NOTES TO THE FINANCIAL STATEMENTS

31 December 2005
(Expressed in Renminbi unless otherwise stated)

1. GENERAL

The Company was incorporated in Bermuda on 27 July 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and its subsidiaries are principally engaged in manufacturing and sales of food products.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities of the Stock Exchange. They have been prepared under the historical cost convention.

The HKICPA has issued a number of new/revised HKFRSs that are effective for adoption for accounting periods beginning on or after 1 January 2005. The Group adopted the following new/revised HKFRSs for the year ended 31 December 2005 which were relevant to its operations in the preparation of these financial statements. The 2004 comparatives have been amended as required, in accordance with the relevant requirement.

(a) Adoption of HKFRSs

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 39	Financial instruments: Recognition and measurement
HKFRS 2	Share-based payment
HKAS-Int 12	Scope of HKAS-Int 12 consolidation — Special purpose entities
HKAS-Int 15	Operating leases — Incentives
HKAS-Int 21	Income taxes — Recovery of revalued non-depreciable assets

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The adoption of the above new/revised HKFRSs has the following impacts on the Group's accounting policies.

— HKAS 1 has affected the presentation and disclosure of the financial statements;

— HKASs 8, 27 and 33 have affected the disclosure of the financial statements;

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

— HKASs 2, 7, 10, 12, 14, 16, 18, 19, 21, 23, 36, 37, HKAS-Int 12, HKAS-Int 15 and HKAS-Int 21 have no significant impact on the Group's accounting policies; and

— the impact on the adoption of other new/revised HKFRSs is set out in note 3;

(b) Basis of Consolidation

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

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

(c) Subsidiaries

A subsidiary is a company in which the Group or the Company, directly or indirectly, controls more than half of the voting power or controls the composition of the board of directors.

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses. The results of subsidiaries are included in the Company's income statement to the extent of dividend received and receivable.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, Plant and Equipment

Properties, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Major expenditures on modifications and betterments of property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Buildings	5%
Machinery	15%
Furniture and equipment	20%
Motor vehicles	20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected. Gain or loss on derecognition of property, plant and equipment, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

(e) Lease (as the Lessee)

(i) *Finance leases*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, is included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payments applicable to such operating leases are charged to the income statement on the straight-line basis over the lease periods.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Impairment of Assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) *Reversals of impairment losses*

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

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

(g) Inventories

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

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Inventories (Continued)

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

(h) Trade Receivables

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

(i) Coupon Bonds

Coupon bonds are accounted for as compound financial instruments. Transaction costs that relates to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the coupon bonds is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

(j) Interest Bearing Borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(k) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employee Benefits

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

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and a state-sponsored retirement plan organized by municipal government as stipulated by the regulations of the People's Republic of China (the "PRC"), are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) 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, and a corresponding adjustment to equity over the remaining vesting period.

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.

(m) Income Tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with interests in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income Tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference, and the carry forward of unused tax assets and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary difference associated with interests in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(n) Foreign Currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statements. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Foreign Currencies (Continued)

The functional currencies of certain overseas subsidiaries are not Renminbi. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e., Renminbi) at the exchange rates ruling at the balance sheet date and their income statements are translated into Renminbi at the exchange rates ruling at the dates of the transactions. The resulting exchange differences are included in the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries that arise throughout the year are translated into Renminbi at the exchange rates ruling at the dates of the transactions.

(o) Government Grants and Subsidies

Grants and subsidies from the government are recognised at their fair values when there is reasonable assurance that the grant/subsidy will be received and all attached conditions are complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy, on a systematic basis, to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted in arriving at the carrying amount of the related asset.

(p) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue Recognition

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

(i) *Sale of goods*

Revenue is recognised when goods are delivered to the customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax and is after deduction of any goods returns and trade discounts.

(ii) *Interest income*

Interest income is recognised on a time-apportioned basis, taking into account the principal outstanding and the effective rate applicable.

(r) Borrowing Costs

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(s) Related Parties

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Segment Reporting

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

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

(a) Summary of the Effect of Changes in Accounting Policies

(i) *Effect of changes in accounting policies on consolidated income statement*

	Share-based payment HKFRS 2 (note b) RMB'000	**Coupon bonds HKASs 32 and 39 (note c)** RMB'000	**Total** RMB'000
Year ended 31 December 2004			
Increase in interest expenses	—	(2,051)	(2,051)
Decrease in profit for the year	—	(2,051)	(2,051)
Decrease in earnings per share			
— Basic	—	RMB(0.2 cents)	RMB(0.2 cents)
— Diluted	—	RMB(0.2 cents)	RMB(0.2 cents)
Year ended 31 December 2005			
Increase in interest expenses	—	(2,051)	(2,051)
Increase in staff costs	(138)	—	(138)
Decrease in profit for the year	(138)	(2,051)	(2,189)
Decrease in earnings per share			
— Basic	—	RMB(0.2 cents)	RMB(0.2 cents)
— Diluted	—	RMB(0.2 cents)	RMB(0.2 cents)

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Summary of the Effect of Changes in Accounting Policies (Continued)

(ii) *Effect of changes in accounting policies on consolidated balance sheet*

	Share-based payment HKFRS 2 (note b) RMB'000	**Coupon bonds HKASs 32 and 39 (note c)** RMB'000	**Leasehold land and buildings HKAS 17 (note d)** RMB'000	**Total** RMB'000
At 1 January 2004				
Increase in share premium	—	1,840	—	1,840
Increase in coupon bonds equity component reserve	—	6,890	—	6,890
Decrease in retained profits	—	(1,538)	—	(1,538)
Increase in equity	—	7,192	—	7,192
At 31 December 2004				
Decrease in property, plant and equipment	—	—	(9,277)	(9,277)
Increase in leasehold land and rental prepayments	—	—	9,277	9,277
Decrease in coupon bonds	—	6,665	—	6,665
Increase in deferred tax liabilities	—	(1,166)	—	(1,166)
Increase in net assets	—	5,499	—	5,499
Total equity				
Increase in share premium	—	1,840	—	1,840
Increase in coupon bonds equity component reserve	—	7,248	—	7,248
Decrease in retained profits	—	(3,589)	—	(3,589)
Increase in equity	—	5,499	—	5,499

