1. GENERAL INFORMATION AND BASIS OF PRESENTATION

EcoGreen Fine Chemicals Group Limited ("the Company") and its subsidiaries (collectively "the Group") are principally engaged in the trading and production of fine chemicals from natural resources for use in aroma chemicals and pharmaceutical products.

The Company was incorporated in the Cayman Islands on 3 March 2003 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

The Company has its primary listing on the Main Board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange").

These consolidated financial statements are presented in thousands of units of Chinese Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 12 April 2006.

On 16 February 2004, the Company acquired the entire share capital of EcoGreen Fine Chemicals Limited, a company incorporated in the British Virgin Islands, through a share exchange ("the Reorganisation") and consequently became the holding company of the subsidiaries as set out in Note 10.

The Reorganisation has been accounted for using merger accounting by treating the Company and its subsidiaries as a continuing group. On this basis, the consolidated financial statements as at and for the year ended 31 December 2004 were prepared as if the structure of the Group resulting from the Reorganisation had been in existence throughout that year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(All amounts in RMB thousand unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

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 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27 and 33 had no material effect on the Group's policies.

– HKAS 21 had 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. Except for certain Hong Kong incorporated investment holding companies within the Group which have Chinese Renminbi as their functional currency and Hong Kong dollars as their presentational currency, all other group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets, and the separate measurement of the liability and equity components of convertible bonds.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods (Note 2.15(iii)).

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– amortised on a straight line basis over a period of 5 years; and

– assessed for an indication of impairment at each balance sheet date.

Negative goodwill was amortised on a straight line basis over a period of 22 years.

In accordance with the provisions of HKFRS 3 (Note 2.7):

– the Group ceased amortisation of goodwill and negative goodwill from 1 January 2005;

– accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill and negative goodwill;

– from the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment;

– the carrying amount of negative goodwill at 1 January 2005 was derecognised through retained earnings.

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.

(All amounts in RMB thousand unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after 1 January 2005.

The adoption of revised HKAS 17 resulted in:

	2005	2004
Increase in land use rights	**4,955**	5,065
Decrease in property, plant and equipment	**4,955**	5,065

The adoption of revised HKFRS 2 resulted in:

	2005	2004
Increase in share premium	**5,732**	3,467
Decrease in retained earnings	**5,732**	3,467
Increase in administrative expenses	**2,676**	3,467
Decrease in basic earnings per share (expressed in RMB per share)	**0.006**	0.009

(All amounts in RMB thousand unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS (Continued)

The adoption of revised HKFRS 3 and HKAS 38 resulted in:

	2005
Increase in intangible assets	**783**
Increase in retained earnings	**783**
Increase in administrative expenses	**39**

The adoption of revised HKAS 39 resulted in:

	2005	2004
Increase in available-for-sale financial assets	**700**	–
Decrease in investment securities	**400**	–
Decrease in prepayments and other receivables	**–**	390
Decrease in liability component of convertible bonds	**–**	635
Decrease in accruals and other payables	**–**	212
Decrease in share premium	**1,106**	1,106
Increase in convertible bonds equity reserves	**–**	1,723
Decrease in retained earnings	**673**	160
Increase/(decrease) in finance costs	**513**	(769)

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- HKAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)
  This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not have any defined benefit plan, this amendment to HKAS 19 is not relevant to the Group. The Group will apply this amendment on 1 January 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Standards, interpretations and amendments to published standards that are not yet effective (Continued)

- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
  The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

- HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)
  This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from 1 January 2006.

- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)
  This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

- HKFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
  These amendments are not relevant to the Group's operations, as the Group is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources. HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 is not relevant to the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Standards, interpretations and amendments to published standards that are not yet effective (Continued)

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)
  HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 January 2007.

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
  HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations

- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
  HKFRS-Int 5 is not relevant to the Group's operations.

- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)
  HK(IFRIC)-Int 6 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entity) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(b) Transactions with minority interest

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) 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 Chinese Renminbi, which is the Company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) *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 exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

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

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

(a) *Construction-in-progress*

Construction-in-progress, representing buildings on which construction work has not been completed and machinery pending installation, is stated at historical cost, which includes construction expenditures incurred, cost of machinery, and other direct costs capitalised during the construction and installation period, less accumulated impairment losses, if any. No depreciation is provided in respect of construction-in-progress until the construction and installation work is completed. On completion, the construction-in-progress is transferred to appropriate categories of property, plant and equipment.

(b) *Other property, plant and equipment*

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	30 to 40 years
Plant and machinery	5 to 15 years
Leasehold improvements	5 to 10 years
Office furniture and equipment	5 to 10 years
Motor vehicles	5 to 10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognised goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on disposal of an entity include the carrying goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) *Patents and technical know-how*

Expenditure on acquired patents and technical know-how is capitalised and amortised using the straight-line method over its estimated useful life of 10 years, from the date when the patents and technical know-how is available for use.

(c) *Research and development costs*

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

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

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, as non-trading securities.

Non-trading securities are stated at cost less any provision for impairment losses.

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

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.10).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. During the year, the Group did not hold any investments in this category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other gains – net', in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.10.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 income statement within "administrative expenses".

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

Deferred income tax is provided 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.

2.15 Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

Group companies operate various defined contribution plans. The plans are generally funded through payments to trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) 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 (for example, profitability and sales growth targets). 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 entity 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 income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follow:

(a) *Sales of goods*

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.18 Operating leases

Leases on which a significant portion the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected lives of the related assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the Mainland China. Most of the Group's transactions, assets and liabilities are dominated in Chinese Renminbi. Chinese Renminbi is not freely convertible into other foreign currencies.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposures.

(ii) Price risk

The Group is exposed to equity securities price risk because certain investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. As the amount of such financial assets are not material to the Group, the exposure to price risk is considered to be insignificant.

(b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs credit evaluation of its customers.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Cash flow and fair value interest-rate risk

The Group' s income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest-rate risk. Bank borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's bank borrowings have been disclosed in Note 18 to the consolidated financial statements.

The Group currently has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING 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.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. 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.

(a) Estimated useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimated impairment of intangible assets, inventories and trade receivables

The Group makes provision for impairment of intangible assets, inventories and trade receivables based on an assessment of the recoverability of intangible assets and trade receivables. Provisions are applied to intangible assets, inventories and trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of intangible assets, inventories and trade receivables and provision for impairment in the period in which such estimate has been changed.

