Notes to the Financial Statements

For the year ended 31 December, 2005

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Absolute Target Limited, a company incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The financial statements are presented in Hong Kong dollars, and the functional currency of the Company is in Renminbi.

As the Company is listed in Hong Kong, the directors consider that it is appropriate to present the financial statement in Hong Kong dollars.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in production and sales of a series of health care, pharmaceutical products and electronic cigarette components.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Notes to the Financial Statements

For the year ended 31 December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Business combinations

The principal effects of the application of HKFRS 3 "Business Combinations" to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1 January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January, 2001 was held in reserves and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1 January, 2005 (of which negative goodwill of HK$2,281,000 was previously recorded in reserves), with a corresponding increase in accumulated profits (see note 3 for the financial impact).

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Notes to the Financial Statements

For the year ended 31 December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24

By 31 December, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, the Group's investments in equity securities are classified as "investment securities", which are carried at cost less impairment losses (if any). From 1 January, 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Available-for-sale financial assets", which are carried at fair value, with changes in fair values recognised in equity. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. Investment securities of HK$1,000,000 were reclassified to available-for-sale investments on 1 January, 2005 in accordance with transitional provision of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities

From 1 January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. This change has had no material effect on the results for the current and prior accounting periods.

Notes to the Financial Statements

For the year ended 31 December, 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities other than debt and equity securities (continued)

Preferred shares issued by a subsidiary

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the preferred shares issued by a subsidiary (the "Preferred shares"). On 1 January, 2005, the Group classified and measured the Preferred shares in accordance with the requirements of HKAS 39. In addition, HKAS 39 requires derivatives embedded in other financial instruments or other non-financial host contracts to be treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss. The Preferred shares are measured at amortised cost using the effective interest method and the derivatives embedded in the Preferred shares are considered as to whether separate measurement are required in accordance with the requirements of HKAS 39. An adjustment of HK$3,793,000 to the previous carrying amounts of liabilities at 1 January, 2005 has been made to the Group's accumulated profits using effective interest of 15% per annum (which is the required rate of return under the put option of the Preferred shares).

At 24 December, 2005, the subsidiary entered into an agreement with the investor for the purpose of borrowing a loan from the investor at a principal amount of US$4,600,000 at London Inter-Bank Offer Rate plus 2.5% per annum to the finance the purchase of the Preference Shares from the investor. (see note 36)

Taking into account the premium payable upon the purchase of the Preferred Shares as financed by the said loan, the Directors concluded that the effective interest rate used for the calculation of the amortised cost of the Preference shares should be 7.85%. The Directors consider this to be a change in accounting estimate and have therefore accounted for the change prospectively. The effect of this change in accounting estimate is to decrease the finance costs for the year ended 31 December 2005 by approximately HK$2,231,000.

The Directors consider that the fair value of the embedded derivatives which are required to be separately measured under HKAS 39 is insignificant.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

Notes to the Financial Statements

For the year ended 31 December, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs on 31 December, 2004 and 1 January, 2005 are summarised below:

	As at 31 December, 2004 (originally stated) HK$'000	Adjustments HK$'000	As at 31 December, 2004 (restated) HK$'000	Adjustments HK$'000	**As at 1 January, 2005 (restated) HK$'000**
Balance sheet items					
Property, plant and equipment	33,843	(2,598)	31,245	–	**31,245**
Prepaid lease payments	–	2,598	2,598	–	**2,598**
Investment securities	1,000	–	1,000	(1,000)	**–**
Available-for-sales investment	–	–	–	1,000	**1,000**
Preferred shares issued by a subsidiary	(31,200)	–	(31,200)	(3,793)	**(34,993)**
Other assets/liabilities	213,536	–	213,536	–	**213,536**
Total effects on assets and liabilities	217,179	–	217,179	(3,793)	**213,386**
Share capital	58,400	–	58,400	–	**58,400**
Accumulated profits	112,740	–	112,740	(1,512)	**111,228**
Negative goodwill	2,281	–	2,281	(2,281)	**–**
Other reserve	43,758	–	43,758	–	**43,758**
Total effects on equity	217,179	–	217,179	(3,793)	**213,386**

The financial effects of the application of the new HKFRSs to the Group's equity on January 1, 2004 are summarised below:

	As originally stated HK$'000	**Adjustment** HK$'000	**As restated** HK$'000
Minority interests	–	22,878	22,878
Total effects on equity	–	22,878	22,878

Notes to the Financial Statements

For the year ended 31 December, 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market–waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January, 2007.
2 Effective for annual periods beginning on or after 1 January, 2006.
3 Effective for accounting periods beginning on or after 1 December, 2005.
4 Effective for accounting periods beginning on or after 1 March, 2006.