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Summary of the Effect of Changes in Accounting Policies (Continued)

(ii) *Effect of changes in accounting policies on consolidated balance sheet (Continued)*

	Share-based payment HKFRS 2 (note b) RMB'000	Coupon bonds HKASs 32 and 39 (note c) RMB'000	Leasehold land and buildings HKAS 17 (note d) RMB'000	Total RMB'000
At 31 December 2005				
Decrease in property, plant and equipment	—	—	(9,052)	(9,052)
Increase in leasehold land and rental prepayments	—	—	9,052	9,052
Decrease in coupon bonds	—	4,614	—	4,614
Increase in deferred tax liabilities	—	(808)	—	(808)
Increase in net assets	—	3,806	—	3,806
Increase in share premium	—	1,840	—	1,840
Increase in employee share-based compensation reserve	138	—	—	138
Increase in coupon bonds equity component reserve	—	7,606	—	7,606
Decrease in retained profits	(138)	(5,640)	—	(5,778)
Increase in equity	—	3,806	—	3,806

(b) Employee Share Option Scheme (HKFRS 2 Share-Based Payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Employee Share Option Scheme (HKFRS 2 Share-Based Payment) (Continued)

Where the employees are required to meet vesting conditions before they come entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparative restated in accordance with HKFRS 2, except the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

No adjustments to the opening balances as at 1 January 2005 are required as options existed at that time which had vested before 1 January 2005.

The amount charged to the consolidated income statement as a result of the change of policy increased staff costs for the year ended 31 December 2005 by RMB138,000 (2004: Nil), with the corresponding amounts credited to employee share-based compensation reserve.

(c) Financial Instruments (HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement)

In prior years, the accounting policies for coupon bonds issued were stated at cost (including transaction costs).

With effect from 1 January 2005 and in accordance with HKASs 32 and 39, the following new accounting policies are adopted for coupon bonds. Coupon bonds issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the coupon bonds equity component reserve until the warrants attached to the coupon bonds are exercised (in which case it is transferred to share premium) or the bonds are redeemed (in which case it is released directly to retained profits).

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Financial Instruments (HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement) (Continued)

The new accounting policies have been adopted retrospectively, with the opening balances of coupon bonds liabilities component and equity component reserve, deferred tax liabilities and the comparative information adjusted for the amounts relating to prior periods as disclosed in note 3(a).

(d) Leasehold Land and Buildings Held for Own Use (HKAS 17 Leases)

In prior years, the land use right as included in property, plant and equipment were stated at cost less accumulated amortisation and accumulated impairment losses. The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the land use right are initially stated at cost and expensed in the income statement on a straight-line basis over the period of the leases or where there is impairment, the impairment is expensed in the income statement.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The new accounting policies have been adopted retrospectively, with the opening balances of property, plant and equipment and leasehold land and rental prepayments and the comparative information adjusted for the amounts relating to prior periods as disclosed in note 3(a).

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.

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 judgements 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) Property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgements and estimates.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Write-downs of inventories

Inventories are written down to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(c) Provision for trade receivables

In determining whether any of the trade receivables is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

5. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to the following risks.

(a) Foreign exchange risk

Most of the Group's monetary assets and liabilities are denominated in Renminbi and the Group conducted its business transactions principally in Renminbi. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure if necessary.

(b) Credit risks

The Group's credit risk is primarily attributable to trade receivables. The management has a credit policy in place and the exposures to the credit risk is monitored on an ongoing basis.

(c) Interest rate risk

The Group's fair value interest rate risk to variable-rate borrowings. The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings.

(d) Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank loans.

6. TURNOVER

The principal activities of the Group are manufacturing and sales of food products.

Turnover represents the invoiced value of goods sold, less value-added tax, goods returns and trade discounts.

7. OTHER REVENUE

	2005	2004
	RMB'000	RMB'000
		(Restated)
Interest income from banks	**3,352**	2,124
Subsidy income*	**430**	557
Sundry income	**84**	—
	3,866	2,681

* *Subsidy income represents discretionary grants received from a PRC local government authority in respect of the development of agricultural products carried out by a subsidiary.*

8. PROFIT BEFORE TAXATION

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

	2005 RMB'000	2004 RMB'000 (Restated)
(a) Finance costs		
Interest on borrowings wholly repayable within five years		
— bank loans and overdraft	4,332	3,911
— coupon bonds	921	928
— accrued interest for warrant included in coupon bonds	2,051	2,051
	7,304	6,890
(b) Staff costs		
Contributions to Mandatory Provident Funds Scheme	57	56
Contributions to PRC retirement scheme	795	553
Retirement costs	852	609
Salaries, wages and other benefits	9,289	9,049
	10,141	9,658
(c) Other charging and (crediting) items		
Amortisation of leasehold land and rental prepayments	13,732	12,565
Auditors' remuneration		
— overprovision in prior years	—	(42)
— provision for the current year	578	524
Cost of inventories#	231,860	235,702
Depreciation of property, plant and equipment	17,653	15,121
Impairment loss of rental prepayments	3,333	—
Loss on disposal of property, plant and equipment	4,913	8
Net exchange loss	1,148	12
Operating lease charges in respect of land and buildings	743	2,024
Impairment of bad and doubtful debts	720	211
Write-down of obsolete and slow moving inventories	101	835

Cost of inventories includes approximately RMB19,541,000 (2004: RMB18,440,000) relating to staff costs and depreciation expenses.

9. TAXATION

(a) Taxation in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000 (Restated)
Current tax		
PRC enterprise income tax for the year	42,820	42,380
Deferred tax		
Origination and reversal of temporary differences (note 28)	(509)	(218)
	42,311	42,162

Note:

(i) Overseas income tax

The Company is incorporated in Bermuda and is exempted from taxation in Bermuda. The Company's subsidiary established in the British Virgin Islands are exempted from British Virgin Islands income taxes.

