

**5. SIGNIFICANT ACCOUNTING POLICIES – continued****Foreign currencies – continued**

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after January 1, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

**Operating leases**

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

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefits scheme are charged as an expense as they fall due.

**6. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies described in note 5, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect on the amounts recognised in the financial statements are disclosed below:

**6. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued****Impairment of trade debts**

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group are to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at December 31, 2005, the carrying value of trade receivables net of allowances was HK\$379,192,000.

**Allowances for inventories**

The management of the Group reviews the inventories listing on a product-by-product basis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. If the conditions of inventories are to deteriorate, resulting in an allowance of recoverable amounts, additional allowances may be required. As at December 31, 2005, the carrying value of inventories was stated at cost and approximately HK\$756,053,000.

**Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, impairment loss may arise. At the balance sheet date, the directors assessed the need to provide impairment loss on the goodwill and the carrying amount of the goodwill was sustained by the result.

**7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's major financial instruments include trade receivables, bills receivable, cash and cash equivalents, trade payables, bills payable and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

**7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued****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 at maintaining the flexibility in funding by arranging banking facilities and other external financing. Therefore, the risk is considered minimal.

**Foreign exchange risk**

The Group mainly operates in the PRC with most of the transactions denominated and settled in Renminbi (“RMB”). Though several subsidiaries of the Company have foreign currency sales, mainly in United States Dollars and Euro Dollars, which expose the Group to foreign currency risk, the directors consider that the risk is minimal to the Group at current stage. The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure closely and consider the usage of hedging instruments when the need arises.

**Interest rate risk**

The Group’s fair value interest rate risk relates primarily to fixed-rate bank loans (see note 30 for details of these loans), which are raised from the banks in the PRC. In relation to these fixed-rate loans, the Group aims to keep loans at rates that are comparable to those in the market. In order to achieve this result, the Group negotiated with the banks and entered into various revolving loans such that the interest rate associated with the loans is more or less variable. In this regard, the directors of the Company consider that the Group’s fair value interest rate risk is minimised.

**8. REVENUE AND SEGMENT INFORMATION**

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, and is stated net of value-added tax and sales returns during the year.

In accordance with the Group’s internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

**Business segments**

The Group reports its primary segment information by products which are bulk drugs, including penicillin series, cephalosporin series and vitamin C series, finished drugs and others. Segment information about these products is presented below:

**NOTES TO THE FINANCIAL STATEMENTS**

**(cont'd)**

*For the year ended December 31, 2005*

**8. REVENUE AND SEGMENT INFORMATION – continued**

For the year ended December 31, 2005:

|   | Bulk Drugs                              |  |  |                                      |                           |                                 | Consolidated<br><i>HK\$'000</i> |
|---|---|--|--|--------------------------------------|---------------------------|---------------------------------|---------------------------------|
|   | Penicillin<br>series<br><i>HK\$'000</i> | Cephalosporin<br>series<br><i>HK\$'000</i> | Vitamin C<br>series<br><i>HK\$'000</i> | Finished<br>Drugs<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Eliminations<br><i>HK\$'000</i> |                                 |
|   | REVENUE                                 |  |  |                                      |                           |                                 |                                 |
| External sales  | 525,091                                 | 855,131                                    | 692,507                                | 1,109,971                            | 9,365                     | –                               | 3,192,065                       |
| Inter-segment sales   | 219,615                                 | 137,039                                    | –                                      | –                                    | –                         | (356,654)                       | –                               |
| <b>TOTAL REVENUE</b>  | <b>744,706</b>                          | <b>992,170</b>                             | <b>692,507</b>                         | <b>1,109,971</b>                     | <b>9,365</b>              | <b>(356,654)</b>                | <b>3,192,065</b>                |
| Inter-segment sales are charged at prevailing market rates. |   |  |  |                                      |                           |                                 |                                 |
| SEGMENT RESULTS   | (9,220)                                 | 117,849                                    | 87,840                                 | 63,131                               | (21,728)                  |                                 | 237,872                         |
| Unallocated corporate expenses                              |   |  |  |                                      |                           |                                 | (19,642)                        |
|   |   |  |  |                                      |                           |                                 | 218,230                         |
| Share of results of a jointly controlled entity             |   |  |  |                                      | (1,099)                   |                                 | (1,099)                         |
| Finance costs   |   |  |  |                                      |                           |                                 | (68,139)                        |
| Profit before tax   |   |  |  |                                      |                           |                                 | 148,992                         |
| Income tax  |   |  |  |                                      |                           |                                 | 7,301                           |
| Profit for the year   |   |  |  |                                      |                           |                                 | <b>156,293</b>                  |