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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 intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. 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.

Goodwill

Goodwill arising on acquisitions prior to 1 January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1 January, 2001, the Group has discontinued amortisation from 1 January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

Negative goodwill arising on acquisitions before 1 January 2005 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

As explained in note 3 above, all negative goodwill as at 1 January, 2005 has been derecognised with a corresponding adjustment to the Group's retained earnings.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Construction in progress is stated at cost less impairment.

Property, plant and equipment except construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress is not depreciated until such time as the assets are completed and available for its intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment except construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasing

Lease is classified as an finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the asset concerned to the Group.

All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group as lessee

Asset held under a finance lease is capitalised at its fair value at the date of acquisition. The corresponding liabilities to the lessor, net of interest charges, are included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the asset acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits costs

Payments to defined contribution retirement benefits schemes state-managed retirement benefit scheme are charged as expenses when they fall due.

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 expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profits, 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets are recorded at the actual cost of acquisition. The cost of intangible assets is amortised evenly over the amortisation period of the expected useful life and is charged as gains or losses of the period. Intangible assets are amortised from the month of acquisition. The Group's intangible assets represent technology know-how acquired from third parties.

Inventories

Inventories comprise raw materials, work-in-progress and finished goods are carried at the lower of cost and net realisable value.

Cost includes direct materials, direct labour costs and overheads that have been incurred in bringing the inventories and work in progress to their present location and condition and is calculated using the weighted average method.

Net realisable value is the estimated by the management and is determined by reference to the selling price less all costs to completion and costs to be incurred in selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables, and available-for-sale financial assets. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

The Group's available-for-sale financial assets comprised an unlisted equity investment.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability 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 in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, accruals and other payables, amounts due to directors and a fellow subsidiary, bank borrowings and obligations under a finance lease are subsequently measured at amortised cost, using the effective interest rate method.

Preferred shares issued by a subsidiary

The preferred shares issued by a subsidiary comprised of a debt instrument with embedded derivatives. The derivatives should be treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss. The derivatives are accounted for as financial assets at fair value through profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Notes to the Financial Statements

For the year ended 31 December, 2005

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, 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.

Allowance for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and borrower. If the financial conditions of customers and borrowers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, allowances may be required.

Allowance for obsolete stocks

The management of the Group reviews an aging analysis at each balance sheet date and identifies the slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. In addition, the Group carries out an inventory review on a product-by-product basis at balance sheet date and makes the necessary allowance for obsolete items.

Notes to the Financial Statements

For the year ended 31 December, 2005

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. As at 31 December 2005, the carrying amount of goodwill and intangible assets were approximately HK$3,934,000 and HK$5,397,000 respectively. During the year ended 31 December 2005, no impairment loss in respect of the goodwill and intangible assets was recognised. Details of the recoverable amount calculation are disclosed in note 16 and 19 respectively.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include cash and bank balances, trade receivables and other receivables, amount due from a fellow subsidiary, bank borrowings, amount due to a fellow subsidiary, accrual and other payables, amount due to directors, trade payables and preference shares issued by a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group is not exposed to significant currency risk as most of the transactions, trade balances and borrowings of the Group are denominated in Renminbi, which is the functional currency of the group entities entering these transactions.

Interest rate risk

The Group is exposed to fair value interest rate risk through the impact of market interest rate changes on interest bearing bank borrowings. The interest rate and terms of repayment of bank borrowing of the Group are disclosed in note 26.