(ii) Hong Kong profits tax

No Hong Kong profits tax has been provided for the year as the Group had no estimated assessable profits for the years (2004: Nil).

(iii) PRC enterprise income tax

Fuqing Longyu Food Development Co., Ltd., ("Fuqing Longyu"), a wholly owned subsidiary of the Company, established in the Coastal Open Economic Area of the PRC, is subject to PRC enterprise income tax at a rate of 24% for the year (2004: 24%).

9. TAXATION (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rate:

	2005 RMB'000	2004 RMB'000 (Restated)
Profit before tax	155,772	162,015
Notional tax on profit before tax, calculated at the applicable rate	37,385	38,884
Tax effect of non-deductible expenses	5,138	2,946
Tax effect of unused tax losses not recognised	—	251
Deferred tax assets previously not recognised	(212)	—
Others	—	81
Actual tax expense	42,311	42,162

10. DIRECTORS' REMUNERATION

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

	2005				
	Fees RMB'000	Basic salaries, allowances and benefits-in-kind RMB'000	Share option benefit RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Yeung Chung Lung	—	856	—	13	869
Yang Le	—	60	—	—	60
Ni Chao Peng	—	60	—	—	60
Yip Tze Wai, Albert	—	260	—	12	272
	—	1,236	—	25	1,261
Independent non-executive directors:					
Tsui Chun Chung, Arthur	158	—	138	—	296
Lu Ze Jian	—	—	—	—	—
Leung Chiu Shing	127	—	—	—	127
	285	—	138	—	423
Total	285	1,236	138	25	1,684

10. DIRECTORS' REMUNERATION (Continued)

	2004				
	Fees RMB'000	Basic salaries, allowances and benefits-in-kind RMB'000	Share option benefit RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Yeung Chung Lung	—	1,248	—	14	1,262
Yang Le	—	61	—	1	62
Ni Chao Peng	—	61	—	1	62
Yip Tze Wai, Albert	—	276	—	12	288
	—	1,646	—	28	1,674
Independent non-executive directors:					
Tsui Chun Chung, Arthur	127	—	—	—	127
Lu Ze Jian	—	—	—	—	—
Leung Chiu Shing	32	—	—	—	32
	159	—	—	—	159
Total	159	1,646	—	28	1,833

Apart from the above, certain directors were granted options to subscribe for shares in the Company. The details of the share options granted and outstanding in respect of each director as at 31 December 2005 are disclosed in note 31 to the financial statements.

During the years 31 December 2005 and 2004, no amounts were paid or payable to the directors as an inducement to join the Group or as a compensation for loss of office and no director waived any emoluments.

10. DIRECTORS' REMUNERATION (Continued)

The remuneration of the directors are within the following bands:

	2005 Number of individuals	2004 Number of individuals
RMBNil — RMB1,050,000 (approximately equivalent to HK$1,000,000)	7	6
RMB1,050,001 — RMB1,575,000 (approximately equivalent to HK$1,000,001 to HK$1,500,000)	—	1
	7	7

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees during the year included, three directors (2004: three) details of whose emoluments are disclosed in note 10 above. The aggregate of the emoluments in respect of the remaining two (2004: two) individuals are as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other emoluments	956	965
Retirement scheme contributions	25	25
	981	990

The emoluments of the two (2004: two) individuals are within the following band:

	2005 Number of individuals	2004 Number of individuals
RMBNil — RMB1,050,000 (approximately equivalent to HK$1,000,000)	2	2

During the years 31 December 2005 and 2004, no emoluments were paid or payable to the five highest paid individuals (including directors and other employees) as an inducement to join the Group or as a compensation for loss of office.

12. PROFIT ATTRIBUTABLE TO EUQITY HOLDERS OF THE COMPANY

During the year, the profit attributable to the equity holders of the Company included a profit of approximately RMB21,983,000 (2004: RMB17,452,000 (restated)) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

(a) Dividends attributable to the year:

	2005 RMB'000	2004 RMB'000
Final dividend proposed after the balance sheet date of HK$0.015 (equivalent to approximately RMB0.0156) per ordinary share (2004: HK$0.03 (equivalent to approximately RMB0.0318) per ordinary share)	14,431	29,207

The Board has recommended the payment of a final dividend of HK$0.015 per share (approximately equivalent to RMB0.0156 per share) for the year ended 31 December 2005 (2004: HK$0.03 per share (approximately equivalent to RMB0.0318 per share)), subject to the members' approval at the forthcoming annual general meeting to be held on 22 June 2006, to the members whose names appear on the Register of Members of the Company on 22 June 2006 and payable on or before 28 June 2006.

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

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	2005 RMB'000	2004 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.03 (equivalent to approximately RMB0.0318) per ordinary share (2004: HK$0.02 (equivalent to approximately RMB0.0212) per ordinary share)	29,207	19,090

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB113,461,000 (2004: RMB119,853,000 (restated)) and the weighted average number of 918,472,000 ordinary shares (2004: 903,089,000 ordinary shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity holders of approximately RMB113,461,000 (2004: RMB119,853,000 (restated)) and the weighted average number of 952,580,000 ordinary shares (2004: 934,643,000 ordinary shares after adjusting for the effects of all dilutive potential shares under the Company's share option scheme and warrants.

(c) Reconciliations

	2005 Number of shares '000	2004 Number of shares '000
Weighted average number of ordinary shares used in calculating basic earnings per share	**918,472**	903,089
Deemed issue of ordinary shares		
— share options	**1,932**	1,824
— warrants	**32,176**	29,730
Weighted average number of ordinary shares used in calculating diluted earnings per share	**952,580**	934,643

15. EMPLOYEE RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 (equivalent to approximately RMB21,000), contributions to the MPF Scheme vest immediately. Contributions paid or payable to the MPF scheme are charged to the income statement.