**NOTES TO THE FINANCIAL STATEMENTS**

**(cont'd)**

*For the year ended December 31, 2005*

**8. REVENUE AND SEGMENT INFORMATION – continued**

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2005:

|   | <b>Bulk Drugs</b> |                      |                  |                 |                 | <b>Others</b>   | <b>Consolidated</b> |
|---|-------------------|----------------------|------------------|-----------------|-----------------|-----------------|---------------------|
|   | <b>Penicillin</b> | <b>Cephalosporin</b> | <b>Vitamin C</b> | <b>Finished</b> |                 |                 |                     |
|   | series            | series               | series           | Drugs           | Others          |                 |                     |
|   | <i>HK\$'000</i>   | <i>HK\$'000</i>      | <i>HK\$'000</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |                     |
| <b>ASSETS</b>                           |                   |                      |                  |                 |                 |                 |                     |
| Segment assets                          | 1,676,073         | 1,161,005            | 1,314,016        | 919,060         | 242,235         | 5,312,389       |                     |
| Interest in a jointly controlled entity |                   |                      |                  |                 | 24,086          | 24,086          |                     |
| Unallocated corporate assets            |                   |                      |                  |                 |                 | 43,304          |                     |
|   |                   |                      |                  |                 |                 | 5,379,779       |                     |
| Consolidated total assets               |                   |                      |                  |                 |                 | 5,379,779       |                     |
| <b>LIABILITIES</b>                      |                   |                      |                  |                 |                 |                 |                     |
| Segment liabilities                     | 339,974           | 194,934              | 251,026          | 536,860         | 46,331          | 1,369,125       |                     |
| Unallocated corporate liabilities       |                   |                      |                  |                 |                 | 1,515,126       |                     |
|   |                   |                      |                  |                 |                 | 2,884,251       |                     |
| Consolidated total liabilities          |                   |                      |                  |                 |                 | 2,884,251       |                     |

For the year ended December 31, 2005:

|                               | <b>Bulk Drugs</b> |                      |                  |                 |                 | <b>Unallocated</b> | <b>Consolidated</b> |
|-------------------------------|-------------------|----------------------|------------------|-----------------|-----------------|--------------------|---------------------|
|                               | <b>Penicillin</b> | <b>Cephalosporin</b> | <b>Vitamin C</b> | <b>Finished</b> |                 |                    |                     |
|                               | series            | series               | series           | Drugs           | Others          |                    |                     |
|                               | <i>HK\$'000</i>   | <i>HK\$'000</i>      | <i>HK\$'000</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>    |                     |
| <b>OTHER INFORMATION</b>      |                   |                      |                  |                 |                 |                    |                     |
| Capital additions             | 292,576           | 23,469               | 78,621           | 37,424          | 106,907         | 3                  | 539,000             |
| Depreciation and amortisation | 82,215            | 90,086               | 64,235           | 20,037          | 9,346           | 596                | 266,515             |
|                               |                   |                      |                  |                 |                 |                    | 266,515             |

**NOTES TO THE FINANCIAL STATEMENTS**

**(cont'd)**

*For the year ended December 31, 2005*

**8. REVENUE AND SEGMENT INFORMATION – continued**

For the year ended December 31, 2004:

