Notes to the Financial Statements
For the year ended 31 December 2006
(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. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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 on the Stock Exchange.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements. The accounting policies of the Group and the Company after the adoption of these new and revised HKFRSs have been summarised below.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the financial statements *(Continued)*

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 2(g)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(g)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired (see note 2(g)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

e) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(g)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease; and

– other items of plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Property, plant and equipment *(Continued)*

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Construction in-progress is properties under development and stated at cost less any accumulated impairment losses. Cost comprise the prepaid land lease payments together with any other direct costs attributable to the development of the properties. Professional fees and other related expenses incurred during the construction or development phase of the property are capitalised as part of the costs of that property. Once the construction or developments of these properties are completed, these properties are reclassified to the appropriate asset categories.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Leased assets *(Continued)*

i) *Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

g) Impairment of assets

i) *Impairment of investments in debt and equity securities and other receivables*

Investments in other current or non-current receivables are stated at cost or amortised cost reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Impairment of assets *(Continued)*

i) Impairment of investments in debt and equity securities and other receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired.

– property, plant and equipment;

– leasehold land and rental prepayments; and

– investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– 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).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Impairment of assets *(Continued)*

ii) *Impairment of other assets* (Continued)

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss 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 profit or loss in the year in which the reversals are recognised.

h) Inventories

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

Cost is calculated using the weighted average cost formula 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.

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 the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(g)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Coupon bonds and convertible notes

Coupon bonds and convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity component reserve.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in equity component reserve until the conversion option is exercised (in which case the balance stated in equity component reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in equity component reserve will be released to the retained profits. No gain and loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

k) 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 the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2 (v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) 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 consolidated cash flow statement.

n) 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 mainland China, are recognised as an expense in the profit or loss 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 profit or loss, 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

p) 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.

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 profit or loss 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 or other sales taxes 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 interest method.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

s) Borrowing costs

Borrowing costs are expensed in profit or loss in the period 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 expenditure for the asset is 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 complete.

t) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Related parties *(Continued)*

iv) the party is a member of key management personnel of the Group or the Group's parent or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an equity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

u) 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.

In accordance with the Group's internal financial reporting system, 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 entities 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 period 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, tax balances, corporate and financing expenses.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) Financial guarantees issued, provisions and contingent liabilities

i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortisation in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(v)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (2) the amount of that claims on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

ii) Other provisions and contingent liabilities

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

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

3. CHANGES IN ACCOUNTING POLICIES

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (see note 37). The following standards, amendments and interpretations which are not relevant to the Group's operations have been issued and effective as the time of preparing this information:

- HKAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures
- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 6 – Exploration for and Evaluation of Mineral Resources;
- HKFRSs 1 & 6 Amendments – First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources;
- HKFRS-Int 4 – Determining whether an Arrangement contains a Lease;
- HKFRS-Int 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts" is effective for annual periods beginning on or after 1 January 2006.

Financial guarantee contracts were previously only disclosed as contingent liabilities as they did not fall within the scope of HKAS 39. Following the introduction of HKAS 39 and HKFRS 4 (Amendments), financial guarantee contracts should be treated as financial liabilities. Financial guarantee contracts should be measured initially at fair value and subsequently at the higher of (i) the amount determined in accordance with HKAS 37 – Provisions, Contingent Liabilities and Contingent Assets and (ii) the amount initially recognized less, where appropriate, cumulative amortization recognized over the life of the guarantee on a straight-line basis.

The adoption of HKAS 39 and HKFRS 4 (Amendments) has no impact on the consolidated balance sheet, but has the following impact on the Company's balance sheet as at 1 January 2005, 31 December 2005 and 2006:

	1 January 2005	**31 December 2005**	**31 December 2006**
	RMB'000	RMB'000	RMB'000
Increase in assets			
Increase in investment in subsidiaries	17	17	17
	17	17	17
Increase in liabilities			
Increase in financial guarantee contract	17	17	17
	17	17	17

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.

b) Write-down of inventories

Inventories are written down to net realisable value based on an assessment of the realisability of inventories. Write-down 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-down 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 a variety of financial risks: foreign exchange risk, credit risk, interest rate risk and liquidity risk.

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.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

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 AND OTHER REVENUE

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.