The employees of the Group's subsidiary in the PRC are members of a state-sponsored retirement plan organised by the municipal government under the regulations of the PRC and this subsidiary make mandatory contributions to the state-sponsored retirement plan to fund the employees' retirement benefits. The retirement contributions paid by the PRC subsidiary are based on a percentage of the eligible employees' salaries and are charged to the income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan organised by the municipal government in the PRC.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and PRC. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2005 in respect of the retirement of its employees.

16. SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

Frozen marine food products	:	The manufacture and sale of frozen marine food products
Frozen functional food products	:	The manufacture and sale of frozen functional food products
Frozen seasoned convenient food products	:	The manufacture and sale of frozen seasoned convenient food products
Refrigerated processed meat products	:	The manufacture and sale of refrigerated processed meat products

16. SEGMENT REPORTING (Continued)

	Frozen marine food products		Frozen functional food products		Frozen seasoned convenient food products		Refrigerated processed meat products		Consolidated	
	2005 RMB'000	2004 RMB'000 (Restated)	2005 RMB'000	2004 RMB'000 (Restated)	2005 RMB'000	2004 RMB'000 (Restated)	2005 RMB'000	2004 RMB'000 (Restated)	2005 RMB'000	2004 RMB'000 (Restated)
Revenue from external customers	239,177	227,394	186,797	206,068	6,664	660	14	—	432,652	434,122
Segment result	116,979	110,410	80,269	88,005	3,542	5	2	—	200,792	198,420
Unallocated operating income and expenses									(37,716)	(29,515)
Profit from operations									163,076	168,905
Finance costs									(7,304)	(6,890)
Taxation									(42,311)	(42,162)
Profit attributable to shareholders									113,461	119,853
Amortisation of leasehold land and rental prepayments										
Unallocated									13,732	12,565
Depreciation for the year:										
Segment depreciation	5,246	4,553	2,453	2,072	1,446	1,304	—	—	9,145	7,929
Unallocated depreciation									8,508	7,192
									17,653	15,121
Segment assets	111,023	110,679	87,039	82,580	7,326	11,870	—	—	205,388	205,129
Unallocated assets									665,178	589,344
Total assets									870,566	794,473
Segment liabilities									—	—
Unallocated liabilities									153,498	162,693
Total liabilities									153,498	162,693
Capital expenditure incurred during the year:										
Segment capital expenditure	177	23,257	199	19,243	—	13,104	—	—	376	55,604
Unallocated capital expenditure									2,740	4,409
Total									3,116	60,013

16. SEGMENT REPORTING (Continued)

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the destination of delivery of goods.

	PRC		Japan		Unites States of America		Korea		Australia		Russia		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)	RMB	RMB (Restated)
Revenue from external customers	19,302	4,465	264,895	289,400	132,383	121,776	6,056	17,748	8,957	733	1,059	—	432,652	434,122

Approximately 86% (2004: 87%) of the Group's sales for the year were exported from the PRC to Japan, United States of America, Korea, Australia and Russia using third party export companies in the PRC which have export rights.

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations; hence no analysis is given of the profit contributions from the above geographical locations.

No analysis of segment assets and capital expenditure incurred during the year by geographical location is presented as all of the Group's assets are located in the PRC (including Hong Kong).

17. PROPERTY, PLANT AND EQUIPMENT

	The Group						The Company
	Buildings	Machinery	Furniture and equipment	Motor vehicles	Construction-in-progress	Total	Furniture and equipment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1 January 2004 (restated)	85,867	78,503	1,555	2,273	6,000	174,198	790
Additions	39,788	13,706	541	444	5,534	60,013	—
Transfer	11,534	—	—	—	(11,534)	—	—
Disposals	—	—	(23)	—	—	(23)	—
At 31 December 2004	137,189	92,209	2,073	2,717	—	234,188	790
Accumulated depreciation							
At 1 January 2004 (restated)	19,410	26,422	801	1,043	—	47,676	308
Charge for the year	4,978	9,512	424	207	—	15,121	158
Disposals	—	—	(15)	—	—	(15)	—
At 31 December 2004	24,388	35,934	1,210	1,250	—	62,782	466
Net book value							
At 31 December 2004	112,801	56,275	863	1,467	—	171,406	324
Cost							
At 1 January 2005 (restated)	137,189	92,209	2,073	2,717	—	234,188	790
Exchange adjustments	—	—	(15)	—	—	(15)	(15)
Additions	116	2,354	230	416	—	3,116	—
Disposals	—	(5,829)	—	(369)	—	(6,198)	—
At 31 December 2005	137,305	88,734	2,288	2,764	—	231,091	775
Accumulate depreciation							
At 1 January 2005 (restated)	24,388	35,934	1,210	1,250	—	62,782	466
Exchange adjustments	—	—	(10)	—	—	(10)	(10)
Charge for the year	6,210	10,741	468	234	—	17,653	156
Disposals	—	(1,023)	—	(262)	—	(1,285)	—
At 31 December 2005	30,598	45,652	1,668	1,222	—	79,140	612
Net book value							
At 31 December 2005	106,707	43,082	620	1,542	—	151,951	163

18. LEASEHOLD LAND AND RENTAL PREPAYMENTS

	The Group		
	Leasehold land prepayments (i) RMB'000	**Rental prepayments** RMB'000	**Total** RMB'000
Cost			
At 1 January 2004 (restated)	10,292	37,420	47,712
Addition	—	—	—
At 31 December 2004	10,292	37,420	47,712
Amortisation			
At 1 January 2004 (restated)	790	8,954	9,744
Amortised for the year	225	12,340	12,565
At 31 December 2004	1,015	21,294	22,309
Net book value			
At 31 December 2004	9,277	16,126	25,403
Analysed for reporting purposes as:			
Current assets	226	7,340	7,566
Non-current assets	9,051	8,786	17,837
	9,277	16,126	25,403
Cost			
At 1 January 2005 (restated)	10,292	37,420	47,712
Addition	—	22,000	22,000
At 31 December 2005	10,292	59,420	69,712
Amortisation			
At 1 January 2005 (restated)	1,015	21,294	22,309
Amortised for the year	225	13,507	13,732
Impairment for the year	—	3,333	3,333
At 31 December 2005	1,240	38,134	39,374
Net book value			
At 31 December 2005	9,052	21,286	30,338
Analysed for reporting purposes as:			
Current assets	226	12,852	13,078
Non-current assets	8,826	8,434	17,260
	9,052	21,286	30,338

(i) The leasehold land is held for own use and is located in the mainland China for a period of 50 years up to 2045.