|   | Bulk Drugs      |                 |                 |                 |                 | Eliminations    | Consolidated    |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|   | Penicillin      | Cephalosporin   | Vitamin C       | Finished        | Others          |                 |                 |
|   | series          | series          | series          | Drugs           | series          |                 |                 |
|   | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
|   |                 |                 |                 |                 |                 |                 | (Restated)      |
| REVENUE   |                 |                 |                 |                 |                 |                 |                 |
| External sales  | 360,782         | 504,670         | 626,124         | 947,785         | 11,288          | –               | 2,450,649       |
| Inter-segment sales   | 184,779         | 90,872          | –               | –               | –               | (275,651)       | –               |
|   | 545,561         | 595,542         | 626,124         | 947,785         | 11,288          | (275,651)       | 2,450,649       |
|   | 545,561         | 595,542         | 626,124         | 947,785         | 11,288          | (275,651)       | 2,450,649       |
| Inter-segment sales are charged at prevailing market rates. |                 |                 |                 |                 |                 |                 |                 |
| SEGMENT RESULTS   | 5,307           | 34,625          | 189,694         | 67,965          | (4,326)         |                 | 293,265         |
| Unallocated corporate expenses                              |                 |                 |                 |                 |                 |                 | (20,148)        |
|   |                 |                 |                 |                 |                 |                 | 273,117         |
| Share of results of a jointly controlled entity             |                 |                 |                 |                 | 3,419           |                 | 3,419           |
| Finance costs   |                 |                 |                 |                 |                 |                 | (27,959)        |
| Profit before tax   |                 |                 |                 |                 |                 |                 | 248,577         |
| Income tax  |                 |                 |                 |                 |                 |                 | (3,185)         |
| Profit for the year   |                 |                 |                 |                 |                 |                 | 245,392         |

**NOTES TO THE FINANCIAL STATEMENTS**

**(cont'd)**

*For the year ended December 31, 2005*

**8. REVENUE AND SEGMENT INFORMATION – continued**

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2004:

|   | <b>Bulk Drugs</b> |                      |                  |                 |                 | <b>Others</b>   | <b>Consolidated</b>     |
|---|-------------------|----------------------|------------------|-----------------|-----------------|-----------------|-------------------------|
|   | <b>Penicillin</b> | <b>Cephalosporin</b> | <b>Vitamin C</b> | <b>Finished</b> |                 |                 |                         |
|   | series            | series               | series           | Drugs           | Others          |                 |                         |
|   | <i>HK\$'000</i>   | <i>HK\$'000</i>      | <i>HK\$'000</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>         |
| <b>ASSETS</b>                           |                   |                      |                  |                 |                 |                 |                         |
| Segment assets                          | 1,347,706         | 991,293              | 1,241,475        | 806,552         | 188,427         |                 | 4,575,453               |
| Interest in a jointly controlled entity |                   |                      |                  |                 | 24,654          |                 | 24,654                  |
| Unallocated corporate assets            |                   |                      |                  |                 |                 |                 | 107,139                 |
|   |                   |                      |                  |                 |                 |                 | <u>107,139</u>          |
| Consolidated total assets               |                   |                      |                  |                 |                 |                 | <u><u>4,707,246</u></u> |
| <b>LIABILITIES</b>                      |                   |                      |                  |                 |                 |                 |                         |
| Segment liabilities                     | 249,335           | 238,228              | 280,761          | 511,793         | 24,970          |                 | 1,305,087               |
| Unallocated corporate liabilities       |                   |                      |                  |                 |                 |                 | 1,133,062               |
|   |                   |                      |                  |                 |                 |                 | <u>1,133,062</u>        |
| Consolidated total liabilities          |                   |                      |                  |                 |                 |                 | <u><u>2,438,149</u></u> |

For the year ended December 31, 2004:

|                               | <b>Bulk Drugs</b> |                      |                  |                 |                 | <b>Unallocated</b> | <b>Consolidated</b> |
|-------------------------------|-------------------|----------------------|------------------|-----------------|-----------------|--------------------|---------------------|
|                               | <b>Penicillin</b> | <b>Cephalosporin</b> | <b>Vitamin C</b> | <b>Finished</b> |                 |                    |                     |
|                               | series            | series               | series           | Drugs           | Others          |                    |                     |
|                               | <i>HK\$'000</i>   | <i>HK\$'000</i>      | <i>HK\$'000</i>  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>    | <i>HK\$'000</i>     |
| <b>OTHER INFORMATION</b>      |                   |                      |                  |                 |                 |                    |                     |
| Capital additions             | 660,978           | 230,017              | 426,620          | 85,929          | 72,062          | 30                 | 1,475,636           |
| Depreciation and amortisation | 48,617            | 67,811               | 42,377           | 22,804          | 1,570           | 645                | 183,824             |
|                               |                   |                      |                  |                 |                 |                    | <u>183,824</u>      |

