not quantifiable at this stage. The directors of the Company have sought advice from PRC legal counsel as to appropriate course of action and had made full provision of the partial payments of HK$50,288,000 in the previous year as the chance of recovering the deposit paid was in doubt. No action could be made at this stage to resolve the matter.

29. OPERATING LEASE ARRANGEMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases	**3,633**	2,859

At 31 December 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases in respect of its premises falling due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**2,130**	2,025
In the second to fifth years, inclusive	**240**	–
	2,370	2,025

Operating lease payments represent rentals payable by the Group and the Company on certain of its leased properties. Leases are negotiated for an average term of 1 to 2 years at fixed rental.

The Company did not have any operating lease commitments at 31 December 2004.

30. CAPITAL COMMITMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Acquisition of investment (note 28)	**19,558**	19,009

The Company did not have any contracted capital commitments at the balance sheet date (2004: HK$Nil).

31. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

Under the share option scheme adopted by the Company on 7 June 2002 (the "Scheme"), the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company.

On 11 March 2005, 30,000,000 share options were granted to and accepted by directors and eligible participants of the Group pursuant to the Scheme. The options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares (of nominal value of HK$0.01 each) of the Company at an exercise price of HK$0.86 per share. The options may be exercisable during the period from 22 March 2005 to 21 March 2007. During the year, none of these share options were cancelled or exercised. Subsequent to the year end, 15,000,000 share options were cancelled as a result of resignation of directors highlighted in the options table below.

On 28 September 2005, a total of 15,000,000 shares options were further granted and accepted by certain directors of the Group and eligible participants. The options were granted at a cash consideration of HK$1.00 per grantee and entitled the grantees to subscribe for ordinary shares at an exercise price of HK$0.48 per share. The exercisable period for these options was from 29 September 2005 to 28 December 2005. All of these share options were exercised during the year.

31. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option scheme of the Company (continued)

The following share options are outstanding at the end of the year:

Name of participants	At 1 January 2005	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2005
Executive directors					
Cheng Shu Wing [(i)]	–	1,700,000	–	–	**1,700,000**
Fung Chi Kin [(ii)]	–	6,000,000	–	–	**6,000,000**[(iv)]
Guo Duen How, Tom	–	3,200,000	1,500,000	–	**1,700,000**
Ho Yuk Ming, Hugo [(ii)]	–	6,000,000	–	–	**6,000,000**[(iv)]
Kao Ying Lun	–	6,200,000	4,500,000	–	**1,700,000**
Wu Fred Fong	–	6,200,000	4,500,000	–	**1,700,000**
Zhang Zhiyuan, Nathan [(ii)]	–	3,000,000	–	–	**3,000,000**[(iv)]
Independent non-executive directors					
Choy Tak Ho	–	600,000	–	–	**600,000**
Tsui Chun Chung, Arthur	–	600,000	–	–	**600,000**
Wong Chun Wah [(iii)]	–	300,000	–	–	**300,000**
Subtotal	–	33,800,000	10,500,000	–	**23,300,000**
Other eligible participants	–	11,200,000	4,500,000	–	**6,700,000**
Total	–	45,000,000	15,000,000	–	**30,000,000**

(i) resigned on 20 May 2005
(ii) resigned on 17 February 2006
(iii) resigned on 17 May 2005
(iv) share options cancelled on 17 February 2006 upon the termination of the relevant directors

Employee share option expenses related to the above grants of share option were valued at HK$3,971,000 and were charged to the consolidated profit and loss account. Such expenses were determined with the Black-Scholes valuation model based on the following assumptions:

Date of grant	**11 March 2005**	**28 September 2005**
Value per option	HK$0.108	HK$0.049
Price per share at date of grant	HK$0.79	HK$0.435
Exercise price per share	HK$0.86	HK$0.48
Standard deviation	0.7445	0.7443
Annual risk-free interest rate	2.828%	3.548%
Life of options	2 years	3 months
Dividend yield	0%	0%