19. INVESTMENTS IN SUBSIDIARIES

	The Company 2005 RMB'000	The Company 2004 RMB'000
Unlisted shares, at cost	114	114

Details of the subsidiaries at 31 December 2005 were as follows:

Name of company	Place of incorporation/ operation	Issued share capital/registered capital	Equity interest held by the Company Directly %	Equity interest held by the Company Indirectly %	Principal activities
First China Technology Limited	British Virgin Islands	US$1,000	100%	—	Investment holding
Smart Dragon International Trading Limited	Hong Kong	HK$100	100%	—	Trading of food products
Fuqing Longyu Food Development Co., Ltd. (i)	Mainland China	US$10,000,000	—	100%	Manufacturing and sales of food products

(i) Fuqing Longyu is a wholly foreign owned enterprise established in mainland China to be operated for 50 years up to 2045.

20. INVENTORIES

	The Group 2005 RMB'000	The Group 2004 RMB'000
Raw materials, at cost	2,021	1,366
Finished goods, at cost	29,054	36,210
	31,075	37,576
Less: Write-down of obsolete and slow moving inventories	(2,319)	(2,218)
	28,756	35,358

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Due from subsidiaries (i)	—	—	260,683	265,017
Trade receivables (ii)	67,508	55,082	—	—
Advances to suppliers (iii)	1,232	2,386	—	—
Rental and other deposits	7,153	7,176	222	226
Prepayments	81	312	76	311
Advances to employees	47	62	—	—
Others	403	2,293	—	—
	76,424	67,311	260,981	265,554

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

(ii) The ageing analysis of trade receivables is as follows:

	The Group	
	2005 RMB'000	2004 RMB'000
Within 1 month	44,163	38,825
More than 1 month but within 3 months	26,898	19,042
More than 3 months but within 6 months	—	48
	71,061	57,915
Less: Impairment of bad and doubtful debts	(3,553)	(2,833)
	67,508	55,082

The Group generally does not grant any pre-determined credit terms to customers. Debts are usually settled within 3 months from the date of billing. Debtors with balances that are more than 3 months are requested to settle all outstanding balance before any further credit is granted.

(iii) All the advances to suppliers as at 31 December 2005 will be settled through deduction of future purchases payable to these suppliers. All advances to suppliers are unsecured and non-interest bearing.

22. CASH AND CASH EQUIVALENTS

As at 31 December 2005, the Group's cash and bank balances approximately of RMB530,045,000 (2004: RMB417,496,000) were denominated in Renminbi, a currency which is not freely convertible into other currencies.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**1,095**	2,216	**—**	—
Finance costs payable	**831**	813	**—**	813
Accruals and other payables	**1,491**	3,246	**1,873**	624
Other tax payables	**9,123**	7,624	**—**	—
Due to a director (i)	**17,900**	4,124	**6,063**	1,844
	30,440	18,023	**7,936**	3,281

The ageing analysis of trade payables is as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Within 1 month	**230**	1,206
After 1 month but within 3 months	**724**	720
After 3 months but within 6 months	**97**	232
After 6 months	**44**	58
	1,095	2,216

(i) The amount due to Mr. Yeung Chung Lung, a director of the Company, is unsecured, non-interest bearing and has no fixed terms of repayment.

24. BANK LOANS, UNSECURED

At 31 December 2005, the bank loans were analysed as follows:

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Within 1 year or on demand	**71,140**	63,760	**29,640**	22,260
After 1 year but within 2 years	**—**	30,210	**—**	30,210
	71,140	93,970	**29,640**	52,470
Non-current portion	**—**	30,210	**—**	30,210
Current portion	**71,140**	63,760	**29,640**	22,260

25. COUPON BONDS

(a) The 2.5% coupon bonds (the "Bonds") with detachable warrants (note 32), having an aggregate principal amount of US$4,500,000 (equivalent to approximately RMB37,206,000), were issued on 10 April 2003 and will mature on 9 April 2008. Each Bond is in the denomination of US$5,000 with a warrant attached. The Bonds bear interest at the coupon rate of 2.5% per annum, payable annually in arrears on 9 April each year.

The net proceeds received from the issue of the Bonds have been spilt between the liability element and an equity component, representing the fair value of the embedded warrant to convert the liability into equity of the Group, as follows:

	RMB'000 (restated)
Nominal value of coupon bonds issued	37,206
Equity component (net of deferred tax)	(8,459)
Deferred tax liability	(1,795)
Liability component at date of issue on 10 April 2003	26,952

25. COUPON BONDS (Continued)

No bonds were redeemed during the year (2004: Nil). As at 31 December 2005, the liability component of coupon bonds was analysed as follows:

	The Group and the Company Liability component	
	2005	2004
	RMB'000	RMB'000
At 1 January (restated)	**30,541**	28,490
Exchange adjustments	**(615)**	—
Accrued interest capitalised	**2,051**	2,051
At 31 December	**31,977**	30,541

(b) The holders of the Bonds (the "Bondholders") may elect to redeem the Bonds at par in accordance with the following schedule in (i).