**NOTES TO THE FINANCIAL STATEMENTS**

**(cont'd)**

*For the year ended December 31, 2005*

**8. REVENUE AND SEGMENT INFORMATION – continued**

**Geographical segments**

The Group's operations are located in the PRC, and the following table provides an analysis of the Group's sales by geographical market:

|                         | <b>Revenue</b>          |                         |
|-------------------------|-------------------------|-------------------------|
|                         | <b>2005</b>             | <b>2004</b>             |
|                         | <i>HK\$'000</i>         | <i>HK\$'000</i>         |
| The PRC                 | <b>2,325,016</b>        | 1,793,805               |
| Asia other than the PRC | <b>408,984</b>          | 268,898                 |
| Europe                  | <b>252,810</b>          | 188,396                 |
| America                 | <b>175,927</b>          | 171,874                 |
| Others                  | <b>29,328</b>           | 27,676                  |
|                         | <b><u>3,192,065</u></b> | <b><u>2,450,649</u></b> |

Analysis of carrying amounts of segment assets, and additions to property, plant and equipment and intangible assets are not presented as over 90% of the amounts involved are located in the PRC.

**9. FINANCE COSTS**

|  | <b>2005</b>          | <b>2004</b>          |
|--|----------------------|----------------------|
|  | <i>HK\$'000</i>      | <i>HK\$'000</i>      |
| Interest on:   |                      |                      |
| – bank loans wholly repayable within five years  | <b>53,326</b>        | 13,937               |
| – loan from ultimate holding company wholly repayable within five years (note 28)                  | <b>1,651</b>         | 3,283                |
| – bills receivable discounted without recourse   | <b>14,705</b>        | 12,714               |
| Bank loan arrangement fees   | <b>5,180</b>         | 1,364                |
| Imputed interest expense on non-current interest-free loan from ultimate holding company (note 31) | <b>278</b>           | –                    |
|  | <b><u>75,140</u></b> | <b><u>31,298</u></b> |
| Total borrowing costs  | <b>75,140</b>        | 31,298               |
| Less: interest capitalised in construction in progress   | <b>(7,001)</b>       | (3,339)              |
|  | <b><u>68,139</u></b> | <b><u>27,959</u></b> |

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.5% (2004: 2.6%) to expenditure on qualifying assets.



**NOTES TO THE FINANCIAL STATEMENTS**

(cont'd)

*For the year ended December 31, 2005*

**10. PROFIT BEFORE TAX**

|  | <b>2005</b>            | 2004                          |
|--|------------------------|-------------------------------|
|  | <b><i>HK\$'000</i></b> | <i>HK\$'000</i><br>(Restated) |
| Profit before tax has been arrived at after charging (crediting):  |                        |                               |
| Employee benefits expenses including those of directors  | <b>229,034</b>         | 189,938                       |
| Contribution to retirement benefits schemes including those of directors                                     | <b>41,222</b>          | 36,470                        |
|  | <hr/>                  | <hr/>                         |
| Total employee benefits expenses including those of directors  | <b>270,256</b>         | 226,408                       |
|  | <hr/>                  | <hr/>                         |
| Amortisation (included in administrative expenses) of:   |                        |                               |
| – intangible assets  | <b>16,585</b>          | 12,405                        |
| – goodwill   | –                      | 3,183                         |
| Depreciation of property, plant and equipment  | <b>245,456</b>         | 162,621                       |
| Amortisation of prepaid lease payments   | <b>4,474</b>           | 5,615                         |
|  | <hr/>                  | <hr/>                         |
| Total depreciation and amortisation  | <b>266,515</b>         | 183,824                       |
|  | <hr/>                  | <hr/>                         |
| Auditors' remuneration   | <b>1,600</b>           | 1,480                         |
| Cost of inventories recognised as an expense   | <b>2,498,501</b>       | 1,819,804                     |
| Loss on disposal of property, plant and equipment  | <b>15,780</b>          | 5,553                         |
| Research and development expenses  | <b>6,217</b>           | 4,501                         |
| Share of tax of a jointly controlled entity (included<br>in share of results of a jointly controlled entity) | –                      | 589                           |
| Interest income  | <b>(2,687)</b>         | (2,454)                       |
|  | <hr/> <hr/>            | <hr/> <hr/>                   |