(All amounts in RMB thousand unless otherwise stated)

5. SALES AND SEGMENT INFORMATION

(a) Sales

The Group is principally engaged in the production of fine chemicals from natural resources for use in aroma chemicals and pharmaceutical products and supply of natural materials and fine chemicals.

	2005	2004
Sale of goods (net of value-added tax)	**384,417**	276,491

(b) Segment information

Primary reporting format – business segment

As at 31 December 2005, the Group is organised into two main business segments:

(1) manufacturing and selling of fine chemicals; and

(2) trading of natural materials and fine chemicals.

The segment results for the year ended 31 December 2005 are as follows:

	Manufacturing	**Trading**	**Total**
Sales	**306,918**	**77,499**	**384,417**
Operating profit	**91,548**	**1,747**	**93,295**
Unallocated corporate expenses			**(8,458)**
Finance costs			**(6,864)**
Profit before income tax			**77,973**
Income tax expense			**(6,923)**
Profit for the year			**71,050**

The segment results for the year ended 31 December 2004 are as follows:

	Manufacturing	Trading	Total
Sales	266,767	9,724	276,491
Operating profit	81,595	778	82,373
Unallocated corporate expenses			(8,787)
Finance costs			(7,003)
Profit before income tax			66,583
Income tax expense			(5,230)
Profit for the year			61,353

(All amounts in RMB thousand unless otherwise stated)

5. SALES AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Primary reporting format – business segment (Continued)

Other segment items included in the income statements are as follows:

	Manufacturing		Trading	
	2005	2004	**2005**	2004
Depreciation *(Note 6)*	**6,053**	4,682	**34**	31
Amortisation *(Notes 7 and 8)*	**2,646**	2,596	**–**	–
Impairment of goodwill *(Note 8)*	**755**	–	**–**	–
Provision for/(reversal of) for impairment of inventories *(Note 11)*	**130**	(457)	**35**	–
Reversal of/(provision) for impairment of trade receivables *(Note 12)*	**716**	1,049	**194**	(115)

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

	Manufacturing	Trading	Unallocated	Total
Assets	**374,554**	**13,257**	**261,358**	**649,169**
Liabilities	**104,424**	**8,339**	**91,392**	**204,155**
	270,130	**4,918**	**169,966**	**445,014**
Capital expenditure *(Notes 6, 7 and 8)*	**79,141**	**65**	**–**	**79,206**

The segment assets and liabilities as at 31 December 2004 and capital expenditure for the year then ended are as follows:

	Manufacturing	Trading	Unallocated	Total
Assets	242,103	4,002	239,738	485,843
Liabilities	72,418	–	92,635	165,053
	169,685	4,002	147,103	320,790
Capital expenditure *(Notes 6, 7 and 8)*	38,371	16	–	38,387

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment (Note 6), land use rights (Note 7), and intangible assets (Note 8), including additions resulting from acquisitions through business combinations (Note 33).

(All amounts in RMB thousand unless otherwise stated)

5. SALES AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Secondary reporting format – geographical segment

The Group's two business segments operate in three main geographical areas.

	2005	2004
Sales		
– Mainland China	**246,387**	229,309
– Europe	**71,426**	21,235
– Asia (excluding Mainland China)	**44,207**	19,973
– Others	**22,397**	5,974
	384,417	276,491

Sales are allocated based on the places/countries in which customers are located.

	2005	2004
Total assets		
– Mainland China	**613,917**	420,369
– Hong Kong	**34,879**	65,474
– Unallocated	**373**	–
	649,169	485,843

Total assets are allocated based on where the assets are located.

No geographical analysis of capital expenditure is presented as substantially all of the Group's capital expenditure was incurred in respect of assets located in Mainland China.

(All amounts in RMB thousand unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements, office furniture and equipment	Motor vehicles	Construction-in-progress	Total
At 1 January 2004						
Cost	40,928	40,029	2,390	2,679	16,480	102,506
Accumulated depreciation	(2,803)	(5,413)	(1,211)	(1,323)	–	(10,750)
Net book amount	38,125	34,616	1,179	1,356	16,480	91,756
Year ended 31 December 2004						
Opening net book amount	38,125	34,616	1,179	1,356	16,480	91,756
Additions	4,939	2,217	1,539	911	22,762	32,368
Transfers	11,388	11,184	–	–	(22,572)	–
Depreciation	(1,319)	(2,602)	(397)	(395)	–	(4,713)
Closing net book amount	53,133	45,415	2,321	1,872	16,670	119,411
At 31 December 2004						
Cost	57,255	53,430	3,929	3,590	16,670	134,874
Accumulated depreciation	(4,122)	(8,015)	(1,608)	(1,718)	–	(15,463)
Net book amount	53,133	45,415	2,321	1,872	16,670	119,411
Year ended 31 December 2005						
Opening net book amount	**53,133**	**45,415**	**2,321**	**1,872**	**16,670**	**119,411**
Additions	**–**	**–**	**433**	**–**	**70,144**	**70,577**
Acquisition of a subsidiary *(Note 33)*	**–**	**19**	**58**	**125**	**111**	**313**
Transfers	**–**	**79,301**	**–**	**–**	**(79,301)**	**–**
Disposals *(Note 31)*	**–**	**–**	**(68)**	**(2)**	**–**	**(70)**
Depreciation	**(1,586)**	**(3,485)**	**(468)**	**(548)**	**–**	**(6,087)**
Closing net book amount	**51,547**	**121,250**	**2,276**	**1,447**	**7,624**	**184,144**
At 31 December 2005						
Cost	**57,255**	**132,750**	**4,352**	**3,713**	**7,624**	**205,694**
Accumulated depreciation	**(5,708)**	**(11,500)**	**(2,076)**	**(2,266)**	**–**	**(21,550)**
Net book amount	**51,547**	**121,250**	**2,276**	**1,447**	**7,624**	**184,144**

The Group's buildings including buildings under construction, totalling RMB51,547,000 (2004: RMB53,133,000) are built on pieces of land in Mainland China with use term of 50 years up to April 2054.

(All amounts in RMB thousand unless otherwise stated)

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

Analysis of construction-in-progress is:

	2005	2004
Construction costs of buildings	**1,374**	454
Cost of leasehold improvement and plant and machinery	**6,250**	16,216
	7,624	16,670

Property, plant and equipment with a net book amount of RMB32,154,000 (2004: RMB556,000) were pledged as collateral for the Group's borrowings.

7. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
In Mainland China, held on		
Leases of between 10 to 50 years	**4,955**	5,065

Borrowings are secured on land for the carrying amount of RMB3,000,000 (2004: RMB4,000,000).

	2005	2004
Opening	**5,065**	7,684
Additions	**–**	2,458
Refund of deposit for acquisition of land *(Note)*	**–**	(5,000)
Amortisation of prepaid operating lease payments	**(110)**	(77)
	4,955	5,065

Note:

During 2003, a deposit of RMB5,000,000 was paid for an intended acquisition of land use rights in Mainland China and was recognised in the land use rights account. The deposit was refunded during 2004. The actual acquisition cost of the land use rights was determined to be RMB2,458,000.

(All amounts in RMB thousand unless otherwise stated)

8. INTANGIBLE ASSETS

	Negative goodwill	Goodwill	Patents and technical know-how	Product development costs	Total
At 1 January 2004					
Cost	(863)	1,625	–	22,524	23,286
Accumulated amortisation	41	(545)	–	(6,927)	(7,431)
Net book amount	(822)	1,080	–	15,597	15,855
Year ended 31 December 2004					
Opening net book amount	(822)	1,080	–	15,597	15,855
Additions	–	–	–	3,561	3,561
Amortisation	39	(325)	–	(2,233)	(2,519)
Closing net book amount	(783)	755	–	16,925	16,897
At 31 December 2004					
Cost	(863)	1,625	–	26,085	26,847
Accumulated amortisation	80	(870)	–	(9,160)	(9,950)
Net book amount	(783)	755	–	16,925	16,897
Year ended 31 December 2005					
Opening net book amount					
– as previously reported	**(783)**	**755**	**–**	**16,925**	**16,897**
– opening adjustment for the adoption of HKFRS 3	**783**	**–**	**–**	**–**	**783**
As restated	**–**	**755**	**–**	**16,925**	**17,680**
Additions	**–**	**–**	**–**	**4,316**	**4,316**
Acquisition of a subsidiary *(Note 33)*	**–**	**–**	**4,000**	**–**	**4,000**
Amortisation	**–**	**–**	**(200)**	**(2,336)**	**(2,536)**
Impairment expense *(b) (Note 23)*	**–**	**(755)**	**–**	**–**	**(755)**
Closing net book amount	**–**	**–**	**3,800**	**18,905**	**22,705**
At 31 December 2005					
Cost	**–**	**–**	**4,000**	**30,401**	**34,401**
Accumulated amortisation and impairment	**–**	**–**	**(200)**	**(11,496)**	**(11,696)**
Net book amount	**–**	**–**	**3,800**	**18,905**	**22,705**

Notes:

(a) Amortisation of RMB2,536,000 (2004: RMB2,519,000) is included in administrative expenses in the income statement.

(b) The carrying amount of the segment has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in administrative expenses in the income statement.

(All amounts in RMB thousand unless otherwise stated)

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES

	Available-for-sale financial assets	Investment securities
At 1 January 2005, as previously reported	–	400
Opening adjustment for the adoption of HKAS 39	400	(400)
At 1 January 2005, as restated	400	–
Additions	300	–
At 31 December 2005	700	–
Less: Non-current portion	(400)	–
Current portion	300	–

Available-for-sale financial assets include the following:

	2005
Unlisted equity securities	**400**
Other available-for-sale financial assets	**300**
	700

10. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

	2005	2004
Unlisted investments, at cost	**91,041**	91,041
Amounts due from subsidiaries	**202,574**	160,972
	293,615	252,013

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

(All amounts in RMB thousand unless otherwise stated)

10. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY *(Continued)*

Particulars of the principal subsidiaries are:

	Name	Place of incorporation/ operation	Principal activities	Issued and fully paid up capital	Percentage of equity interest attributable to the Group *(a)*
*	EcoGreen Fine Chemicals Limited	British Virgin Islands	Investment holding	US$95,000	100%
*	EcoGreen Fine Chemicals Manufacturing Limited	British Virgin Islands	Investment holding	US$1	100%
	EcoGreen Fine Chemicals B.V.	The Netherlands	Sale of fine chemicals	EUR18,000	100%
	EcoGreen Holding B.V.	The Netherlands	Investment holding	EUR18,000	100%
	EcoGreen Investments Limited (Formerly EcoGreen Fine Chemicals Group Limited)	Hong Kong	Inactive	HK$2	100%
*	Sino Bright International Trading Limited (Formerly Rich Success Technology Limited)	Hong Kong	Inactive	HK$10,000	100%
*	Doingcom International Limited (Formerly Sino Bright International Trading Limited)	Hong Kong	Trading of fine chemicals	HK$10,000	100%
	Doingcom Pharmaceuticals Limited *(b)*	Mainland China	Manufacturing of fine chemicals	RMB27,000,000	100%
	Shanghai Fine Chemicals Company Limited *(b)*	Mainland China	Research and development of fine chemicals	US$1,551,000	100%
*	Xiamen Doingcom Chemical Co., Ltd. *(b)*	Mainland China	Manufacturing and sale of fine chemicals	RMB23,450,000	100%
	Xiamen Doingcom Enterprise Limited *(b)*	Mainland China	Sale of fine chemicals	RMB6,000,000	95%(c)
*	Xiamen Hoozyn Life Chemistry Technology Limited *(b)*	Mainland China	Research and development of fine chemicals	US$1,400,000	100%

(All amounts in RMB thousand unless otherwise stated)

10. INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation/ operation	Principal activities	Issued and fully paid up capital	Percentage of equity interest attributable to the Group *(a)*
* Xiamen Sinoloon Import and Export Co., Ltd. *(b)*	Mainland China	Investment holding and trading of fine chemicals	RMB7,000,000	100%
* Xiamen Sinotek Enterprise Development Co., Ltd. *(b)*	Mainland China	Manufacturing and sale of fine chemicals	RMB20,000,000	100%

* *These companies were acquired by the Company on 16 February 2004 as described in Note 1.*

Notes:

(a) The shares of EcoGreen Fine Chemicals Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.