(i) Date of redemption

		Equivalent to approximately
	US$'000	RMB'000
Ex-warrant A Bonds 9 April 2004 ("A Bonds")	1,350	11,162
Ex-warrant B Bonds 9 April 2005 ("B Bonds")	1,350	11,162
Ex-warrant C Bonds 9 April 2006 ("C Bonds")	900	7,441
Ex-warrant D Bonds 9 April 2007 ("D Bonds")	900	7,441
	4,500	37,206

In the event that if the Bondholders do not elect to redeem the Bonds in accordance with the schedule mentioned above, the Company shall redeem the Bonds at par in accordance with the following schedule in (ii).

25. COUPON BONDS (Continued)

(ii) Date of redemption

	US$'000	Equivalent to approximately RMB'000
Ex-warrant A Bonds 9 April 2006 ("A Bonds")	1,350	11,162
Ex-warrant B Bonds 9 April 2007 ("B Bonds")	1,350	11,162
Ex-warrant C Bonds 9 April 2007 ("C Bonds")	900	7,441
Ex-warrant D Bonds 9 April 2008 ("D Bonds")	900	7,441
	4,500	37,206

In consideration of any Bonds being redeemed in (ii) above, the Company shall issue, subject to obtaining all relevant approvals, to each Bondholder, one additional warrant for each Bond. Further details of the warrants are set out in note 32.

The Company may redeem all or part of the Bonds at any time following two and a half years after 9 April 2003 at par.

(c) On 9 April 2005, the due dates for redemption of two tranches of the bonds in aggregate principal amount of US$2,700,000 (equivalent to approximately RMB22,324,000) ("A Bonds" and "B Bonds" collectively), the holders of A Bonds and B Bonds did not exercise their rights to redeem their bonds and accordingly the redemption date of A Bonds and B Bonds were extended to 9 April 2006 and 9 April 2007 respectively. According to the terms of the subscription agreements (the "Subscription Agreements") which also include the offering circular (the "Offering Circular") for the issue of the Bonds, entered into between the Company and the subscribers of the coupon bonds, the Company was required to issue additional warrants in the equivalent amount of US$2,700,000 (equivalent to approximately RMB22,324,000) to the holders of A Bonds and B Bonds in respect of which the redemption dates have been extended.

On 15 July 2005, the Company held a special general meeting of the shareholders (the "SGM") and an extraordinary general meeting of the warrant holders of the Company (the "EGM") in respect of the proposed issue of additional warrants (the "Resolution"). The Resolution was not passed at the SGM although it was passed at the EGM. Pursuant to the Subscription Agreements, the issue of additional warrants was subject to having obtained all relevant approvals, which included the approvals of both the shareholders and the warrantholders. Therefore, additional warrants had not been issued. The details were set out in the Company's announcement dated 15 July 2005.

Pursuant to the Offering Circular, the Bondholders can require the Company to redeem all the Bonds on demand. Therefore, the Bonds are classified as current liabilities. The Company has received demands for certain Bondholders to redeem the Bonds. The Company is currently negotiating of those Bondholders. As such, the Company has not redeemed any of the Bonds.

26. PROVISION FOR STAFF WELFARE BENEFIT

	The Group	
	2005	2004
	RMB'000	RMB'000
At 1 January	**14,109**	14,830
Provision made for the year	**1,076**	350
Utilised for the year	**(1,225)**	(1,071)
At 31 December	**13,960**	14,109

The provision can be utilised for the provision of collective welfare of the employees of Fuqing Longyu.

27. TAXATION PAYABLE

	The Group	
	2005	2004
	RMB'000	RMB'000
PRC enterprise income tax		
At 1 January	**6,050**	8,488
Provision for the year	**42,820**	42,379
Tax paid for the year	**(42,889)**	(44,817)
At 31 December	**5,981**	6,050

28. DEFERRED TAXATION

Deferred tax assets/(liabilities) recognised

The following is the major deferred tax assets/(liabilities) recognised and movements thereon during the current year:

	The Group				
	Provision for obsolete and slow-moving inventories RMB'000	Provision for bad and doubtful debts RMB'000	Other temporary differences RMB'000	Coupon bonds equity components RMB'000	Total RMB'000
At 1 January 2004 (restated)	332	628	33	(1,524)	(531)
Charged/(credited) to consolidated income statement (Note 9(a))	200	51	(33)	—	218
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 30(a))	—	—	—	358	358
At 31 December 2004	532	679	—	(1,166)	45
At 1 January 2005 (restated)	532	679	—	(1,666)	45
Charged/(credited) to consolidated income statement (Note 9(a))	—	174	335	—	509
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 30(a))	—	—	—	358	358
At 31 December 2005	532	853	335	(808)	912

	The Company				
	Provision for obsolete and slow-moving inventories RMB'000	Provision for bad and doubtful debts RMB'000	Other temporary differences RMB'000	Coupon bonds equity components RMB'000	Total RMB'000
At 1 January 2004 (restated)	—	—	—	(1,524)	(1,524)
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 30(a))	—	—	—	358	358
At 31 December 2004	—	—	—	(1,166)	(1,166)
At 1 January 2005 (restated)	—	—	—	(1,666)	(1,666)
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 30(a))	—	—	—	358	358
At 31 December 2005	—	—	—	(808)	(808)

29. SHARE CAPITAL

	Note	2005 Number of share '000	2005 Amount RMB'000	2004 Number of share '000	2004 Amount RMB'000
Authorised:					
— Ordinary shares of HK$0.05 (equivalent to approximately RMB0.053) each		2,000,000	106,000	2,000,000	106,000
Issued and fully paid:					
— Ordinary shares of HK$0.05 (equivalent to approximately RMB0.053) each					
At 1 January		918,472	48,679	820,463	43,485
Issue of shares upon a placement	(i)	—	—	80,000	4,240
Issue of bonus shares	(ii)	—	—	18,009	954
At 31 December		918,472	48,679	918,472	48,679

Notes:

(i) In February 2004, Regal Splendid Limited ("Regal Splendid"), the single largest shareholder of the Company, entered into an agreement with a placing agent and the Company, under which Regal Splendid placed 80,000,000 ordinary shares of the Company at a price of HK$0.64 (equivalent to approximately RMB0.6784) per ordinary share and subscribed for 80,000,000 ordinary shares of the Company at a price of HK$0.64 (equivalent to approximately RMB0.6784) per ordinary share. The net proceeds of approximately HK$46,918,000 (equivalent to approximately RMB49,733,000) was raised from this issue of shares.