**11. INCOME TAX**

|                                    | <b>2005</b>            | 2004                          |
|------------------------------------|------------------------|-------------------------------|
|                                    | <b><i>HK\$'000</i></b> | <i>HK\$'000</i><br>(Restated) |
| The tax (credit) charge comprises: |                        |                               |
| PRC Enterprise Income Tax          |                        |                               |
| – current year                     | <b>19,335</b>          | 36,711                        |
| – overprovision in prior years     | <b>(3,813)</b>         | (11,393)                      |
| – tax credits/refunds              | <b>(22,823)</b>        | (22,133)                      |
|                                    | <hr/>                  | <hr/>                         |
|                                    | <b>(7,301)</b>         | 3,185                         |
|                                    | <hr/> <hr/>            | <hr/> <hr/>                   |

No Hong Kong Profits Tax is payable by the Company nor its Hong Kong subsidiaries since they either had no assessable profits or incurred tax losses for both years.

**11. INCOME TAX – continued**

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to exemption and relief from PRC income tax starting from their first profit-making years.

In addition, pursuant to approvals granted by the relevant tax authorities, certain of the Company's subsidiaries were granted tax credits/refunds which were mainly derived from the following activities:

- a) Two subsidiaries of the Company were entitled to tax refunds on the basis that such subsidiaries have, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to two PRC subsidiaries set up in previous years.
- b) Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits can be used to offset against current and future tax charges of the subsidiaries, subject to certain conditions as specified in each approval document from the relevant tax authorities.

The income tax for both years represents income tax provision which has taken into account of the above-mentioned tax incentives.

The tax (credit) charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

|   | <b>2005</b>           | 2004            |
|---|-----------------------|-----------------|
|   | <i>HK\$'000</i>       | <i>HK\$'000</i> |
|   |                       | (Restated)      |
| Profit before tax   | <u><b>148,992</b></u> | <u>248,577</u>  |
| Tax at the domestic income tax rate of 27% (2004: 27%)                        | <b>40,228</b>         | 67,116          |
| Tax effect of income not taxable for tax purpose                              | <b>(2,006)</b>        | (394)           |
| Tax effect of expenses not deductible for tax purpose                         | <b>25,839</b>         | 13,632          |
| Tax effect of share results of a jointly controlled entity                    | <b>297</b>            | (923)           |
| Tax effect of tax losses not recognised                                       | <b>11,368</b>         | 23              |
| Utilisation of tax losses previously not recognised                           | <b>(23)</b>           | –               |
| Effect of tax exemption and relief granted to PRC subsidiaries                | <b>(56,410)</b>       | (29,117)        |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | <b>42</b>             | (13,626)        |
| Tax credits/refunds granted to PRC subsidiaries                               | <b>(22,823)</b>       | (22,133)        |
| Overprovision in respect of prior years                                       | <b>(3,813)</b>        | (11,393)        |
|   | <hr/>                 | <hr/>           |
| Tax (credit) charge for the year  | <u><b>(7,301)</b></u> | <u>3,185</u>    |

At the balance sheet date, the Group had unused tax losses of HK\$51,376,000 (2004: HK\$69,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2010.

There was no other significant unprovided deferred taxation for the year or at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS**

**(cont'd)**

*For the year ended December 31, 2005*

**12. DIRECTORS' EMOLUMENTS**

The emoluments paid or payable to each of the 13 (2004: 11) directors were as follows:

**2005**

|  | Cai<br>Dong<br>Chen | Ding<br>Er Gang | Wei<br>Fu Min | Yue Jin    | Ji<br>Jian<br>Ming | Yao<br>Shi An | Feng<br>Zhen<br>Ying | Chak<br>Kin<br>Man | Lee<br>Ka Sze,<br>Carmelo | Huo<br>Zhen<br>Xing | Qi<br>Mou Jia | Guo<br>Shi<br>Chang | Chan Siu<br>Keung,<br>Leonard | Total         |
|--|---------------------|-----------------|---------------|------------|--------------------|---------------|----------------------|--------------------|---------------------------|---------------------|---------------|---------------------|-------------------------------|---------------|
|  | HK\$'000            | HK\$'000        | HK\$'000      | HK\$'000   | HK\$'000           | HK\$'000      | HK\$'000             | HK\$'000           | HK\$'000                  | HK\$'000            | HK\$'000      | HK\$'000            | HK\$'000                      | HK\$'000      |
| Fees   | 60                  | 55              | 60            | 60         | 50                 | 50            | 60                   | 5                  | 240                       | 60                  | 60            | 60                  | 120                           | 940           |
| Other emoluments:                              |                     |                 |               |            |                    |               |                      |                    |                           |                     |               |                     |                               |               |
| Salaries and other benefits                    | 2,715               | 1,760           | 2,027         | 173        | 172                | 122           | 206                  | 87                 | -                         | -                   | -             | -                   | -                             | 7,262         |
| Contribution to retirement<br>benefits schemes | 217                 | 145             | 172           | 7          | 6                  | 5             | 7                    | 8                  | -                         | -                   | -             | -                   | -                             | 567           |
| Performance related incentive<br>payments      | 600                 | 1,000           | 450           | 207        | 133                | 158           | 253                  | 25                 | -                         | -                   | -             | -                   | -                             | 2,826         |
| <b>Total emoluments</b>                        | <b>3,592</b>        | <b>2,960</b>    | <b>2,709</b>  | <b>447</b> | <b>361</b>         | <b>335</b>    | <b>526</b>           | <b>125</b>         | <b>240</b>                | <b>60</b>           | <b>60</b>     | <b>60</b>           | <b>120</b>                    | <b>11,595</b> |

**2004**

|  | Cai<br>Dong<br>Chen | Ding<br>Er Gang | Wei<br>Fu Min | Yue Jin    | Feng<br>Zhen<br>Ying | Qu Ji<br>Guang | Lee<br>Ka Sze,<br>Carmelo | Huo<br>Zhen<br>Xing | Qi<br>Mou Jia | Guo Shi<br>Chang | Chan Siu<br>Keung,<br>Leonard | Total         |
|--|---------------------|-----------------|---------------|------------|----------------------|----------------|---------------------------|---------------------|---------------|------------------|-------------------------------|---------------|
|  | HK\$'000            | HK\$'000        | HK\$'000      | HK\$'000   | HK\$'000             | HK\$'000       | HK\$'000                  | HK\$'000            | HK\$'000      | HK\$'000         | HK\$'000                      | HK\$'000      |
| Fees   | 60                  | 60              | 60            | 60         | 60                   | -              | 240                       | 60                  | 60            | 60               | 60                            | 780           |
| Other emoluments:                              |                     |                 |               |            |                      |                |                           |                     |               |                  |                               |               |
| Salaries and other benefits                    | 2,385               | 1,753           | 1,848         | 228        | 183                  | 500            | -                         | -                   | -             | -                | -                             | 6,897         |
| Contribution to retirement<br>benefits schemes | 89                  | 67              | 72            | 10         | 5                    | -              | -                         | -                   | -             | -                | -                             | 243           |
| Performance related incentive<br>payments      | 720                 | 550             | 550           | 155        | 178                  | -              | -                         | -                   | -             | -                | -                             | 2,153         |
| <b>Total emoluments</b>                        | <b>3,254</b>        | <b>2,430</b>    | <b>2,530</b>  | <b>453</b> | <b>426</b>           | <b>500</b>     | <b>240</b>                | <b>60</b>           | <b>60</b>     | <b>60</b>        | <b>60</b>                     | <b>10,073</b> |

No directors waived any emoluments in the years ended December 31, 2005 and 2004.