32. RELATED PARTY TRANSACTIONS

(a) Set out below are the related party transactions disclosed in accordance with HKAS 24 issued by the HKICPA:–

		Group	
	Notes	**2005** **HK$'000**	2004 HK$'000
Director's quarter expenses paid to related company:			
Sunview Company Limited ("Sunview")	*(i)*	**1,080**	1,080
Disposal of fixed assets to a related company:			
WorldVest Capital Limited ("WorldVest")	*(ii)*	**84**	–
Sharing of office services paid to a related company:			
WorldVest	*(iii)*	**430**	516

(i) The rental expenses related to properties rented for the purpose of providing quarters to the directors, and were charged in accordance with the terms of the related rental agreements.

(ii) The Directors have reviewed the lists of the breakdown of used fixed assets and physically inspected the condition of the assets and considered that the terms and selling price of these used fixed assets were in accordance with general commercial practice and were fair and reasonable to the Company.

(iii) Sharing of office expenses were charged in accordance with the actual costs incurred by the Group.

Messrs. Guo Duen How, Tom and Wu Fred Fong are the directors of WorldVest. Sunview is owned by an associated person of Mr. Kao Ying Lun.

(b) **Compensation to key management personnel**

The remuneration of directors and other member of key management during the year was as follows:–

	Group	
	2005 **HK$'000**	2004 HK$'000
Short term benefits	**7,888**	5,030
Share-based payments	**3,084**	–
	10,972	5,030

(c) The amount due to a related company is interest free, unsecured and has no fixed term of repayment.

33. CONNECTED TRANSACTIONS

The following transactions constitute connected transactions under the Listing Rules.

		Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Purchase of raw materials/herbs from China National Group Corporation of Traditional and Herbal Medicine ("China National Medicine")	*(i)*	**2,046**	986
Rental expenses paid to China National Medicine		**27**	–
Rental expenses paid to Beijing Huamiao Traditional Chinese Medicine Technology and Project Development Center ("Beijing Huamiao")	*(i)*	**566**	–

Note:

(i) China National Medicine is the controlling shareholder of the minority shareholder of Huayi and Beijing Huamiao is a subsidiary of China National Medicine. The Directors consider that the purchases and rental expenses were made in the ordinary and usual course of business with terms made on normal commercial terms.

34. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk, liquidity risk and interest rate risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management which are summarised as follows. The Group has not used any derivatives and other instruments for hedging purposes.

(i) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of trade receivables included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group maintains a defined credit policy and allows credit periods ranged from 15 to 90 days to its trade customers. Under exceptional cases, the Group may extend credits to specific customer for periods beyond 90 days upon special approval. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed and monitored by senior management. No other financial assets carry a significant exposure to credit risk.

34. FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Foreign exchange risk

The Group's main operations are in the PRC and has no significant exposure to any specific foreign currency other than Renminbi.

(iii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from financial institutions to meet its liquidity requirements in the short and longer term.

(iv) Fair value and cash flow interest rate risk

The Group has no interest-bearing assets or long-term borrowings. Its income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values.

The fair value of interest-bearing borrowing is estimated as the present value of further cash flows, discounted at current market interest rates for similar financial instruments.

35. POST BALANCE SHEET EVENTS

(a) On 8 February 2006, the Company completed the placing of 124,330,000 new ordinary shares of HK$0.01 each at the placing price of HK$0.235 per share to independent third parties for gross proceeds of HK$29,217,550. The proceeds were for general working capital purposes. Accordingly, the total number of issued and fully paid ordinary shares of the Company was increased from 636,650,673 at year end to 760,980,673 immediately after the Placing.

(b) On 8 February 2006, the Company fully discharged the principal and interest of the unsecured other borrowings using proceeds from the Placement as described above.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the Audit Committee and approved and authorized for issue by the board of directors on 13 April 2006.