(b) Doingcom Pharmaceuticals Limited is a sino-foreign owned enterprise established in Xiamen, Fujian Province, Mainland China for a term of 20 years up to July 2024. Shanghai Fine Chemicals Company Limited is a wholly foreign owned enterprise established in Shanghai, Mainland China for a term of 35 years up to March 2040. Xiamen Doingcom Chemical Co., Ltd. and Xiamen Doingcom Enterprise Limited are limited liability enterprises established in Xiamen, Fujian Province, Mainland China for a term of 10 years and 20 years up to October 2007 and June 2024, respectively. Xiamen Hoozyn Life Chemistry Technology Limited, Xiamen Sinoloon Import and Export Co., Ltd. and Xiamen Sinotek Enterprise Development Co., Ltd. are wholly foreign owned enterprises established in Xiamen, Fujian Province, Mainland China for a term of 10 years, 17 years and 20 years up to June 2012, April 2012 and July 2016, respectively.

(c) Ms. Lu Jiahua, a director of the Company, is a minority shareholder of Xiamen Doingcom Enterprise Limited.

11. INVENTORIES

	2005	2004
Raw materials	**15,656**	10,848
Work-in-progress	**1,889**	889
Finished goods	**16,615**	8,446
	34,160	20,183
Less: Provision for impairment of inventories	**(854)**	(689)
	33,306	19,494

The cost of inventories recognised as expense and included in cost of goods sold amounted to RMB223,375,000 (2004: RMB145,840,000).

The Group made a provision for impairment of inventories of RMB165,000 (2004: reversal of RMB457,000). The amount has been included in cost of goods sold in the income statement.

(All amounts in RMB thousand unless otherwise stated)

12. TRADE RECEIVABLES

	2005	2004
Trade receivables	**103,369**	69,737
Less: Provision for impairment of trade receivables	**(1,598)**	(2,508)
	101,771	67,229

The fair values of trade receivables approximates their carrying amounts.

The credit period granted by the Group to its customers is generally around 60 to 90 days. The aging analysis of trade receivables is as follows:

	2005	2004
0 to 30 days	**43,382**	34,724
31 to 60 days	**32,086**	23,948
61 to 90 days	**19,742**	10,728
91 to 180 days	**3,180**	132
181 to 365 days	**4,409**	205
Over 365 days	**570**	–
	103,369	69,737
Less: Provision for impairment of trade receivables	**(1,598)**	(2,508)
	101,771	67,229

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The Group has reversed provision for impairment of trade receivables of RMB910,000 (2004: RMB934,000). Such reversal has been included in administrative expenses in the income statement.

(All amounts in RMB thousand unless otherwise stated)

13. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
Prepayment for purchases				
of raw materials	**32,645**	15,724	**–**	–
Input value-added tax recoverable	**6,271**	–	**–**	–
Advances to employees	**429**	533	**–**	–
Others	**1,213**	567	**269**	290
	40,558	16,824	**269**	290

The fair values of prepayments and other receivables approximate their fair values.

14. BANK DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS

The effective interest rate on bank deposits with original maturity over three months and short-term bank deposits was 1.28% (2004: 1.28%); these deposits have an average maturity of 365 days (2004: 365 days).

15. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
Cash and cash equivalents				
Cash at bank and in hand	**256,867**	205,543	**16,122**	14,190
Short-term bank deposits	**1,041**	–	**–**	–
	257,908	205,543	**16,122**	14,190

The effective interest rate on short-term bank deposits was 3.4% (2004: Nil); these deposits have an average maturity of 90 days (2004: Nil).

As at 31 December 2005, the Group's pledged deposits, bank deposits with original maturity over three months and cash and cash equivalents of approximately RMB227,266,000 (2004: RMB151,126,000) were denominated in Chinese Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

16. SHARE CAPITAL

	Note	Number of shares (thousands)	Nominal value
Ordinary shares of HK$0.1 each			
Authorised:			
At 1 January 2004		1,000	106
Increase in authorised share capital	(a)	1,999,000	211,894
At 31 December 2004 and 31 December 2005		2,000,000	212,000

		Number of shares		
Ordinary shares of HK$0.1 each	*Note*	**Not yet paid (thousands)**	**Fully paid (thousands)**	**Nominal value**
Issued:				
At 1 January 2004	*(b)*	299,050	950	101
Capitalisation of share premium account	*(c)*	(299,050)	299,050	31,699
New issue of shares	*(d)*	–	115,000	12,190
At 31 December 2004		–	415,000	43,990
New issue of shares	*(e)*	–	46,000	4,788
At 31 December 2005		–	461,000	48,778

Notes:

(a) On 16 February 2004, the authorised share capital of the Company was increased from RMB106,000 (equivalent of HK$100,000) to RMB212,000,000 (equivalent of HK$200,000,000), by the creation of additional 1,999,000,000 shares of HK$0.1 each.

(b) The share capital of the Company as at 1 January 2004 was presented as if the number of shares outstanding immediately after the share exchange in connection with the Reorganisation *(Note 1)* and the related subsequent capitalisation issue, as described in (c) below, had been in existence throughout the year ended 31 December 2004.

(c) During the year ended 31 December 2003, 299,050,000 ordinary shares of HK$0.1 each were allotted and issued to the then existing shareholders of the Company in proportion to their respective shareholding. On 14 February 2004, these shares were credited as fully paid by the capitalisation of RMB31,699,300 (equivalent of HK$29,905,000) from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the Listing as described in (d) below.

(d) On 8 March 2004, the Company issued 115,000,000 ordinary shares of HK$0.1 each at approximately RMB1.46 (equivalent of HK$1.38) per share in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Listing") to provide the Company with working capital, and raised gross proceeds of approximately RMB168,222,000 (equivalent of HK$158,700,000).

(e) On 19 October 2005, the Company issued 46,000,000 ordinary shares of HK$0.1 each at approximately RMB1.34 (equivalent of HK$1.29) per share by way of placing to provide the Company with general working capital, resulting in net proceeds of approximately RMB61,764,000 (equivalent of HK$59,340,000). The excess over the par value of the shares was credited to the share premium accounts. The shares issued rank pari passu with the then existing shares in all respects.