(ii) By an ordinary resolution passed on 4 June 2004, the issued share capital was increased by way of a bonus issue by applying HK$900,463 (equivalent to approximately RMB954,000) charging to the share premium account in payment in full at par of 18,009,257 ordinary shares of HK$0.05 each on the basis of two new share for each one hundred shares held on 4 June 2004.

All shares authorised or issued since incorporation rank pari passu with each other in all respect.

30. RESERVES

(a) The Group

	Share premium RMB'000	Merger reserve RMB'000	Statutory reserve fund (i) RMB'000	Enterprise expansion reserve fund (ii) RMB'000	Employee share-based compensation reserve RMB'000	Coupon bonds equity component reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2004									
— as previously reported	102,780	41,421	20,767	10,081	—	—	—	255,200	430,249
— effect of adopting HKFRSs (Note 3(a))	1,840	—	—	—	—	6,890	—	(1,538)	7,192
— restated	104,620	41,421	20,767	10,081	—	6,890	—	253,662	437,441
Premium on the issuance of shares by									
— a private placement	50,032	—	—	—	—	—	—	—	50,032
— bonus issue of shares	(954)	—	—	—	—	—	—	—	(954)
Shares issue expenses	(4,539)	—	—	—	—	—	—	—	(4,539)
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 28)	—	—	—	—	—	358	—	—	358
Dividend approved in respect of previous year (Note13(b))	—	—	—	—	—	—	—	(19,090)	(19,090)
Profit for the year	—	—	—	—	—	—	—	119,853	119,853
At 31 December 2004	149,159	41,421	20,767	10,081	—	7,248	—	354,425	583,101
At 1 January 2005									
— as previously reported	147,319	41,421	20,767	10,081	—	—	—	358,014	577,602
— effect of adopting HKFRSs (Note 3(a))	1,840	—	—	—	—	7,248	—	(3,589)	5,499
— restated	149,159	41,421	20,767	10,081	—	7,248	—	354,425	583,101
Exchange adjustments	—	—	—	—	—	—	538	—	538
Dividend approved in respect of previous year (Note 13(b))	—	—	—	—	—	—	—	(29,207)	(29,207)
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 28)	—	—	—	—	—	358	—	—	358
Equity settled share-based transactions (Note 3(a))	—	—	—	—	138	—	—	—	138
Transfer	—	—	13,559	—	—	—	—	(13,559)	—
Profit for the year	—	—	—	—	—	—	—	113,461	113,461
At 31 December 2005	149,159	41,421	34,326	10,081	138	7,606	538	425,120	668,389

30. RESERVES (Continued)

(a) The Group (Continued)

(i) According to the relevant rules and regulations in the PRC, Fuqing Longyu is required to transfer approximately 10% of after-tax profit (after offsetting prior years' losses), based on its PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a statutory reserve fund until the balance of the fund reaches 50% of its registered capital. Thereafter, any further transfer can be made at directors' discretion. The statutory reserve fund can be utilized to offset prior years' losses, or be converted into paid-up capital on the condition that the statutory reserve fund should be maintained at a minimum of 25% of the registered capital of this subsidiary after conversion.

During the year, Fuqing Longyu transferred approximately RMB13,559,000 to statutory reserve fund. No appropriation to the statutory reserve fund for the year ended 31 December 2004 was made because the balance of such fund as at 31 December 2004 has reached 50% of its registered capital.

(ii) According to the relevant rules and regulations in the PRC, Fuqing Longyu may also appropriate a portion of its after-tax profit (after offsetting prior years' losses), based on its PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to an enterprise expansion reserve fund at the discretion of its board of directors. The enterprise expansion reserve fund can be used to convert into paid-up capital.

No such appropriations have been made for the year ended 31 December 2005 and 2004.

30. RESERVES (Continued)

(b) The Company

	Share premium RMB'000	Employee share-based compensation reserve RMB'000	Coupon bonds equity component reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2004						
— as previously reported	102,780	—	—	—	1,011	103,791
— effect of adopting HKFRSs (Note 3(a))	1,840	—	6,890	—	(1,538)	7,192
— restated	104,620	—	6,890	—	(527)	110,983
Premium on the issuance of shares by						
— a private placement	50,032	—	—	—	—	50,032
— bonus issue of shares	(954)	—	—	—	—	(954)
Shares issue expenses	(4,539)	—	—	—	—	(4,539)
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 28)	—	—	358	—	—	358
Dividend approved in respect of previous year (Note 13(b))	—	—	—	—	(19,090)	(19,090)
Profit for the year	—	—	—	—	17,452	17,452
At 31 December 2004	149,159	—	7,248	—	(2,165)	154,242
At 1 January 2005						
— as previously reported	147,319	—	—	—	1,424	148,743
— effect of adopting HKFRSs (Note 3(a))	1,840	—	7,248	—	(3,589)	5,499
— restated	149,159	—	7,248	—	(2,165)	154,242
Exchange adjustments	—	—	—	(3,166)	—	(3,166)
Dividend approved in respect of previous year (note 13(b))	—	—	—	—	(29,207)	(29,207)
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 28)	—	—	358	—	—	358
Equity settled share-based transactions (Note 3(a))	—	138	—	—	—	138
Profit for the year	—	—	—	—	21,983	21,983
At 31 December 2005	149,159	138	7,606	(3,166)	(9,389)	144,348

31. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "2002 Scheme") pursuant to a resolution passed on 17 January 2002 for the primary purpose of providing incentive to directors and eligible persons, and will expire on 16 January 2012. Under the 2002 Scheme, the Company may grant options to any person who is a director or employee (whether full-time or part-time) of the Group or any other groups or classes of suppliers, customers, sub-contractors or agents of the Group or any other persons from time to time determined by the Board as having contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company. No options have ever been granted under the 2002 Scheme since its adoption.