**NOTES TO THE FINANCIAL STATEMENTS**

**(cont'd)**

*For the year ended December 31, 2005*

**13. EMPLOYEES' EMOLUMENTS**

Of the five individuals with the highest emoluments in the Group, four (2004: four) were directors of the Company during the whole year of 2005 whose emoluments are included in note 12 above. The emoluments of the remaining individual who was appointed as an executive director of the Company during the year were as follows:

|   | <b>2005</b>         | 2004            |
|---|---------------------|-----------------|
|   | <i>HK\$'000</i>     | <i>HK\$'000</i> |
| Director's fee                              | <b>5</b>            | –               |
| Salaries and other benefits                 | <b>820</b>          | 689             |
| Contributions to retirement benefits scheme | <b>74</b>           | 34              |
| Performance related incentive payments      | <b>300</b>          | 200             |
|   | <u><b>1,199</b></u> | <u>923</u>      |

**14. DIVIDEND**

No dividend was proposed by the directors for the years ended December 31, 2005 and 2004.

An amount of HK\$107,669,000 was paid in 2004 in respect of the final dividend of HK7.0 cents per share for the year ended December 31, 2003.

**15. EARNINGS PER SHARE**

The calculation of the basic earnings per share attributable to the equity holders of the Company for the year ended December 31, 2005 is based on the profit for the year of HK\$156,518,000 (2004: HK\$245,011,000) and the 1,538,124,661 shares (2004: 1,538,124,661 shares) in issue during the year.

No diluted earnings per share is presented for the years ended December 31, 2005 and 2004 as there was no potential ordinary shares in issue during both years.

**NOTES TO THE FINANCIAL STATEMENTS**

(cont'd)

*For the year ended December 31, 2005*

**16. PROPERTY, PLANT AND EQUIPMENT**

|                         | <b>Buildings<br/>in the PRC<br/>HK\$'000</b> | <b>Plant and<br/>machinery<br/>HK\$'000</b> | <b>Furniture,<br/>fixtures<br/>and office<br/>equipment<br/>HK\$'000</b> | <b>Motor<br/>vehicles<br/>HK\$'000</b> | <b>Construction<br/>in progress<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
|-------------------------|--|---|--|--|--|---------------------------|
| <b>THE GROUP</b>        |  |   |  |  |  |                           |
| <b>COST</b>             |  |   |  |  |  |                           |
| At January 1, 2004      | 350,889                                      | 1,414,128                                   | 4,311  | 11,233                                 | 359,820  | 2,140,381                 |
| Additions               | 6,937  | 63,326                                      | 6,476  | 3,199                                  | 1,366,828  | 1,446,766                 |
| Transfers               | 148,849                                      | 735,766                                     | 10   | –                                      | (884,625)  | –                         |
| Disposals               | (4,410)                                      | (15,000)                                    | (18)   | (2,641)                                | –  | (22,069)                  |
|                         | <hr/>  | <hr/>                                       | <hr/>  | <hr/>                                  | <hr/>  | <hr/>                     |
| At December 31, 2004    | 502,265                                      | 2,198,220                                   | 10,779   | 11,791                                 | 842,023  | 3,565,078                 |
| Exchange adjustments    | 11,535                                       | 50,485                                      | 163  | 248                                    | 19,335   | 81,766                    |
| Additions               | 5,292  | 31,603                                      | 1,561  | 7,075                                  | 429,943  | 475,474                   |
| Transfers               | 322,330                                      | 866,447                                     | 932  | –                                      | (1,189,709)                                      | –                         |
| Disposals               | (955)  | (38,107)                                    | (1,770)  | (3,304)                                | –  | (44,136)                  |
|                         | <hr/>  | <hr/>                                       | <hr/>  | <hr/>                                  | <hr/>  | <hr/>                     |
| At December 31, 2005    | 840,467                                      | 3,108,648                                   | 11,665   | 15,810                                 | 101,592  | 4,078,182                 |
| <b>DEPRECIATION</b>     |  |   |  |  |  |                           |
| At January 1, 2004      | 49,800                                       | 446,327                                     | 1,109  | 6,937                                  | –  | 504,173                   |
| Provided for the year   | 19,587                                       | 139,766                                     | 1,396  | 1,872                                  | –  | 162,621                   |
| Eliminated on disposals | (489)  | (8,625)                                     | (13)   | (906)                                  | –  | (10,033)                  |
|                         | <hr/>  | <hr/>                                       | <hr/>  | <hr/>                                  | <hr/>  | <hr/>                     |
| At December 31, 2004    | 68,898                                       | 577,468                                     | 2,492  | 7,903                                  | –  | 656,761                   |
| Exchange adjustments    | 2,135  | 16,601                                      | 62   | 204                                    | –  | 19,002                    |
| Provided for the year   | 32,208                                       | 208,461                                     | 2,191  | 2,596                                  | –  | 245,456                   |
| Eliminated on disposals | (842)  | (17,077)                                    | (419)  | (1,648)                                | –  | (19,986)                  |
|                         | <hr/>  | <hr/>                                       | <hr/>  | <hr/>                                  | <hr/>  | <hr/>                     |
| At December 31, 2005    | 102,399                                      | 785,453                                     | 4,326  | 9,055                                  | –  | 901,233                   |
| <b>CARRYING VALUES</b>  |  |   |  |  |  |                           |
| At December 31, 2005    | <u>738,068</u>                               | <u>2,323,195</u>                            | <u>7,339</u>   | <u>6,755</u>                           | <u>101,592</u>                                   | <u>3,176,949</u>          |
| At December 31, 2004    | <u>433,367</u>                               | <u>1,620,752</u>                            | <u>8,287</u>   | <u>3,888</u>                           | <u>842,023</u>                                   | <u>2,908,317</u>          |

At December 31, 2005, borrowing cost of HK\$7,001,000 (2004: HK\$3,339,000) was capitalised and included in construction in progress.

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of their ownership. At December 31, 2005, the net book value of buildings in the PRC for which the Group had not been granted formal title amounted to HK\$483,425,000 (2004: HK\$186,846,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

**NOTES TO THE FINANCIAL STATEMENTS**

(cont'd)

*For the year ended December 31, 2005*

**16. PROPERTY, PLANT AND EQUIPMENT – continued**

|                        | <b>Furniture,<br/>fixtures<br/>and office<br/>equipment</b> | <b>Motor<br/>vehicles</b> | <b>Total</b>    |
|------------------------|---|---------------------------|-----------------|
|                        | <i>HK\$'000</i>   | <i>HK\$'000</i>           | <i>HK\$'000</i> |
| <b>THE COMPANY</b>     |   |                           |                 |
| <b>COST</b>            |   |                           |                 |
| At January 1, 2004     | 2,192   | 1,005                     | 3,197           |
| Additions              | 30  | –                         | 30              |
|                        | <hr/>   | <hr/>                     | <hr/>           |
| At December 31, 2004   | 2,222   | 1,005                     | 3,227           |
| Additions              | 3   | –                         | 3               |
|                        | <hr/>   | <hr/>                     | <hr/>           |
| At December 31, 2005   | 2,225   | 1,005                     | 3,230           |
|                        | <hr/>   | <hr/>                     | <hr/>           |
| <b>DEPRECIATION</b>    |   |                           |                 |
| At January 1, 2004     | 221   | 653                       | 874             |
| Provided for the year  | 444   | 201                       | 645             |
|                        | <hr/>   | <hr/>                     | <hr/>           |
| At December 31, 2004   | 665   | 854                       | 1,519           |
| Provided for the year  | 445   | 151                       | 596             |
|                        | <hr/>   | <hr/>                     | <hr/>           |
| At December 31, 2005   | 1,110   | 1,005                     | 2,115           |
|                        | <hr/>   | <hr/>                     | <hr/>           |
| <b>CARRYING VALUES</b> |   |                           |                 |
| At December 31, 2005   | <u>1,115</u>  | <u>–</u>                  | <u>1,115</u>    |
| At December 31, 2004   | <u>1,557</u>  | <u>151</u>                | <u>1,708</u>    |

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

|  |           |
|--|-----------|
| Buildings in the PRC                     | 3.3% – 5% |
| Plant and machinery                      | 5% – 10%  |
| Furniture, fixtures and office equipment | 20%       |
| Motor vehicles                           | 20%       |

**17. PREPAID LEASE PAYMENTS**

The Group's prepaid lease payments of HK\$159,086,000 (2004: HK\$104,287,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK\$4,474,000 (2004: HK\$2,837,000) is classified under current assets for reporting purpose.