Notes to the Financial Statements

For the year ended 31 December, 2005

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has concentration of credit risks with a few customers in the PRC, the management closely monitors the subsequent settlement of the customers and does not grant long credit period to these customers. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's bank balances are deposited with banks of high credit rating in PRC and Hong Kong and the Group has limited exposure to any single financial institution.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating business – production and sales of health care products, pharmaceutical products and electronic cigarettes components. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Business segments

RESULTS

	Health care products		**Pharmaceutical products**		**Electronic cigarettes components**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment turnover	**100,583**	136,591	**30,088**	20,168	**46,092**	16,330	**176,763**	173,089
Segment result	**9,020**	19,776	**3,699**	6,275	**12,080**	3,202	**24,799**	29,253
Other operating income							**423**	571
Unallocated corporate expenses							**(10,188)**	(10,766)
Finance costs							**(3,285)**	(6,049)
Profit before tax							**11,749**	13,009
Income tax expense							**(2,769)**	(3,519)
Profit for the year							**8,980**	9,490

Notes to the Financial Statements

For the year ended 31 December, 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

BALANCE SHEET

	Health care products		Pharmaceutical products		Electronic cigarettes components		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS								
Segment assets	**268,683**	298,037	**51,985**	49,241	**15,761**	14,256	**336,429**	361,534
Unallocated corporate assets							**11,836**	18,902
Consolidated total assets							**348,265**	380,436
LIABILITIES								
Segment liabilities	**26,786**	41,311	**4,682**	6,652	**4,156**	1,062	**35,624**	49,025
Unallocated corporate liabilities							**85,473**	114,232
Consolidated total liabilities							**121,097**	163,257

OTHER INFORMATION

	Health care products		Pharmaceutical products		Electronic cigarettes components		Unallocated		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Additions of property, plant and equipment	**3**	–	**413**	761	**–**	–	**5**	18	**421**	779
Additions of intangible assets	**–**	–	**–**	2,170	**–**	4,528	**–**	–	**–**	6,698
Allowance for obsolete stocks	**1,000**	2,595	**–**	–	**–**	–	**–**	–	**1,000**	2,595
Depreciation and amortisation of property, plant and equipment	**1,834**	1,985	**626**	603	**–**	–	**211**	464	**2,671**	3,052
Amortisation of intangible assets	**–**	–	**2,129**	1,183	**923**	301	**–**	–	**3,052**	1,484
Loss on written off of property, plant and equipment	**(74)**	–	**–**	–	**–**	–	**–**	–	**(74)**	–

Geographical segments

The Group's operations are mainly located in the People's Republic of China (the "PRC") and all significant identifiable assets of the Group are located in the PRC. Accordingly, no analysis by geographical segment is presented.

Notes to the Financial Statements

For the year ended 31 December, 2005

8. PROFIT FOR THE YEAR

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Profit for the year has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 9)	**5,582**	5,059
Other staff costs		
– salaries and allowances	**8,193**	7,747
– retirement benefits scheme contributions	**366**	361
	14,141	13,167
Amortisation of intangible assets (included in administrative expenses)	**3,052**	1,484
Amortisation of prepaid lease payments	**64**	64
Allowance for obsolete stocks	**1,000**	2,595
Impairment loss on available-for-sale investments	**1,000**	–
Cost of inventories recognised as expense	**79,199**	72,318
Auditors' remuneration	**820**	750
Loss on disposal of property, plant and equipment	**74**	–
Depreciation and amortisation		
– owned assets	**2,483**	2,864
– asset held under a finance lease	**188**	188
	2,671	3,052
Operating lease rentals in respect of land and buildings	**3,958**	6,118
Reversal of allowance for bad and doubtful debts	**(3,000)**	–
Interest income	**(72)**	(85)

Notes to the Financial Statements

For the year ended 31 December, 2005

9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2004: nine) directors were as follows:

	Wong Yin Sen HK$'000	Hon Lik HK$'000	Wong Hei Lin HK$'000	Li Kim Hung HK$'000	Cheng Kong Yin HK$'000	Song Xiao Hai HK$'000 (Note a)	Pang Hong HK$'000 (Note b)	Mo Kwan Nin HK$'000	Cheung Kwan Hung HK$'000	Total 2005 HK$'000
Fees	–	–	–	–	650	50	100	–	100	900
Other emoluments										
Salaries and allowances	1,247	1,170	1,040	1,177	–	–	–	–	–	4,634
Retirement benefits scheme contributions	12	12	12	12	–	–	–	–	–	48
Total emoluments	1,259	1,182	1,052	1,189	650	50	100	–	100	5,582

Notes:

(a) Song Xiao Hai was appointed as Independent Non-executive Director on 21 June 2005.