16. SHARE CAPITAL *(Continued)*

Share options

Pursuant to a resolution of the shareholders of the Company passed on 16 February 2004, a share option scheme ("the Share Option Scheme") was approved and adopted. Under the Share Option Scheme, the Company's Directors may, at their sole discretion, grant options to any employee, non-executive director, supplier, customer, person or entity that provides research, development or other technological support to the Group, shareholder and adviser or consultant of the Group to subscribe for shares in the Company at a price per share of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the Stock Exchange of Hong Kong Limited on the date of the offer of grant; or (ii) the average closing price of shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a share. A nominal consideration of RMB1.04 (equivalent of HK$1) is payable on acceptance of the grant of options. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group from time to time must not in aggregate exceed 30% of the share capital of the Company in issued from time to time. The Share Option Scheme will remain in force for a period of 10 years up to February 2014. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements of the number of share options outstanding during the year and their related weighted average exercise prices are as follows:

	2005		2004	
	Exercise price in HK$ per share	**Options (thousands)**	Exercise price in HK$ per share	Options (thousands)
At 1 January	**1.37**	**39,875**	–	–
Granted during the year (a)	**–**	**–**	1.37	41,375
Cancelled during the year	**1.37**	**(3,800)**	1.37	(1,500)
At 31 December	**1.37**	**36,075**	1.37	39,875

Share options outstanding at the end of 31 December 2005 and 2004 will expire in June 2014.

The fair value of options granted during the year ended 31 December 2004 determined using the Black-Scholes valuation model was RMB6,143,000. The significant inputs into the model were share price of HK$1.34, at the grant date, exercise price shown above, standard deviation of expected share price returns of 35%, expected life of options of 2 to 4 years, expected dividend paid out rate of 1.89% and annual risk-free interest rate of 1.96% to 3.13%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the most recent year.

(All amounts in RMB thousand unless otherwise stated)

17. OTHER RESERVES

(a) Group

	Share Premium	Capital reserve *(i)*	Contributed surplus *(ii)*	Statutory reserves *(iii)*	Convertible bonds equity reserve	Share options equity reserve	Share issuance costs	Currency translation reserve	Total
Balance at 1 January 2004, as previously reported	–	643	9,500	9,750	–	–	(3,857)	–	16,036
Effect of adoption of HKAS 39 *(Note 2.1)*	–	–	–	–	3,446	–	–	–	3,446
Balance at 1 January 2004, as restated	–	643	9,500	9,750	3,446	–	(3,857)	–	19,482
Employee share option scheme:									
– value of employee services	–	–	–	–	–	3,467	–	–	3,467
Issue of shares	156,032	–	–	–	–	–	–	–	156,032
Capitalisation of share premium account	(31,699)	–	–	–	–	–	–	–	(31,699)
Share issuance costs	–	–	–	–	–	–	(21,225)	–	(21,225)
Share issuance costs charged against share premium	(25,082)	–	–	–	–	–	25,082	–	–
Conversion of convertible bonds	21,949	–	–	–	(1,723)	–	–	–	20,226
Transfer	–	–	–	1,775	–	–	–	–	1,775
Others	–	42	–	–	–	–	–	–	42
Balance at 31 December 2004	121,200	685	9,500	11,525	1,723	3,467	–	–	148,100
At 1 January 2005	121,200	685	9,500	11,525	1,723	3,467	–	–	148,100
Employee share option scheme:									
– value of employee services	–	–	–	–	–	2,676	–	–	2,676
Transfer upon cancellation of share options	–	–	–	–	–	(411)	–	–	(411)
Issue of shares	56,976	–	–	–	–	–	–	–	56,976
Share issuance costs	(478)	–	–	–	–	–	–	–	(478)
Redemption of convertible bonds	–	–	–	–	(1,723)	–	–	–	(1,723)
Transfer	–	–	–	4,643	–	–	–	–	4,643
Currency translation differences	–	–	–	–	–	–	–	(36)	(36)
Balance at 31 December 2005	177,698	685	9,500	16,168	–	5,732	–	(36)	209,747

(All amounts in RMB thousand unless otherwise stated)

17. OTHER RESERVES *(Continued)*

(b) Company

	Share Premium	Capital reserve *(i)*	Share options equity reserve	Share issuance costs	Convertible bonds equity reserve	Total
Balance at 1 January 2004, as previously reported	–	–	–	–	–	–
Adjustment for the adoption of HKAS 39 *(Note 2.1)*	–	–	–	–	3,446	3,446
Balance at 1 January 2004, as restated	–	–	–	–	3,446	3,446
Employee share option scheme:						
– value of employee services	–	–	3,467	–	–	3,467
Premium arising from the Reorganisation *(Note 1)*	–	90,941	–	–	–	90,941
Issue of shares	156,032	–	–	–	–	156,032
Capitalisation of share premium account	(31,699)	–	–	–	–	(31,699)
Share issuance costs	–	–	–	(25,082)	–	(25,082)
Share issuance costs charged against share premium	(25,082)	–	–	25,082	–	–
Conversion of convertible bonds	21,949	–	–	–	(1,723)	20,226
Balance at 31 December 2004	121,200	90,941	3,467	–	1,723	217,331
Balance at 1 January 2005	121,200	90,941	3,467	–	1,723	217,331
Employee share option scheme:						
– value of employee services	–	–	2,676	–	–	2,676
Transfer upon cancellation of share options	–	–	(411)	–	–	(411)
Issue of shares	56,976	–	–	–	–	56,976
Share issuance costs	(478)	–	–	–	–	(478)
Redemption of convertible bonds	–	–	–	–	(1,723)	(1,723)
Balance at 31 December 2005	177,698	90,941	5,732	–	–	274,371

(All amounts in RMB thousand unless otherwise stated)

17. OTHER RESERVES *(Continued)*

(b) Company *(Continued)*

Notes:

(i) Capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Capital reserve of the Company represents the difference between the costs of investments in subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

(ii) Contributed surplus represents the capital contribution from an executive director and an indirect substantial shareholder of the Company, as part of a group reorganisation exercise.

(iii) According to the articles of association of the relevant subsidiaries established in Mainland China and the Mainland China rules and regulations, Mainland China subsidiaries are required to transfer not less than 10% of their net profit as stated in their annual financial statements prepared under Mainland China accounting regulations to statutory reserves before the corresponding Mainland China subsidiaries can distribute any dividend. Such a transfer is not required when the amount of statutory reserves reach 50% of the corresponding subsidiaries' registered capital. The statutory reserves shall only be used to make up losses of the corresponding subsidiaries, to expand the corresponding subsidiaries' production operations, or to increase the capital of the corresponding subsidiaries. Upon approval by resolutions of the corresponding subsidiaries' shareholders in general meetings, the corresponding subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to existing owners in proportion to their existing ownership structure.

(iv) Under the Company Law (revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to its shareholders provided that immediately following the distributions or dividends the Company is able to pay its debts as they fall due in the ordinary course of business.

As at 31 December 2005, the Company had reserves available for distribution amounting to approximately RMB274,371,000 (2004: RMB217,331,000).

18. BORROWINGS

	2005	2004
Non-current		
Government loans, unsecured	**5,000**	5,000
Current		
Government loans, unsecured	**29,170**	31,170
Other borrowings, unsecured	**2,000**	–
Bank borrowings, secured	**86,654**	77,971
	117,824	109,141
Total borrowings	**122,824**	114,141

Government loans represent loans from State Development and Reform Commission, Xiamen Development Planning Commission and other Mainland China government bureaus to finance the Group's product development activities and expansion of production facilities.

(All amounts in RMB thousand unless otherwise stated)

18. BORROWINGS *(Continued)*

Government loans of RMB5,000,000 (2004: RMB5,000,000) are unsecured and repayable in 2018, and bear interest at 2.6%. Government loans of RMB8,000,000 (2004: RMB10,000,000) are unsecured and repayable on demand, and bear interest at 7.6% per annum. Government loans of RMB21,170,000 (2004: RMB21,170,000) are unsecured and non-interest bearing, and shall be repayable on terms and conditions to be determined between the government bureaus and the Group upon completion of the relevant project.

Other borrowings are unsecured and repayable on demand and bear interest at 2.25% per annum.

The maturity of borrowings is as follows:

	2005	2004
Amounts repayable within a period:		
– not exceeding one year	**117,824**	109,141
– more than five years	**5,000**	5,000
	122,824	114,141

The effective interest rates at the balance sheet date were as follows:

	2005	2004
Government loans	**5%**	–
Other borrowings	**2.3%**	–
Bank borrowings	**5.8%**	4%

The carrying amounts of borrowings approximate their fair values, and are denominated in Chinese Renminbi.

19. LIABILITY COMPONENT OF CONVERTIBLE BONDS

The liability component of convertible bonds recognised in the balance sheet is calculated as follows:

	2005	2004
At 1 January	**13,419**	33,703
Conversion during the year	**–**	(20,268)
Accrued interest *(Note 25)*	**1,182**	1,741
Interest paid	**(547)**	(1,757)
Redemption	**(14,054)**	–
At 31 December	**–**	13,419

During 2002, EcoGreen Fine Chemicals Limited, a wholly-owned subsidiary, issued convertible bonds totalling approximately RMB37,151,000 (equivalent of US$4,500,000). The convertible bonds were unsecured, denominated in United States Dollars, bore interest at 3.0% per annum, and were convertible (in multiples of US$450,000) from 10 October 2002 to 9 September 2005 into shares of the Company or EcoGreen Fine Chemicals Limited or were repayable upon maturity on 9 September 2005 if not converted.

(All amounts in RMB thousand unless otherwise stated)

19. LIABILITY COMPONENT OF CONVERTIBLE BONDS *(Continued)*

In February 2004, convertible bonds of RMB18,575,500 (equivalent of US$2,250,000) were converted into 5,000 shares in EcoGreen Fine Chemicals Limited of US$1 each, representing approximately a 5.3% equity interest in EcoGreen Fine Chemicals Limited. In addition, the Company issued replacement convertible bonds in the principal amount of RMB18,575,500 (equivalent of US$2,250,000) to replace and exchange for the remaining outstanding convertible bonds. The terms of the replacement convertible bonds were substantially the same as that of the old convertible bonds, except that the replacement convertible bonds were only convertible into shares of the Company.

Upon the Reorganisation (Note 1), 15,789,474 shares of the Company were allotted and issued to the holders of the convertible bonds in exchange for the aforementioned 5,000 shares of EcoGreen Fine Chemicals Limited issued to the holders of the convertible bonds. Pursuant to a deed of settlement entered into by the Company with the holders of the convertible bonds on 8 March 2004, the conversion price was adjusted from RMB1.18 (equivalent of HK$1.11) to RMB1.46 (equivalent of HK$1.38 per share), being the offer price of the Company's shares upon the Listing. Consequently, the price for the aforementioned conversion was increased from RMB18,575,500 (equivalent of US$2,250,000) to RMB23,097,000 (equivalent of US$2,797,647).

No conversion was taken place during 2005 as at balance sheet date and was fully redeemed on the expiry date.

Interest expense on the bonds is calculated using the effective interest method by applying the effective interest rate of 11.7% to the liability component.

20. TRADE AND BILLS PAYABLES

As at 31 December 2005, the aging analysis of trade and bills payable was as follows:

	2005	2004
0 to 30 days	**10,310**	8,434
31 to 60 days	**19,126**	2,668
61 to 90 days	**7,996**	1,147
91 to 180 days	**9,480**	2,032
181 to 365 days	**483**	509
Over 365 days	**666**	393
	48,061	15,183

(All amounts in RMB thousand unless otherwise stated)

21. ACCRUALS AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
Payable for construction and purchase of property, plant and equipment	**10,479**	5,067	**–**	–
Output value-added tax payable	**9,904**	8,774	**–**	–
Accruals for				
– Administrative expenses	**8,554**	3,877	**1,869**	1,330
– Government loans interest	**1,631**	633	**–**	–
Payable for professional fees	**–**	663	**–**	663
	30,568	19,014	**1,869**	1,993

22. OTHER GAINS – NET

	2005	2004
Interest income from bank deposits	**1,480**	902
Amortisation of deferred income on government grants	**114**	114
Others	**373**	–
	1,967	1,016

23. EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2005	2004
Depreciation *(Note 6)*	**6,087**	4,713
Amortisation of prepaid operating lease payments *(Note 7)*	**110**	77
Amortisation of intangible assets *(Note 8)*	**2,536**	2,519
Impairment of goodwill *(Note 8)*	**755**	–
Employee benefit expense *(Note 24)*	**17,151**	21,223
Changes in inventories of finished goods and work-in-progress	**25,649**	4,059
Raw materials and consumables used	**197,726**	141,781
Transportation	**10,825**	4,523
Advertising	**462**	265
Occupancy costs	**940**	978
Auditors' remuneration	**988**	1,145

(All amounts in RMB thousand unless otherwise stated)

24. EMPLOYEE BENEFIT EXPENSE

	2005	2004
Wages, salaries, other allowances and benefits in kind	**13,430**	11,289
Bonus	**619**	6,106
Share options granted to directors and employees *(Note 16)*	**2,676**	3,467
Pension costs – defined contribution plans *(Note a)*	**426**	361
	17,151	21,223

(a) Pensions – defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China, which is a defined contribution plan. The Group and its employees contribute approximately 6% to 14% and 0% to 4%, respectively, of the employees' salary as specified by the local government, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month.

During the year, the aggregate amounts of the Group's contributions to the aforementioned retirement schemes were approximately RMB426,000 (2004: RMB361,000). As at 31 December 2005, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions.

(All amounts in RMB thousand unless otherwise stated)

24. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Directors' and senior management's emoluments

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

Name of Director	Fees	Salaries, other allowances and benefits in kind	Discretionary performance bonus	Retirement benefit-defined contribution plans	Share options granted to Directors	Total
Executive directors						
Mr. Yang Yirong	–	1,388	–	7	–	1,395
Mr. Gong Xionghui	–	694	–	6	325	1,025
Ms. Lu Jiahua	–	694	–	6	285	985
Mr. Lin Like *(i)*	–	163	–	–	–	163
Mr. Ho Wan Ming *(ii)*	–	297	–	8	151	456
Mr. Lin Zhigang *(ii)*	–	346	–	3	228	577
Non-executive director						
Mr. Feng Tao *(i)*	–	–	–	–	–	–
Mr. Han Huan Guang *(i)*	36	–	–	–	–	36
Mr. Yang Chiming *(ii)*	–	–	–	–	65	65
Independent non-executive directors						
Mr. Yau Fook Chuen	139	–	–	–	33	172
Mr. Wong Yik Chung, John	139	–	–	–	33	172
Mr. Zheng Lansun	69	–	–	–	33	102
	383	3,582	–	30	1,153	5,148

(All amounts in RMB thousand unless otherwise stated)

24. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Directors' and senior management's emoluments *(Continued)*

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salaries, other allowances and benefits in kind	Discretionary performance bonus	Retirement benefit-defined contribution plans	Share options granted to Directors	Total
Executive directors						
Mr. Yang Yirong	–	2,092	1,200	6	–	3,298
Mr. Gong Xionghui	–	636	550	5	422	1,613
Ms. Lu Jiahua	–	636	550	5	369	1,560
Mr. Ho Wan Ming *(ii)*	–	382	300	12	197	891
Mr. Lin Zhigang *(ii)*	–	445	400	5	295	1,145
Non-executive directors						
Mr. Yang Chiming *(ii)*	–	–	–	–	84	84
Independent non-executive directors						
Mr. Yau Fook Chuen	111	–	–	–	42	153
Mr. Wong Yik Chung, John	111	–	–	–	42	153
Mr. Zheng Lansun	54	–	–	–	42	96
	276	4,191	3,000	33	1,493	8,993

Notes:

(i) These directors were appointed on 16 September 2005.

(ii) These directors were resigned on 16 September 2005.

(iii) None of the directors waived any emoluments during the year ended 31 December 2005 (2004: Nil).

(All amounts in RMB thousand unless otherwise stated)

24. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2005 include three directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals are as follows:

	2005
Wages, salaries, other allowances and benefits in kind	1,012
Bonus	146
Share option costs	114
Pension costs – defined contribution plan	25
	1,297

The emoluments of each of the above individuals are below RMB1,041,000 (equivalent of HK$1,000,000).

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2004 represents directors whose emoluments are reflected in the analysis presented above.

During the year ended 31 December 2005 and 2004, no emoluments were paid to the directors of the Company or the five highest paid individuals as an inducement to join or as compensation for loss of office (2004: Nil).

25. FINANCE COSTS

	2005	2004
Interest expense on		
– bank borrowings wholly repayable within five years	4,950	4,756
– government loans wholly repayable within five years	732	506
– convertible bonds	1,182	1,741
	6,864	7,003

(All amounts in RMB thousand unless otherwise stated)

26. INCOME TAX EXPENSE

	2005	2004
Current taxation		
– Mainland China enterprise income tax	**6,923**	5,230

Notes:

(a) Hong Kong profits tax

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong.

(b) Mainland China enterprise income tax

The subsidiaries established in Xiamen, Fujian Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 15% (2004: 15%). In February 2002, Xiamen Sinotek Enterprise Development Co., Ltd. transformed from a domestic enterprise to a wholly foreign owned enterprise and is exempted from Mainland China Tax Bureau for payment of enterprise income tax for two years starting from the first year of profitable operations after offsetting prior years' tax losses, followed by a 50% reduction in enterprise income tax for the following three years. In August 2003, Xiamen Doingcom Chemical Co., Ltd. was accredited as a New High Technology Enterprise and accordingly is exempted from payment of enterprise income tax for two years starting from the first year of production.

(c) Overseas income taxes

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempted from the Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from the British Virgin Islands income tax.

(d) Mainland China value-added tax

The subsidiaries established in Mainland China are subject to Mainland China value-added tax ("VAT") at 17% of revenue from sale of goods in Mainland China and 4% (2004: 4%) of revenue from sale of goods outside Mainland China. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/ payable.

(All amounts in RMB thousand unless otherwise stated)

26. INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the relevant enterprise income tax rate in Mainland China, where substantially all of the Group's profit was earned, and the reconciliation was as follows:

	2005	2004
Profit before income tax	**77,973**	66,583
Tax calculated at domestic tax rates applicable to profits in the respective countries	**11,310**	9,430
Income not subject to tax	**(7,342)**	(7,780)
Utilisation of previously unrecognised tax losses	**(291)**	(246)
Tax losses for which no deferred income tax asset was recognised	**3,246**	4,059
Others	**–**	(233)
Tax expense	**6,923**	5,230

The weighted average applicable tax rate was 8.9% (2004: 8.0%). The increase is mainly caused by the increase in tax losses for which no deferred income tax asset was recognised.

As at 31 December 2005, the Group has unrecognised tax losses of approximately RMB56,687,000 (2004: RMB40,832,000), which can be carried forward to offset against future taxable income. Included in the tax loss as at 31 December 2005 was a loss of RMB3,010,000 (2004: RMB1,899,000) that will expire during the period from 2006 to 2010 (2004: 2005 to 2009), while other losses can be carried forward indefinitely. The deferred tax benefit of such tax losses was not recognised as it was not probable that future taxable profit will be available against which the unutilised tax losses can be utilised.