During the year, the Group had revenue and gains arising from the following activities:

	2006	2005
	RMB'000	RMB'000
Turnover	**545,739**	432,652
Interest income from banks	**7,738**	3,352
Reversal of impairment loss of bad and doubtful debts	**3,553**	–
Subsidy income*	**100**	430
Sundry income	**38**	84
Other revenue	**11,429**	3,866
Total	**557,168**	436,518

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

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2006 RMB'000	2005 RMB'000
a) Finance costs		
Interest on borrowings wholly repayable within five years		
– bank loans and overdraft	**14,026**	4,332
– effective interest expense on coupon bonds and convertible notes	**7,545**	2,972
	21,571	7,304
b) Staff costs		
Contributions to Mandatory Provident Funds Scheme	**55**	57
Contributions to mainland China retirement scheme	**959**	795
Retirement costs	**1,014**	852
Share-based payments	**7,431**	138
Salaries, wages and other benefits	**9,694**	9,151
	18,139	10,141
c) Other items		
Amortisation of leasehold land and rental prepayments	**15,566**	13,732
Auditors' remuneration		
– provision for the current year	**529**	578
Cost of inventories #	**297,212**	231,860
Depreciation of property, plant and equipment	**17,749**	17,653
Impairment loss of rental prepayments	**–**	3,333
Loss on disposal of property, plant and equipment	**–**	4,913
Net exchange loss	**1,909**	1,148
Operating lease charges in respect of land and buildings	**1,018**	743
Impairment loss of bad and doubtful debts	**–**	720
Write-down of obsolete and slow moving inventories	**–**	101

\# *Cost of inventories includes approximately RMB20,773,000 (2005: RMB19,541,000) relating to staff costs and depreciation expenses.*

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

a) Taxation in the consolidated income statement represents:

	2006 **RMB'000**	2005 RMB'000
Current tax		
Mainland China enterprise income tax for the year	**53,625**	42,820
Deferred tax		
Origination and reversal of temporary differences (note 28)	**622**	(509)
	54,247	42,311

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 is 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 (2005: Nil).

iii) **Mainland China 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 mainland China, is subject to mainland China enterprise income tax at a rate of 24% for the year (2005: 24%).

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	2006 RMB'000	2005 RMB'000
Profit before tax	192,253	155,772
Notional tax on profit before tax, calculated at the applicable rate	46,130	37,385
Tax effect of non-deductible expenses	8,104	5,138
Tax effect of non-taxable income	(4)	–
Recognised of deferred tax assets that previously not recognised	–	(212)
Tax loss utilized	17	–
Actual tax expense	54,247	42,311

9. DIRECTORS' REMUNERATION

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

	2006				
	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	–	689	1,014	12	1,715
Yang Le	–	61	1,014	–	1,075
Ni Chao Peng	–	60	1,014	–	1,074
Yip Tze Wai, Albert	–	252	203	12	467
	–	1,062	3,245	24	4,331
Independent non-executive directors:					
Tsui Chun Chung, Arthur	122	–	–	–	122
Lu Ze Jian	–	–	–	–	–
Leung Chiu Shing	122	–	101	–	223
	244	–	101	–	345
Total	244	1,062	3,346	24	4,676

9. DIRECTORS' REMUNERATION *(Continued)*

	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

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 2006 are disclosed in note 31 to the financial statements.

During the years 31 December 2006 and 2005, 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.

The remuneration of the directors are within the following bands:

	2006 Number of individuals	2005 Number of individuals
RMBNil – RMB1,050,000 (approximately equivalent to HK$1,000,000)	**4**	7
RMB1,050,001 – RMB1,575,000 (approximately equivalent to HK$1,000,001 to HK$1,500,000)	**2**	–
RMB1,575,001 – RMB2,100,000 (approximately equivalent to HK$1,500,001 to HK$2,000,000)	**1**	–
	7	7

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals during the year included three (2005: three) directors, details of whose emoluments are disclosed in note 9 above. The aggregate of the emoluments in respect of the remaining two (2005: two) individuals are as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	**801**	956
Share-based payments	**1,164**	–
Retirement scheme contributions	**24**	25
	1,989	981

The emoluments of the two (2005: two) individuals are within the following band:

	2006 Number of individuals	2005 Number of individuals
RMBNil – RMB1,050,000 (approximately equivalent to HK$1,000,000)	**1**	2
RMB1,050,001 – RMB1,575,000 (approximately equivalent to HK$1,000,001 to HK$1,500,000)	**1**	–
	2	2

During the years 31 December 2006 and 2005, 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.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

During the year, the profit attributable to the equity holders of the Company included a loss of approximately RMB9,990,000 (2005: profit of approximately RMB21,983,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

a) Dividends attributable to the year:

	2006 **RMB'000**	2005 RMB'000
Final dividend proposed after the balance sheet date of HK$0.045 (equivalent to approximately RMB0.044) per ordinary share (2005: HK$0.015 (equivalent to approximately RMB0.0156) per ordinary share)	**44,083**	14,431

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:

	2006 **RMB'000**	2005 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.015 (equivalent to approximately RMB0.0156) per ordinary share (2005: HK$0.03 (equivalent to approximately RMB0.0318) per ordinary share)	**14,431**	29,207

13. 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 RMB138,006,000 (2005: RMB113,461,000) and the weighted average number of 932,690,000 ordinary shares (2005: 918,472,000 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 RMB140,153,000 (2005: RMB113,461,000) and the weighted average number of 1,046,411,000 ordinary shares (2005: 952,580,000 ordinary shares) after adjusting for the effects of all dilutive potential shares under the Company's share option scheme and warrants.

13. EARNINGS PER SHARE *(Continued)*

c) Reconciliations

Earnings

	2006 RMB'000	2005 RMB'000
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holder of the parent)	**138,006**	113,461
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**2,147**	–
Earnings for the purpose of diluted earnings per share	**140,153**	113,461

Number of shares

	2006 Number of shares '000	2005 Number of shares '000
Weighted average number of ordinary shares used in calculating basic earnings per share	**932,690**	918,472
Deemed issue of ordinary shares		
– share options	**9,343**	1,932
– warrants	**50,911**	32,176
– convertible notes	**53,467**	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	**1,046,411**	952,580

14. 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 RMB20,400), 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 mainland China are members of a state-sponsored retirement plan organised by the municipal government under the regulations of the mainland China and this subsidiary make mandatory contributions to the state-sponsored retirement plan to fund the employees' retirement benefits. The retirement contributions paid by the mainland China 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 organsied by the municipal government in the mainland China.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and mainland China. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2006 in respect of the retirement of its employees.

15. 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
Seasoned convenient products	:	The manufacture and sale of seasoned convenient food products
Refrigerated processed meat products	:	The manufacture and sale of refrigerated processed meat products

15. SEGMENT REPORTING *(Continued)*

	Frozen marine food products		Frozen functional food products		Seasoned convenient products		Refrigerated processed meat products		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**292,816**	239,177	**236,180**	186,797	**16,743**	6,664	**–**	14	**545,739**	432,652
Segment result	**139,974**	116,979	**100,464**	80,269	**8,089**	3,542	**–**	2	**248,527**	200,792
Unallocated operating income and expenses									**(34,703)**	(37,716)
Profit from operations									**213,824**	163,076
Finance costs									**(21,571)**	(7,304)
Income tax									**(54,247)**	(42,311)
Profit attributable to equity holders of the Company									**138,006**	113,461
Amortisation of leasehold land and rental prepayments									**15,566**	13,732
Depreciation for the year:										
Segment depreciation	**3,484**	5,246	**1,749**	2,453	**2,406**	1,446	**–**	–	**7,639**	9,145
Unallocated depreciation									**10,110**	8,508
									17,749	17,653
Segment assets	**138,189**	111,023	**129,529**	87,039	**38,813**	7,326	**–**	–	**306,531**	205,388
Unallocated assets									**1,042,491**	665,178
Total assets									**1,349,022**	870,566
Segment liabilities									**–**	–
Unallocated liabilities									**458,089**	153,498
Total liabilities									**458,089**	153,498
Capital expenditure incurred during the year:										
Segment capital expenditure	**–**	177	**815**	199	**5,076**	–	**–**	–	**5,891**	376
Unallocated capital expenditure									**102,235**	2,740
Total									**108,126**	3,116

15. 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.

	Mainland China		Japan		Unites States of America		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**27,749**	19,302	**317,963**	264,895	**197,329**	132,383	**2,698**	16,072	**545,739**	432,652

Approximately 87% (2005: 86%) of the Group's sales for the year were exported from the mainland China to Japan, United States of America and other countries using third party export companies in the mainland China 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 mainland China (including Hong Kong).

16. PROPERTY, PLANT AND EQUIPMENT

	The Group						The Company
	Buildings RMB'000	Machinery RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in-progress RMB'000	Total RMB'000	Furniture and equipment RMB'000
Cost							
At 1 January 2005	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
At 1 January 2006	137,305	88,734	2,288	2,764	–	231,091	775
Exchange adjustments	–	–	(33)	–	–	(33)	(33)
Additions	44,887	58,829	315	189	3,906	108,126	9
At 31 December 2006	182,192	147,563	2,570	2,953	3,906	339,184	751
Accumulated depreciation							
At 1 January 2005	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
At 1 January 2006	30,598	45,652	1,668	1,222	–	79,140	612
Exchange adjustments	–	–	(29)	–	–	(29)	(29)
Charge for the year	6,480	10,604	431	234	–	17,749	152
Amortisation of prepaid land lease payment	–	–	–	–	16	16	–
Capitalisation of amortisation of prepaid land lease payment	–	–	–	–	(16)	(16)	–
At 31 December 2006	37,078	56,256	2,070	1,456	–	96,860	735
Net book value							
At 31 December 2006	145,114	91,307	500	1,497	3,906	242,324	16
At 31 December 2005	106,707	43,082	620	1,542	–	151,951	163

The construction in-progress at 31 December 2006 comprised properties in mainland China held under medium-term land use right. These properties are carried at cost.

17. LEASEHOLD LAND AND RENTAL PREPAYMENTS

	The Group		
	Leasehold land prepayments (i) RMB'000	**Rental prepayments** RMB'000	**Total** RMB'000
Cost			
At 1 January 2005	10,292	37,420	47,712
Addition	–	22,000	22,000
At 31 December 2005	10,292	59,420	69,712
At 1 January 2006	10,292	59,420	69,712
Addition	–	22,420	22,420
At 31 December 2006	10,292	81,840	92,132
Amortisation			
At 1 January 2005	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
At 1 January 2006	1,240	38,134	39,374
Amortised for the year	226	15,340	15,566
At 31 December 2006	1,466	53,474	54,940
Net book value			
At 31 December 2006	8,826	28,366	37,192
Analysed for reporting purposes as:			
Current assets	226	9,340	9,566
Non-current assets	8,600	19,026	27,626
	8,826	28,366	37,192
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 December 2045.

18. INVESTMENT IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
		(restated)
Unlisted shares, at cost	**114**	114
Financial guarantee granted to a subsidiary	**17**	17
	131	131

Details of the subsidiaries at 31 December 2006 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$13,000,000	–	100%	Manufacturing and sales of food products
Ningbo Dingwei Food Development Co., Ltd. (ii)	Mainland China	US$1,500,000	–	100%	Dormant

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

(ii) Ningbo Dingwei is a wholly foreign owned enterprise established in mainland China to be operated for 20 years up to 2026.

The registered capital of Ningbo Dingwei Food Development Co., Ltd. is US$3,000,000 and US$1,500,000 has been paid up. In February 2007, the remaining unpaid registered capital US$1,500,000 has been paid up.

19. INVENTORIES

	The Group	
	2006	2005
	RMB'000	RMB'000
Raw materials, at cost	**1,396**	2,021
Finished goods, at cost	**27,691**	29,054
	29,087	31,075
Less: Write-down of obsolete and slow moving inventories	**(2,319)**	(2,319)
	26,768	28,756

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due from subsidiaries (i)	**–**	–	**297,462**	260,683
Trade receivables (ii)	**144,537**	67,508	**–**	–
Advances to suppliers (iii)	**880**	1,232	**–**	–
Rental and other deposits	**7,288**	7,153	**358**	222
Prepayments	**43,310**	81	**–**	76
Advances to employees	**98**	47	**162**	–
Interest receivable	**2,255**	–	**2,255**	–
Others	**403**	403	**–**	–
	198,771	76,424	**300,237**	260,981

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

20. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The Company	
	2006	2005
	RMB'000	RMB'000
Within 1 month	**75,785**	44,163
More than 1 month but within 3 months	**68,727**	26,898
More than 3 months but within 6 months	**25**	–
	144,537	71,061
Less: Impairment loss of bad and doubtful debts	**–**	(3,553)
	144,537	67,508

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 2006 will be settled through deduction of future purchases payable to these suppliers. All advances to suppliers are unsecured and non-interest bearing.

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks and other financial institutions	**24,906**	–	**24,906**	–
Cash at bank and in hand	**648,891**	582,185	**68,194**	2,130
Cash and cash equivalents in the balance sheet	**673,797**	582,185	**93,100**	2,130

As at 31 December 2006, the Group's cash and bank balances of approximately RMB560,887,000 (2005: RMB530,045,000) were denominated in Renminbi, a currency which is not freely convertible into other currencies.

22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**17,468**	1,095	**–**	–
Finance costs payable	**3,157**	831	**3,157**	–
Accruals and other payables	**1,832**	1,491	**744**	1,873
Other tax payables	**13,500**	9,123	**–**	–
Due to a director (i)	**2,835**	17,900	**–**	6,063
	38,792	30,440	**3,901**	7,936

The ageing analysis of trade payables is as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Within 1 month	**17,035**	230
After 1 month but within 3 months	**377**	724
After 3 months but within 6 months	**56**	97
After 6 months	**–**	44
	17,468	1,095

(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.

23. INTEREST-BEARING BORROWINGS

At 31 December 2006, the interest-bearing borrowings were repayable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**98,336**	71,140	**56,836**	29,640
After 1 year but within 2 years	**196,370**	–	**196,370**	–
	294,706	71,140	**253,206**	29,640
Non-current portion	**196,370**	–	**196,370**	–
Current portion	**98,336**	71,140	**56,836**	29,640

24. COUPON BONDS

a) The 2.5% coupon bonds (the "Bonds") with detachable warrants attached, having an aggregate principal amount of US$4,500,000 (approximately equivalent to 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 component and the equity component, representing the fair value of the embedded warrant to convert the liability into equity of the Group, as follows:

	RMB'000
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

On 31 July 2006, the Company redeemed all the bonds outstanding, which were issued on 10 April 2003 based on the subscription agreement dated 28 March 2003, together with the accrued interest for a total of approximately US$4,535,316. The warrants remained outstanding. As at 31 December 2006, the liability component of the coupon bonds was calculated as follows:

	The Group and the Company Liability component	
	2006 RMB'000	2005 RMB'000
At 1 January	**31,977**	30,541
Exchange adjustments	**(57)**	(615)
Interest charged	**4,943**	2,051
Interest paid	**(447)**	–
Early redemption of coupon bonds	**(36,416)**	–
At 31 December	**–**	31,977

24. COUPON BONDS *(Continued)*

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

i) Date of redemption

	US$'000	**Equivalent to approximately** 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);

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 approval, to each Bondholder, one new 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) As disclosed in the Company's announcement dated 21 July 2006, the Company received demands from certain Bondholders to redeem the Bonds. The Company had been in discussions with the Bondholders and the Warrantholders concerning the redemption of the Bonds and the repurchase of the Warrants outstanding. In any event, the Company had agreed with the Bondholders to redeem all the Bonds outstanding on 31 July 2006. The Warrants had remained outstanding.

25. CONVERTIBLE NOTES

On 14 September 2006, the Company issued the convertible notes in an aggregate principal amount of HK$116,000,000 (equivalent to approximately RMB115,562,100 with 3% interest per annum and is payable on a semi-annual basis). Subject to certain adjustment, the convertible note will be convertible into the conversion shares at the initial conversion price of HK$0.85 (equivalent to approximately RMB0.9) per share.

Conversion may occur at any time between 14 September 2006 and 13 September 2011. If the notes have not been converted, they will be redeemed on 14 September 2011 at HK$124,700,000 (equivalent to approximately RMB124,229,258). Interest of 3% per annum will be paid up until that settlement date.

The convertible notes contain two components, the liability and the equity components. The equity component is presented in the equity section "Equity Component Reserve". The effective interest rate of the liability component is 9.2 %.

The movement of the liability component of the convertible notes for the year is set out below:

	RMB'000
Proceeds from issuance of the convertible notes	111,794
Equity component (net of deferred tax)	(15,153)
Deferred tax liability	(3,214)
Liability component at date of issue	93,427
Interest charged	2,602
Interest payable	(1,040)
Liability component at 31 December 2006	94,989

26. PROVISION FOR STAFF WELFARE BENEFIT

	The Group	
	2006	2005
	RMB'000	RMB'000
At 1 January	**13,960**	14,109
Provision made for the year	**–**	1,076
Utilised for the year	**(972)**	(1,225)
At 31 December	**12,988**	13,960

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

27. INCOME TAX IN THE BALANCE SHEET

Current taxation in the balance sheet represents:

	The Group	
	2006	2005
	RMB'000	RMB'000
Mainland China enterprise income tax		
At 1 January	**5,981**	6,050
Provision for the year	**53,625**	42,820
Tax paid for the year	**(46,383)**	(42,889)
At 31 December	**13,223**	5,981

28. DEFERRED TAX LIABILITIES

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

	The Group				
	Impairment loss of obsolete and slow-moving inventories	**Impairment loss of bad and doubtful debts**	**Other temporary differences**	**Coupon bonds and convertible notes equity components**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	532	679	–	(1,166)	45
Credited to consolidated income statement	–	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
At 1 January 2006	532	853	335	(808)	912
(Charged)/credited to consolidated income statement	–	(853)	(42)	273	(622)
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 30(a))	–	–	–	358	358
Charge to equity for the year	–	–	–	(3,214)	(3,214)
Exchange difference	–	–	(13)	–	(13)
At 31 December 2006	532	–	280	(3,391)	(2,579)

28. DEFERRED TAX LIABILITIES *(Continued)*

	The Company				
	Impairment loss of obsolete and slow-moving inventories	Impairment loss of bad and doubtful debts	Other temporary differences	Coupon bonds and convertible notes equity components	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	–	–	–	(1,166)	(1,166)
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 30(a))	–	–	–	358	358
At 31 December 2005	–	–	–	(808)	(808)
At 1 January 2006	–	–	–	(808)	(808)
Charged to consolidated income statement	–	–	–	273	273
Reversal of deferred tax liability on amortisation of equity component of coupon bonds (Note 30(a))	–	–	–	358	358
Charge to equity for the year	–	–	–	(3,214)	(3,214)
At 31 December 2006	–	–	–	(3,391)	(3,391)

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net deferred tax assets recognised on the balance sheet	**812**	912	**–**	–
Net deferred tax liabilities recognised on the balance sheet	**(3,391)**	–	**(3,391)**	(808)
	(2,579)	912	**(3,391)**	(808)

29. SHARE CAPITAL

	2006		2005	
	Number of shares ’000	**Amount RMB’000**	Number of shares ’000	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**	918,472	48,679
Exercise of the share options (Note 31(c))	**26,670**	**1,413**	–	–
Exercise of warrants (i)	**31,659**	**1,678**	–	–
Shares buy back (ii)	**(380)**	**(20)**	–	–
At 31 December	**976,421**	**51,750**	918,472	48,679

(i) Warrantholders exercised 240 detachable warrants issued on 10 April 2003 to subscribe for 31,658,625 ordinary shares in the Company at exercise price of HK$0.295 (equivalent to approximately RMB0.30) per ordinary share.

(ii) The Company purchased back 180,000 and 200,000 ordinary shares at HK$0.71 (equivalent to approximately RMB0.75) and HK$0.69 (equivalent to approximately RMB0.73) respectively during the year.

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 compen-sation reserve RMB'000	Equity component reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2005	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 12(b))	–	–	–	–	–	–	–	(29,207)	(29,207)
Reversal of deferred tax liability on amortization of equity component of coupon bonds (Note 28)	–	–	–	–	–	358	–	–	358
Equity settled share-based transactions	–	–	–	–	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
At 1 January 2006	149,159	41,421	34,326	10,081	138	7,606	538	425,120	668,389
Exchange adjustments	–	–	–	–	–	–	3,118	–	3,118
Exercise of share options	13,199	–	–	–	–	–	–	–	13,199
Shares buy back	(262)	–	–	–	–	–	–	–	(262)
Exercise of warrants	11,281	–	–	–	–	(3,059)	–	–	8,222
Issuance of convertible notes	–	–	–	–	–	15,153	–	–	15,153
Dividend approved in respect of previous year (Note 12(b))	–	–	–	–	–	–	–	(14,431)	(14,431)
Reversal of deferred tax liability on amortization of equity component of coupon bonds (Note 28)	–	–	–	–	–	358	–	–	358
Equity settled share-based transactions	–	–	–	–	7,431	–	–	–	7,431
Transfer	–	–	16,981	–	–	–	–	(16,981)	–
Profit for the year	–	–	–	–	–	–	–	138,006	138,006
At 31 December 2006	173,377	41,421	51,307	10,081	7,569	20,058	3,656	531,714	839,183

30. RESERVES *(Continued)*

a) The Group *(Continued)*

i) According to the relevant rules and regulations in the mainland China, Fuqing Longyu is required to transfer approximately 10% of after-tax profit (after offsetting prior years' losses), based on its mainland China statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the mainland China, 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 RMB16,981,000 (2005: RMB13,559,000) to statutory reserve fund.

ii) According to the relevant rules and regulations in the mainland China, Fuqing Longyu may also appropriate a portion of its after-tax profit (after offsetting prior years' losses), based on its mainland China statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the mainland China, 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 2006 and 2005.

30. RESERVES *(Continued)*

b) The Company

	Share premium RMB'000	Employee share-based compensation reserve RMB'000	Equity component reserve RMB'000	Exchange reserve RMB'000	Accumulative loss RMB'000	Total RMB'000
At 1 January 2005	149,159	–	7,248	–	(2,165)	154,242
Exchange adjustments	–	–	–	(3,166)	–	(3,166)
Dividend approved in respect of previous year (note 12(b))	–	–	–	–	(29,207)	(29,207)
Reversal of deferred tax liability on amortization of equity component of coupon bonds (Note 28)	–	–	358	–	–	358
Equity settled share-based transactions	–	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
At 1 January 2006	149,159	138	7,606	(3,166)	(9,389)	144,348
Exchange adjustments	–	–	–	(8,440)	–	(8,440)
Exercise of shares options	13,199	–	–	–	–	13,199
Shares buy back	(262)	–	–	–	–	(262)
Exercise of warrants	11,281	–	(3,059)	–	–	8,222
Issued of convertible notes	–	–	15,153	–	–	15,153
Dividend approved in respect of previous year (Note 12(b))	–	–	–	–	(14,431)	(14,431)
Reversal of deferred tax liability on amortization of equity component of coupon bonds (Note 28)	–	–	358	–	–	358
Equity settled share-based transactions	–	7,431	–	–	–	7,431
Loss for the year	–	–	–	–	(9,990)	(9,990)
At 31 December 2006	173,377	7,569	20,058	(11,606)	(33,810)	155,588

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 or 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 of 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	
	2006	2005
At 1 January	**33,000,000**	32,500,000
Issued during the year	**37,500,000**	500,000
Exercised during the year	**(26,670,000)**	–
At 31 December	**43,830,000**	33,000,000
Options vested at 31 December	**43,830,000**	33,000,000

b) The terms of the grants that existed during the year are as follows:

Date of grant	Exercised period	Exercise price	Number of options	
			2006	2005
(i) Options granted to directors				
23 July 2004	23 July 2004 to 22 July 2014	HK$0.489	**8,000,000**	8,000,000
19 January 2005	19 January 2005 to 18 January 2015	HK$0.560	**500,000**	500,000
28 April 2006	28 April 2006 to 27 April 2016	HK$0.690	**16,500,000**	–
			25,000,000	8,500,000
(ii) Options granted to employees				
23 July 2004	23 July 2004 to 22 July 2014	HK$0.489	**24,500,000**	24,500,000
27 April 2006	27 April 2006 to 26 April 2016	HK$0.662	**20,000,000**	–
28 April 2006	28 April 2006 to 27 April 2016	HK$0.690	**1,000,000**	–
			45,500,000	24,500,000
			70,500,000	33,000,000

(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 2005	Granted during the year	At 31 December 2005 and at 1 January 2006	Granted during the year (Note 3)	Exercised during the year	At 31 December 2006	Date of grant	Exercisable period	Exercise price HK$	Weighted average closing price (Note 2) 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	–
	–	–	–	5,000,000	–	5,000,000	28/04/2006	28/04/2006 – 27/04/2016	0.690	–
Yang Le	2,000,000	–	2,000,000	–	–	2,000,000	23/07/2004	23/07/2004 – 22/07/2014	0.489	–
	–	–	–	5,000,000	–	5,000,000	28/04/2006	28/04/2006 – 27/04/2016	0.690	–
Ni Chao Peng	2,000,000	–	2,000,000	–	(2,000,000)	–	23/07/2004	23/07/2004 – 22/07/2014	0.489	0.66
	–	–	–	5,000,000	–	5,000,000	28/04/2006	28/04/2006 – 27/04/2016	0.690	–
Yip Tze Wai, Albert	1,000,000	–	1,000,000	–	(70,000)	930,000	23/07/2004	23/07/2004 – 22/07/2014	0.489	0.75
	–	–	–	1,000,000	–	1,000,000	28/04/2006	28/04/2006 – 27/04/2016	0.690	–
Tsui Chun Chung, Arthur	–	500,000	500,000	–	–	500,000	19/01/2005	19/1/2005 – 18/01/2015	0.560	–
Leung Chiu Shing	–	–	–	500,000	–	500,000	28/04/2006	28/4/2006 – 27/04/2016	0.690	–
Employees:										
In aggregate	24,500,000	–	24,500,000	–	(20,300,000)	4,200,000	23/07/2004	23/07/2004 – 22/07/2014	0.489	0.71
	–	–	–	20,000,000	(4,300,000)	15,700,000	27/04/2006	27/04/2006 – 26/04/2016	0.662	0.72
	–	–	–	1,000,000	–	1,000,000	28/04/2006	28/04/2006 – 27/04/2016	0.690	–
Total	32,500,000	500,000	33,000,000	37,500,000	(26,670,000)	43,830,000				

Notes:

1. No option has been lapsed or cancelled during the year ended 31 December 2006.

2. This represents weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised. A total of 26,670,000 options were exercised during the year, the weighted average closing price of the share immediately before the dates on which the options were exercised was approximately HK$0.71.

3. The closing prices immediately before the dates of options granted 27 April 2006 and 28 April 2006 were HK$0.63 and HK$0.66 respectively.

(Expressed in Renminbi unless otherwise stated)

31. SHARE OPTION SCHEME *(Continued)*

c) Details of share options by category of participant *(Continued)*

4. The fair value of the options granted on 27 April 2006 and 28 April 2006 were approximately HK$3,662,000 and HK$3,348,000 respectively (equivalent to approximately RMB3,881,720 and RMB3,548,880). The fair value of options was estimated on the date of the granted using the Black-Scholes option pricing model with the following parameters:

		Options granted on 27 April 2006	Options granted on 28 April 2006
(i)	Exercise price	HK$0.662	HK$0.690
(ii)	Risk free rate of interest over the life of the options	4.842% p.a.	4.803% p.a.
(iii)	Volatility	39%	39%
(iv)	Expected dividend yield	5%	5%
(v)	Expected life	10 years	10 years

d) In February 2007, total of 15,228,000 options were exercised at exercise prices ranged from HK$0.489 to HK$0.690 (equivalent to approximately RMB0.483 to RMB0.681).

32. WARRANTS

The Company issued the coupon bonds (see note 24) with detachable warrants attached. The holders of the warrants (the “Warrantholders”) may exercise the subscription rights attached 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 per warrant by the Subscription Price.

32. WARRANTS *(Continued)*

a) Movement in warrants:

	Number of warrants	
	2006	2005
At 1 January	**710**	710
Exercised during the year	**(240)**	–
At 31 December	**470**	710

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

Date of grant	Exercisable period	Number of warrants	
		2006	2005
10 April 2004	10 April 2004 to 9 April 2008	**470**	710

c) Warrantholders exercised 26 and 5 detachable warrants to subscribe for 3,441,166 and 662,177 ordinary shares in February and March 2007 respectively at exercise price of HK$0.295 (equivalent to approximately RMB0.30) ordinary shares.

33. COMMITMENTS

a) Capital commitments

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Acquisition of property, plant and equipment				
– contracted for but not provided for	**116,496**	8,026	**–**	–
– authorised but not contracted for	**100,500**	4,342	**–**	–
	216,996	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	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**16,686**	15,796	**1,162**	169
After 1 year but within 5 years	**61,783**	61,491	**423**	–
After 5 years	**123,680**	144,540	**–**	–
	202,149	221,827	**1,585**	169

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

The Company gave an undertaking in respect of a bank loan facility extended to a subsidiary of approximately amounting to RMB41,500,000 (2005: RMB41,500,000).

The carrying amount of the financial guarantee contract recognised in the Company's balance sheet in accordance with HKSA 39 and HKFRS 4 (Amendments) was approximately RMB17,000 (2005: approximately RMB17,000). The financial guarantee contract was eliminated on consolidation.

35. NON-ADJUSTING POST BALANCE SHEET EVENTS

On 6 February 2007, a wholly owned subsidiary of the Company entered into a tenancy agreement for a land in mainland China for a period of 10 years up to February 2017. The annual rental payment is RMB4,000,000.

36. COMPARATIVE FIGURES

As further explained in note 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.

(Expressed in Renminbi unless otherwise stated)

37. POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE, FOR THE YEAR ENDED 31 DECEMBER 2006

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions[6]
HK(IFRIC)-Int 12	Service Concession Arrangements[7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008