(b) Mo Kwan Nin resigned as Independent Non-executive Director on 21 June 2005.

	Wong Yin Sen HK$'000	Hon Lik HK$'000	Wong Hei Lin HK$'000	Li Kim Hung HK$'000 (Note c)	Yu Yanming HK$'000 (Note d)	Cheng Kong Yin HK$'000	Pang Hong HK$'000	Mo Kwan Nin HK$'000	Cheung Kwan Hung HK$'000 (Note e)	Total 2004 HK$'000
Fees	–	–	–	–	–	600	100	100	–	800
Other emoluments										
Salaries and allowances	1,084	1,080	960	906	181	–	–	–	–	4,211
Retirement benefits scheme contributions	12	12	12	10	2	–	–	–	–	48
Total emoluments	1,096	1,092	972	916	183	600	100	100	–	5,059

Notes:

(c) Li Kim Hung was appointed as Executive Director on 1 March 2004.

(d) Yu Yanming resigned as Executive Director on 1 March 2004.

(e) Cheung Kwan Hung was appointed as Independent Non-executive Director on 20 September 2004.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

Notes to the Financial Statements

For the year ended 31 December, 2005

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals in the Group in 2005 and 2004 were all directors of the Group Company and details of whose emoluments are set out in Note 9 above.

11. DIVIDENDS

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: nil).

12. FINANCE CHARGES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
The finance charges represent interests on:		
– bank borrowings wholly repayable within five years	**2,457**	4,331
– a finance lease	**28**	28
– preferred shares issued by a subsidiary	**800**	1,690
	3,285	6,049

13. INCOME TAXES

No Hong Kong Profits Tax is payable by the Company or its subsidiaries operated in Hong Kong since they had no assessable profit for the year.

Income tax in the PRC has been provided at the prevailing rates on the estimated assessable profit applicable to each subsidiary in the PRC.

The Group's PRC subsidiaries are subject to the PRC income tax and local income tax as set out below:

	2005	2004
Shenyang Jinlong Health Care Products Co., Ltd. ("Shenyang Jinlong")	**18%**	18%
Shenyang Chenlong Longevity Ginseng Co., Ltd. ("Shenyang Chenlong")	**15%**	7.5%
Shenyang Jinlong Pharmaceutical Co., Ltd. ("Jinlong Pharmaceutical")	**7.5%**	–
Other PRC subsidiaries	**33%**	33%

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Jinlong is subjected to PRC income tax of 15% and local income tax of 3%.

Notes to the Financial Statements

For the year ended 31 December, 2005

13. INCOME TAXES (continued)

Pursuant to relevant tax rules and regulations in the PRC, Shenyang Chenlong is subjected to PRC income tax of 15% tax and entitled to an exemption of local income tax of 3%. In 2004, Shenyang Chenlong was entitled to a 50% relief from PRC income tax of 15% and entitled to an exemption of local income tax of 3%.

Pursuant to relevant tax rules and regulations in the PRC, Jinlong Pharmaceutical is entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. In 2005, Jinlong Pharmaceutical is entitled to a 50% relief from PRC income tax of 15% for the three years ending 31 December, 2007 and entitled to an exemption of the local income tax of 3%. Therefore, Jinlong Pharmaceutical is subject to PRC income tax of 7.5% for the year. In 2004, Jinlong Pharmaceutical was exempted from PRC income tax.

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

	2005	2004
	HK$'000	HK$'000
Profit before taxation	**11,749**	13,009
Tax at PRC income tax rate of 33% (2004: 33%)	**3,877**	4,293
Tax effect of expenses not deductible for tax purpose	**1,690**	2,707
Tax effect of tax losses not recognised	**212**	–
Effect of tax relief entitled by the Company's subsidiaries	**(3,010)**	(3,481)
Taxation for the year	**2,769**	3,519

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$642,000 (2004: nil) available for offset future profits. No provision for deferred taxation has been recognised in respect of the tax losses due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

14. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the parent of approximately HK$8,980,000 (2004: HK$8,302,000) and on 584,000,000 (2004: 584,000,000) shares in issue during the year.

No diluted earnings per share has been presented because the condition attaching to the Preferred shares of New Wellon Limited ("New Wellon") was not satisfied at the balance sheet date. Details of the put option is disclosed in note 28.

Notes to the Financial Statements

For the year ended 31 December, 2005

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP							
COST							
At 1 January, 2004	27,823	1,220	9,054	1,558	4,701	233	44,589
Additions	–	150	611	18	–	–	779
Transfer	–	233	–	–	–	(233)	–
At 31 December, 2004	27,823	1,603	9,665	1,576	4,701	–	45,368
Exchange adjustments	535	7	185	24	72	–	823
Additions	–	–	260	32	129	–	421
Written off	–	–	–	–	(215)	–	(215)
At 31 December 2005	**28,358**	**1,610**	**10,110**	**1,632**	**4,687**	**–**	**46,397**
DEPRECIATION							
At 1 January, 2004	4,141	1,005	3,112	1,129	1,684	–	11,071
Provided for the year	985	288	1,077	180	522	–	3,052
At 31 December, 2004	5,126	1,293	4,189	1,309	2,206	–	14,123
Exchange adjustments	99	1	80	19	33	–	232
Provided for the year	933	78	935	80	645	–	2,671
Eliminated on written off	–	–	–	–	(141)	–	(141)
At 31 December 2005	**6,158**	**1,372**	**5,204**	**1,408**	**2,743**	**–**	**16,885**
NET BOOK VALUES							
At 31 December, 2005	22,200	238	4,906	224	1,944	–	29,512
At 31 December, 2004	22,697	310	5,476	267	2,495	–	31,245

Notes to the Financial Statements

For the year ended 31 December, 2005

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the terms of the lease
Leasehold improvement	Over the term of the lease
Plant and machinery	9%
Furniture, fixtures and equipment	18% – 20%
Motor vehicles	9%

The buildings are situated in the PRC and held under medium term lease.

The net book value of motor vehicles includes an amount of HK$360,000 (2004: HK$453,000) in respect of assets held under finance leases.

16. GOODWILL

Until 31 December, 2004, goodwill should be amortised over its estimated useful life. As the acquisition was completed in December 2004, the amortisation of goodwill was considered insignificant.

For the purposes of impairment testing, goodwill has been allocated to an individual cash generating unit ("CGU").

The basis of the recoverable amounts of the above CGU of the health care products segment and its major underlying assumptions are summarised below:

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecast. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecast derived from the most recent financial budget approved by management for the next three years and extrapolates cash flows for the following five years based on zero growth rate.

The rate used to discount the forecast cash flow is 7%.

Notes to the Financial Statements

For the year ended 31 December, 2005

17. AMOUNTS DUE FROM/TO A RELATED COMPANY

The amounts are unsecured, interest free and are repayable on demand.

The amounts are operating and trading in nature and aged less than one year.

The directors consider that the carrying amount of amounts due from/to a related company approximates their fair value.

18. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES

Available-for-sale investments as at 31 December 2005 comprise:

	2005
	HK$'000
Unlisted equity securities in Hong Kong	**1,000**
Less: Impairment loss	**(1,000)**
	–

The amount represents unlisted equity investment in Archnet Technology Limited ("Archnet"), a company incorporated in Hong Kong, which is stated at cost less impairment loss. The Group's investment represents a holding of 20% of the ordinary shares of Archnet. Archnet is not regarded as an associate of the Group because the Group cannot exercise significant influence over its financial and operating policy decisions because the Group has no representative in the board of directors of Archnet.

They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes to the Financial Statements

For the year ended 31 December, 2005

19. INTANGIBLE ASSETS

All of the Group's technology know-hows were acquired from third parties and are amortised on a straight-line basis over their estimated useful lives of 3 to 5 years from the date on which the technology know-hows were available for use by the Group.

	Technical know-hows HK$'000
COST	
At 1 January, 2004	3,584
Transfer from deposits paid	1,981
Additions	4,717
At 31 December, 2004	10,282
Exchange adjustments	199
At 31 December, 2005	**10,481**
AMORTISATION	
At 1 January, 2004	508
Charge for the year	1,484
At 31 December, 2004	1,992
Exchange adjustments	40
Charge for the year	3,052
At 31 December, 2005	**5,084**
CARRYING VALUES	
At 31 December, 2005	**5,397**
At 31 December, 2004	8,290

20. PREPAID LEASE PAYMENTS

The prepaid lease payments comprise:

	2005 **HK$'000**	2004 HK$'000
Leasehold land outside Hong Kong:		
Medium-term lease	**2,534**	2,598
Analysed for reporting purposes as:		
Current portion	**64**	64
Non-current portion	**2,470**	2,534
	2,534	2,598

The leasehold land is amortised on a straight-line basis over the remaining term of the lease.

Notes to the Financial Statements

For the year ended 31 December, 2005

21. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Raw materials	**48,352**	56,502
Work in progress	**21,189**	19,096
Finished goods	**17,515**	13,036
	87,056	88,634

22. OTHER FINANCIAL ASSETS

The credit terms granted by the Group to its customers normally range from 90 days to 270 days. The aged analysis of trade receivables is as follows:

	2005	2004
	HK$'000	HK$'000
Aged:		
Current	**100,456**	132,611
1 to 30 days overdue	**4,126**	4,997
31 to 60 days over due	**6,347**	–
	110,929	137,608

The directors consider that the carrying amount of trade receivable and other receivables approximates to their fair values.

23. BANK BALANCES AND CASH

At 31 December, 2005, there were bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK$ 63,777,000 (2004: HK$53,457,000) and the bank balances carry interest at prevailing market rate. RMB is not freely convertible into other currencies. Other bank balances and cash are denominated in Hong Kong dollars which carry interest at prevailing market rate.

The directors consider that the carrying amount of bank balances and cash approximates their fair value.

Notes to the Financial Statements

For the year ended 31 December, 2005

24. OTHER FINANCIAL LIABILITIES

Trade payable, accruals and other payables principally comprise amounts outstanding for trade purposes and ongoing costs.

The amounts due to directors are unsecured, interest free and have no fixed repayment term.

The aged analysis of trade payables is as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Aged:		
Current	**3,815**	5,155
1 to 30 days overdue	**41**	16
31 days to 60 days overdue	**4**	2,619
61 days to 90 days overdue	**38**	38
More than 90 days overdue	**457**	2,637
	4,355	10,465

The directors consider that the carrying amount of the other financial liabilities approximates to their fair value.

25. SHARE CAPITAL

	Number of shares	**Share capital**
	'000	HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 December, 2004 and 31 December, 2005	1,000,000	100,000
Issued and fully paid:		
at 31 December, 2004 and 31 December, 2005	584,000	58,400

There was no movement in the Company's share capital during the year.

Notes to the Financial Statements

For the year ended 31 December, 2005

26. BANK BORROWINGS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Secured	**–**	15,660
Unsecured	**36,493**	59,000
	36,493	74,660

The amounts are repayable on demand or within one year.

The bank borrowings are mainly denominated in Renminbi.

During the year, the bank borrowings were arranged at fixed interest rate and expose the Group to fair value interest rate risk. The average interest rate paid for the year was 6% (2004: 5%) per annum.

The directors consider that the carrying amount of bank borrowings approximates their fair value.

27. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease:				
Within one year	**182**	219	**158**	190
In the second to fifth year inclusive	**–**	182	**–**	158
	182	401	**158**	348
Less: Future finance charges	**(24)**	(53)	**–**	–
	158	348	**158**	348
Less: Amount due within one year shown under current liabilities			**(158)**	(190)
Amount due after one year			**–**	158

The lease term is four years and the effective borrowing rate is 5.3%. Interest rate is fixed at the contract date and the lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under a finance lease is secured by the lessor's charge over the leased asset.

The fair value of the Group's finance lease obligations approximates their carrying values.

Notes to the Financial Statements

For the year ended 31 December, 2005

28. PREFERRED SHARES ISSUED BY A SUBSIDIARY

On 5 November, 2003, 4,000,000 non-voting preferred shares of US$1 (equivalent to HK$7.8) each were allotted and issued by New Wellon, a subsidiary of the Group, and were fully paid by the subscriber of the Preferred shares (the "Subscriber").

Holders of the Preferred shares shall (i) be entitled to receive, in priority to the holders of ordinary shares of New Wellon, a fixed cumulative dividend payable at the rate of 5% per annum on the par value of the Preferred shares; (ii) rank in priority to the holders of ordinary shares as to a return of capital on liquidation of New Wellon; (iii) have the right to convert the Preferred shares, at any time during a six-month period commencing at the end of twenty four months from the issue date, into a one-year senior term loan bearing interest at London Inter-Bank Offer Rate plus 3% per annum; and (iv) be entitled to receive notice of and to attend as observer without voting powers at general meetings of New Wellon.

In addition, the Company granted to the Subscriber a put option (the "Option") which is exercisable by the Subscriber to require the Company to purchase all but not part only of the Preferred shares from the Subscriber at an exercise price to give internal rate of return of 15% which will be reduced by actual dividend paid on the Preferred shares.

The Option is exercisable at any time during the three-year period commencing one year after the Subscriber or its assignee has first held shares in New Wellon, inclusive of the start and end date of that period.

The Company shall, at its discretion, but subject to the reasonable satisfaction of the Preferred shareholder, pay the Subscriber for the purchase of the Preferred shares by (i) delivery of cash or originals of other financial instruments as instructed by the Subscriber; (ii) delivery of original share certificates duly issued by the Company in such number as set out in the Deed; and (iii) delivery of irrecoverable and legally binding three-year promissory note duly issued by the Company in favour of the Subscriber or Subscriber's nominees together with the delivery of the original corporate guarantee duly issued by Absolute Target Limited, the ultimate holding company of the Company, in favour of the Subscriber and/or Subscriber's designee.

The Preferred shares were subsequently re-financed by a USD loan of US$4,600,000 at London Inter Bank Offered Rate plus 2.5% per annum (see note 36).

At 31 December, 2005, the Preferred shares are measured at amortised cost using the effective interest method at 7.85% per annum. The directors considered the fair value of the embedded derivatives is insignificant.

The directors consider that the carrying amount of Preferred shares issued by a subsidiary approximates their fair value.

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For the year ended 31 December, 2005

29. SHARE OPTION SCHEME

The major terms of the share option scheme are summarised as follows:

(i) The purpose is to provide incentives to award the participants who have made contributions to the Group and/or any entity in which the Group holds any equity interest ("Invested Entity").

(ii) The participants included any employee, director, supplier, customer, adviser, shareholder or joint venture partner of the Group and/or Invested Entity.

(iii) The maximum number of shares in respect of which options might be granted under the scheme must not exceed 30% of the issued share capital of the Company from time to time.

(iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options) under any option granted to the same participant under the scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.

(v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors and provided in the offer of grant of option.

(vi) The exercise period of an option granted must not exceed a period of 5 years commencing on the date of grant.

(vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee to the Company.

(viii) The exercise price of an option must be the highest of:

- the closing price of the shares on the date of grant which must be a trading day;
- the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
- the nominal value of the share.

(ix) The life of the share option scheme is effective for 10 years from the date of adoption until 29 May, 2013.

No options pursuant to the share option scheme were granted for both years nor outstanding as at the balance sheet dates.

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For the year ended 31 December, 2005

30. BANKING FACILITIES

At 31 December, 2005, the banking facilities available to subsidiaries were secured by corporate guarantees given by the Company.

31. CAPITAL COMMITMENTS

The Group and the Company had no capital commitment at the balance sheet date.

32. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2005	2004
	HK$'000	HK$'000
Within one year	**–**	31
In the second to fifth year inclusive	**–**	–
	–	31

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for one year and rentals are fixed for one year.

The Group as lessor

Property rental income earned during the year was approximately HK$231,000 (2004: HK$260,000). The property held has committed the tenant for an average term of one year. At the balance sheet date, the Group had contracted with the tenant for the following future minimum lease payments:

	2005	2004
	HK$'000	HK$'000
Within one year	**231**	179
In the second to fifth year inclusive	**210**	–
	441	179

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For the year ended 31 December, 2005

33. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The contributions are charged to the income statement as incurred.

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 18% to 22% of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

34. RELATED PARTY TRANSACTIONS

During the year, the Group supplied merchandise amounting to HK$46,092,000 (2004: HK$16,330,000) to Beijing SBT Ruyan Technology Development Company Limited ("Beijing SBT"), in which certain directors of the Company have interests in by virtue of their shareholding in the ultimate holding company of Beijing SBT and are directors of Beijing SBT.

The Group received management fee of approximately HK$980,000 from SBT (Holdings) Company Limited ("SBT"), in which certain directors of the Company have interests in by virtue of their shareholding in the ultimate holding company of SBT and are directors of SBT. The transactions were carried out in accordance with the terms of agreement entered into between the parties.

The Group received rental income of approximately HK$231,000 (2004: HK$260,000) from Shenyang SBT Technology Development Company Limited ("Shenyang SBT"), in which certain directors of the Company have interests in by virtue of their shareholding in the ultimate holding company of Shenyang SBT and are directors of Shenyang SBT. The charge is based on the areas occupied by Shenyang SBT pursuant to the agreement entered into between the parties.

The Group is managed by the directors and details of the directors' emoluments are disclosed in note 9.

35. ACQUISITION OF A SUBSIDIARY

On 3 December, 2004, the Group acquired 100% of the issued share capital of Success Century, which in turn holds a 20% interest in Shenyang Jinlong, for a cash consideration of HK$28,000,000. This transaction was completed in December 2004 and has been accounted for by the acquisition method of accounting.

	HK$'000
NET ASSETS ACQUIRED:	
Interests in Shenyang Jinlong	24,066
Goodwill on acquisition	3,934
Total consideration, satisfied by cash	28,000

The subsidiary acquired during 2004 did not make a significant contribution to the Group's turnover and profit after tax.

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36. POST BALANCE SHEET EVENT

At 24 December, 2005, New Wellon Limited, an indirectly wholly owned subsidiary of the Company, entered into a repurchase agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (the "Investor"), the investor of the Preferred shares issued by New Wellon, for the purpose of borrowing a loan from the Investor at a principal amount of US$4,600,000 at London Inter Bank Offered Rate plus 2.5% per annum to finance the purchase of the Preferred shares. The Transaction was completed at 15 February, 2006.

37. PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			indirectly %	directly %	
Chenlong Group Limited	BVI/ Hong Kong	US$20,000	–	100	Investment holding
集安新華龍參業有限公司 Jian New Wellon Ginseng Industry Co., Ltd. ("Jian New Wellon")	PRC	RMB7,000,000 (note a)	100	–	Purchase and sales of raw ginseng
新華龍有限公司 New Wellon	Hong Kong	HK$10,000	100	–	Investment holding
瀋陽辰龍保齡參有限公司 Shenyang Chenlong	PRC	US$3,705,000 (note b)	100	–	Processing and sales of a series of health care products
瀋陽金龍保健品有限公司 Shenyang Jinlong	PRC	US$1,220,000 (note c)	100	–	Processing and sales of ginseng and related products

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37. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company indirectly %	directly %	Principal activities
瀋陽金龍藥業有限公司 Shenyang Jinlong Pharmaceutical Company Limited ("Jinlong Pharmaceutical")	PRC	HK$20,000,000 (note d)	100	–	Processing and sales of Pharmaceutical products and production of electronics cigarettes components
Success Century Holding Limited ("Success Century")	BVI	US$50,000	100	–	Investment holding

None of the subsidiaries had issued any debt securities at the end of the year except for New Wellon which has issued US$4 million (equivalent to HK$31.2 million) Preferred shares to third parties. Details are set out in note 28.

Notes:

(a) Jian New Wellon is a wholly foreign-owned enterprise for a period of 15 years commencing from 22 June, 1998.

(b) Shenyang Chenlong is a wholly foreign-owned enterprise for a period of 15 years commencing from 7 May, 1999.

(c) Shenyang Jinlong is a sino-foreign equity joint venture for a period of 15 years commencing from 27 November, 1992 established under a joint venture agreement with another PRC party who is the former shareholder of Success Century holding the remaining 20% shareholding of Shenyang Jinlong.

Pursuant to an agreement made between the Group and the former shareholder of Success Century during the year 2004, the remaining 20% shareholding of Shenyang Jinlong was transferred to the Group by way of acquisition of Success Century and Shenyang Jinlong became the wholly foreign owned enterprise.

(d) Jinlong Pharmaceutical is a wholly foreign-owned enterprise for a period of 15 years commencing from 8 June, 2001.