27. NET FOREIGN EXCHANGE LOSSES

The net foreign exchange losses of RMB839,000 (2004: RMB236,000) was included in administrative expenses in the income statement.

28. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB16,730,000 (2004: RMB5,661,000).

29. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company	**71,120**	61,354
Weighted average number of ordinary shares in issue (thousands)	**424,326**	393,634
Basic earnings per share (RMB per share)	**0.17**	0.16

Diluted

Diluted earnings per share is not presented as the potential ordinary shares that were outstanding during the year were anti-dilutive during the years ended 31 December 2005 and 2004.

30. DIVIDENDS

Dividends paid during the year ended 31 December 2005 were HK$0.0255 per share, totalling RMB11,535,000. No dividend was paid during the year ended 31 December 2004.

A final dividend in respect of the year ended 31 December 2005 of HK$0.012 per share, totalling RMB5,758,000, is to be proposed at the Annual General Meeting on 25 May 2006. These financial statements do not reflect this dividend payable.

	2005	2004
Interim dividend paid of HK$0.008 (2004: Nil) per ordinary share	**3,885**	–
Proposed final dividend of HK$0.012 (2004: HK$0.0175) per ordinary share	**5,758**	7,650
	9,643	7,650

(All amounts in RMB thousand unless otherwise stated)

31. CASH GENERATED FROM OPERATIONS

	2005	2004
Profit for the year	**71,050**	61,353
Adjustment for:	**6,923**	5,230
– Tax *(Note 26)*		
– Depreciation *(Note 6)*	**6,087**	4,713
– Amortisation of		
– Land use rights *(Note 7)*	**110**	77
– Intangible assets *(Note 8)*	**2,536**	2,519
– deferred income on government grants	**(114)**	(114)
– Impairment of intangible assets *(Note 8)*	**755**	–
– Loss on disposal of property, plant and equipment *(see below)*	**70**	–
– Employee share option costs *(Note 24)*	**2,676**	3,467
– Interest income *(Note 22)*	**(1,480)**	(902)
– Interest expense *(Note 25)*	**6,864**	7,003
Changes in working capital:		
– Inventories	**(13,812)**	1,991
– Trade receivables	**(34,105)**	3,389
– Prepayments and other receivables	**(20,369)**	(9,136)
– Trade and bills payables	**32,875**	2,341
– Accruals and other payables	**7,859**	1,359
Cash generated from operations	**67,925**	83,290

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005	2004
Net book amount *(Note 6)*	**70**	–
Loss on sale of property, plant and equipment	**(70)**	–
Proceeds from sale of property, plant and equipment	**–**	–

(All amounts in RMB thousand unless otherwise stated)

32. COMMITMENTS

(a) Capital commitments

	2005	2004
Authorised and contracted but not provided for		
– Construction-in-progress and property, plant and equipment	**68,952**	41,876
– Product development projects	**4,065**	2,990
– Acquisition of Shanghai Fine Chemicals Company Limited *(i)*	**–**	4,800
	73,017	49,666

Note:

(i) In December 2004, the Group entered into an agreement to acquire from independent third parties the entire interest in Shanghai Fine Chemicals Company Limited, a domestic enterprise established in Mainland China, which is principally engaged in the research and development of fine chemicals, at a cash consideration of RMB4,800,000. The acquisition was completed on the 10 June 2005 (Note 33).

(b) Operating lease commitments

The Group leases certain premises under non-cancellable operating lease agreements. The lease have varying terms, escalation clauses and renewal rights. The lease expenditure expensed in the income statement during the year is disclosed in Note 23.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
Not later than 1 year	**1,485**	1,126
Later than 1 year and not later than 5 years	**1,625**	2,470
	3,110	3,596

(All amounts in RMB thousand unless otherwise stated)

33. BUSINESS COMBINATION

On 10 June 2005, the Group acquired 100% of the share capital of Shanghai Fine Chemicals Company Limited ("SFCCL"), a domestic enterprise established in Mainland China, which is principally engaged in the research and development of fine chemicals. The acquired subsidiary contributed revenue of RMB4,247,000 and net profit of RMB476,000 to the Group for the period from 10 June 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been RMB386,615,000, and profit before allocation would have been RMB70,770,000.

Details of net assets acquired are as follows:

Purchase consideration:		
– Cash paid	4,800	–
Fair value of net assets acquired – shown as below	4,800	–

The assets and liabilities arising from the acquisition are as follows:

	Fair value	**Acquiree's Carrying amount**
Cash and cash equivalents	383	383
Property, plant and equipment *(Note 6)*	313	313
Patents and technical know-how *(Note 8)*	4,000	–
Trade receivables	437	437
Prepayments and other receivables	3,365	3,365
Trade payables	(3)	(3)
Accruals and other payables	(3,695)	(3,695)
Net assets acquired	4,800	800
Purchase consideration settled in cash		4,800
Cash and cash equivalents in subsidiary acquired		(383)
Cash outflow on acquisition		4,417

There were no acquisitions in the year ended 31 December 2004.

(All amounts in RMB thousand unless otherwise stated)

34. RELATED PARTY TRANSACTIONS

The Company is 41% owned by Marietta Limited (incorporated in British Virgin Islands). The remaining 59% of the shares are widely held.

The following transactions were carried out with related parties:

During the year, consultancy fee of RMB312,000 (2004: Nil) was paid to Fortune Trading Company (consultancy services), a company beneficially owned by Mr. Han Huan Guang, a non-executive director.

(b) Key management compensation:

	2005	2004
Salaries and other short-term employee benefits	**4,307**	7,500
Share-based payments	**1,153**	1,493
	5,460	8,993

(c) Details of the amounts due to directors were:

	2005	2004
Mr. Yang Yirong	**159**	5
Mr. Gong Xionghui	–	550
Ms. Lu Jiahua	–	550
Mr. Ho Wan Ming	–	300
Mr. Lin Zhigang	–	400
	159	1,805

Balances with directors were unsecured and non-interest bearing, and are repayable within one year. The Group made advances to Mr. Yang Yirong and the maximum amount due by Mr. Yang Yirong was RMB1,404,000, which had been fully settled during the year ended 31 December 2005.

(d) Ms. Lu Jiahua, a director of the Company, is a minority shareholder of Xiamen Doingcom Enterprise Limited (Note 10(c)).