Pursuant to resolution passed at a special general meeting of the shareholders held on 4 June 2004, the Company terminated the 2002 Scheme and adopted a new share option scheme (the "2004 Scheme") that will expire on 3 June 2014.

The purpose of the 2004 Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to the employees, officers and directors of the Group; and to promote the long term financial success of the Company by aligning the interests of option holder to shareholders. Under the terms of the 2004 Scheme, the Board of the Company may, in its absolute discretion, grant options to any person employed by the Company or any subsidiary and any person who is an officer of a director of the Company or any subsidiary within the definition prescribed in the 2004 Scheme, to subscribe for shares in the Company.

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the 2004 Scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the 2004 Scheme. The total number of shares issued and to be issued upon exercise of the options, whether exercised or outstanding, in any 12-month period granted to each eligible person must not exceed 1% of the shares of the Company in issue. Any further grant to options in excess of the individual limit must be subject to shareholders' approval.

Options granted must be taken up within 28 days from the date of grant, upon payment of HK$1.00 on acceptance of the offer of options. The period within which the shares of the Company must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option. The subscription price is determined by the Board in its absolute discretion which, in any event, shall not be less than the highest of (a) the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of that option, which must be a business day; (b) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of that option; and (c) the nominal value for the time being of each share of the Company.

(Expressed in Renminbi unless otherwise stated)

31. SHARE OPTION SCHEME (Continued)

(a) Movements in share options

	Number of options 2005	2004
At 1 January	32,500,000	—
Issued during the year	500,000	32,500,000
At 31 December	33,000,000	32,500,000
Options vested at 31 December	33,000,000	32,500,000

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

Date of grant	Exercised period	Exercise price	Number of options 2005	2004
23 July 2004	23 July 2004 to 22 July 2014	HK$0.489	32,500,000	32,500,000
19 January 2005	19 January 2005 to 18 January 2015	HK$0.560	500,000	—
			33,000,000	32,500,000

(Expressed in Renminbi unless otherwise stated)

31. SHARE OPTION SCHEME (Continued)

(c) Details of share options by category of participant

Name or category of participant	Number of options At 1 January 2004	Granted during the year	At 31 December 2004 and At 1 January 2005	Granted during the year	At 31 December 2005	Date of grant	Exercisable period	Exercise price HK$
Directors:								
Yeung Chung Lung	—	3,000,000	3,000,000	—	3,000,000	23/07/2004	23/07/2004–22/07/2014	0.489
Yang Le	—	2,000,000	2,000,000	—	2,000,000	23/07/2004	23/07/2004–22/07/2014	0.489
Ni Chao Peng	—	2,000,000	2,000,000	—	2,000,000	23/07/2004	23/07/2004–22/07/2014	0.489
Yip Tze Wai, Albert	—	1,000,000	1,000,000	—	1,000,000	23/07/2004	23/07/2004–22/07/2014	0.489
Tsui Chun Chung, Arthur	—	—	—	500,000	500,000	19/01/2005	19/01/2005–18/01/2015	0.560
Employees:								
In aggregate	—	24,500,000	24,500,000	—	24,500,000	23/07/2004	23/07/2004–22/07/2014	0.489
Total	—	32,500,000	32,500,000	500,000	33,000,000			

1. No option has been exercised, lapsed or cancelled during the year ended 31 December 2005.

2. Since no option has been exercised during the year ended 31 December 2005, the weighted average closing price immediately before the exercise date (if exercised) is not applicable.

3. The fair value of the options granted on 19 January 2005 was HK$130,000 (equivalent to approximately RMB138,000). The fair value of options granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following parameters:

(a)	Exercise price	HK$0.560
(b)	10-years exchange fund notes	3.793% p.a.
(c)	Volatility	42.66%
(d)	Expected dividend yield	1.7%
(e)	Expected life	10 years

32. WARRANTS

The Company issued the coupon bonds (see note 25) with detachable warrants. The holders of warrants (the "Warrantholders") may exercise the subscription rights attaching to the warrants, in whole or in part, at any time from 10 April 2004 to 9 April 2008 (both days inclusive) to subscribe for the shares of the Company ("Subscription Shares") by either (i) delivering the bonds, so long as the bonds are not redeemed or (ii) paying the amount for the subscription, at an exercise price subject to adjustment ("Subscription Price").

The number of Subscription Shares to which a Warrantholder will be entitled for each warrant will be calculated by dividing the nominal amount of US$5,000 by the Subscription Price.

(a) Movement in warrants:

	Number of warrants	
	2005	2004
At 1 January and 31 December	**710**	710

(b) Terms of unexpired and unexercised warrants at balance sheet date:

		Number of warrants	
Date of grant	**Exercisable period**	**2005**	**2004**
10 April 2004	10 April 2004 to 9 April 2008	**710**	710

33. COMMITMENTS

(a) Capital commitments

As at the balance sheet date, the Group and the Company had the following commitments:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Acquisition of property, plant and equipment				
— contracted for but not provided for	**8,026**	—	**—**	—
— authorised but not contracted for	**4,342**	—	**—**	—
	12,368	—	**—**	—

33. COMMITMENTS (Continued)

(b) Operating lease commitments

As at the balance sheet date, the Group and the Company had the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**15,796**	12,873	**169**	618
After 1 year but within 5 years	**61,491**	67,012	**—**	173
After 5 years	**144,540**	150,540	**—**	—
	221,827	230,425	**169**	791

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to twenty years. None of the leases includes contingent rentals.

34. CONTINGENT LIABILITIES

At 31 December 2005, the Company had the contingent liabilities in respect of bank loan facilities extended to a subsidiary of approximately amounting to RMB41,500,000 (2004: RMB41,500,000).

35. COMPARATIVE FIGURES

As further explained in notes 2 and 3 to the financial statements, due to the adoption of HKFRSs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation.