

## Notes to the Financial Statements

For the year ended 31st December 2006

### 1. General

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Shanghai Industrial Investment (Holdings) Company Limited, also incorporated in Hong Kong. The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 52.

### 2. Application of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years has been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results or the financial position of the Group except for HK(IFRIC)-INT 12 "Service Concession Arrangements" in which the Group has commenced considering the potential impact but not yet in a position to determine whether it would have a significant impact on the results or the financial position of the Group.

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

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1st March 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st May 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st June 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1st November 2006.

<sup>7</sup> Effective for annual periods beginning on or after 1st March 2007.

<sup>8</sup> Effective for annual periods beginning on or after 1st January 2008.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies

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

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

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

#### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Goodwill

##### Goodwill arising on acquisitions prior to 1st January 2005

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

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

##### Goodwill arising on acquisitions on or after 1st January 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1st January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, associate or jointly controlled entity at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet. Capitalised goodwill arising on an acquisition of an associate or a jointly controlled entity (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate or jointly controlled entity.

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

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

Additional interests in subsidiaries are measured at the aggregate of the carrying amounts of identified assets and liabilities of the subsidiaries and any excess of the consideration over the net assets acquired are accounted for as goodwill. Any excess of the net assets acquired over the consideration is recognised immediately in profit or loss.

For goodwill arising on acquisition of an associate or a jointly controlled entity, the goodwill included in the carrying amount of interests in an associate or a jointly controlled entity is not separately tested for impairment. Instead, the entire carrying amount of the interests in an associate or a jointly controlled entity is tested for impairment by comparing the Group's share of the present value of the estimated future cash flows expected to be generated by the associate or jointly controlled entity with its carrying amount. Any impairment loss identified is recognised and is allocated first to goodwill.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Investment in subsidiaries

Investment in subsidiaries is included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

#### Interest in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

The Company's interest in jointly controlled entities are stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

#### Interest in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

#### Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Non-current assets or disposal groups classified as held for sale are measured at the lower of the assets' or disposal groups' previous carrying amount and fair value less costs to sell.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Toll fee income from the operation of toll road, net of business tax payable in the PRC, is recognised at the time of usage and when the toll fee is received.

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

Income from those investments available-for-sale where the Group is contracted to receive a pre-determined minimum sum over the period of the investment is allocated to accounting periods so as to reflect a constant periodic rate of return on the net investment in these investments.

Rental income, including rental invoiced in advance from letting of properties and plant and machinery under operating leases, is recognised on a straight line basis over the period of the respective leases.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the asset is derecognised.

#### Property, plant and equipment

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

Property, plant and equipment in the course of construction are carried at cost, less any identified impairment losses. Depreciation of these assets commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Property, plant and equipment (Continued)

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

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

#### Prepaid lease payments

Prepaid lease payments, which represents up-front payments to acquire leasehold land interest, are stated at cost and amortised over the period of the lease on a straight line basis.

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessor

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

#### The Group as lessee

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

#### Foreign currencies

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

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

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Foreign currencies (Continued)

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January 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.

#### 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.

#### Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

#### Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Taxation (Continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

#### Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### Toll road operating right

Toll road operating right is stated at cost less amortisation and any accumulated impairment losses. Amortisation is provided to write off the cost of toll road operating right on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the periods for which the Group is granted the rights to operate the toll road.

#### Patents

Patents with definite useful lives are measured initially at cost and are amortised on a straight line basis over their estimated useful lives.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### Financial instruments

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



## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

##### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

##### Loans and receivables

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

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

##### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

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

##### Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of the Group's financial liabilities and equity instruments are set out below.

##### Financial liabilities

Financial liabilities including trade and other payables and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

##### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

##### Derivative financial instruments and hedging

The Group uses derivative financial instruments (primarily interest rate swaps) to hedge its exposure against interest rate risks. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

##### Cash flow hedges

For cash flow hedges that qualify for hedge accounting, the effective portion of the gains or losses arising on the changes in fair value of hedging instruments is initially recognised in equity and recycled into the consolidated income statement when the hedged items affects profit or loss. The ineffective portion is recognised immediately in profit or loss.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 3. Significant Accounting Policies (Continued)

#### Financial instruments (Continued)

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

#### Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### Equity-settled share-based payment transactions

For share options granted to employees of the Group after 7th November 2002 and had not vested on 1st April 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in the share options reserve in equity.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve in equity.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

#### Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 4. Critical Accounting Judgment and Key Sources of Estimation Uncertainty

#### Critical judgment in applying the Group's accounting policies

##### Consolidation of a subsidiary

During the year, the Group's equity interest in Shanghai Industrial Pharmaceutical Investment Co., Ltd. (formerly known as Shanghai Industrial United Holdings Co., Ltd.) ("SI Pharmaceutical"), a subsidiary of the Company, was diluted from 56.63% to 43.62% upon the completion of a share reform.

The directors of the Company are of the opinion that the Group still retains control over SI Pharmaceutical subsequent to the share reform plan as the remaining 56.38% shareholding of SI Pharmaceutical is dispersed and it is highly unlikely for the other shareholders to organise their interests to exercise control over the board of SI Pharmaceutical. Hence, the directors of the Company consider control over SI Pharmaceutical still exists through the right to appoint or remove the majority of the members of the board of directors of SI Pharmaceutical. Accordingly, SI Pharmaceutical continues to be accounted for as a subsidiary of the Company and the results of SI Pharmaceutical were consolidated in the consolidated financial statements.

##### Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

##### Estimated impairment of goodwill

Determining whether goodwill amounting to HK\$421,825,000 as at 31st December 2006 is impaired requires an estimation of the value in use of the cash-generating units 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 cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of impairment test are set out in note 21.

##### Amortisation of toll road operating right

Toll road operating right amounting to HK\$1,778,596,000 as at 31st December 2006 is amortised on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the operating period of the toll road. If the actual traffic volume differs from the original projection, such difference will impact the amortisation for the remaining period to be amortised.

### 5. Financial Instruments

#### (a) Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, borrowings, trade and other receivables, trade and other payables, loan receivables and bank balances and cash. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 5. Financial Instruments (Continued)

#### (a) Financial risk management objectives and policies (Continued)

##### Market risk

(i) Currency risk

The Group mainly operates in the PRC and Hong Kong and the exposure in exchange rate risks mainly arises from fluctuations in the United States dollar, Hong Kong dollar and Renminbi exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group. As Hong Kong dollar and Renminbi are both under managed floating systems, after reviewing the Group's exposure for the time being, the Group did not enter into any derivative contracts aimed at minimising exchange rate risks during the year. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

To complement the repayment of the original syndication loan of HK\$1,600 million, the Group terminated its related interest rate hedging arrangement during the year. To exercise prudent management against interest rate risk, the Group will continue to review the market trend, as well as its business operation needs and its financial position, in order to identify the most effective interest rate hedging means for the HK\$3 billion syndication loan raised in the fourth quarter of the year.

(iii) Price risk

The Group is exposed to equity price risk through available-for-sale investments and financial assets at fair value through profit or loss. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

##### Credit risk

As at 31st December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors which the Group has provided financial guarantees is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount disclosed in note 46 Contingent Liabilities.

The Group's principal financial assets are bank balances and cash, equity and debt investments, and trade and loan receivables.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 5. Financial Instruments (Continued)

#### (a) Financial risk management objectives and policies (Continued)

##### Credit risk (Continued)

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the consolidated balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

With respect to the credit risk of the Group's treasury operations, management has established internal procedures to monitor the Group's bank balances and cash, securities investments to be placed and entered into with financial institutions of good reputation. These internal procedures also impose limitation on the amount outstanding and to manage the credit ratings on equity investments to be held, so as to minimise the Group's credit risk exposure.

The Group's credit risk on bank balances and bank deposits is limited because the counterparties are banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

#### (b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and
- the fair value of derivative instruments are calculated using discounted cash flow analysis using the applicable yield curve.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 6. Turnover

Turnover represents the aggregate of the net amounts received and receivable from third parties and is summarised as follows:

	2006 HK\$'000	2005 HK\$'000
Sales of goods	6,574,604	5,843,707
Income from infrastructure facilities	276,419	181,578
	<b>6,851,023</b>	6,025,285

### 7. Investment Income

	2006 HK\$'000	2005 HK\$'000
Interest on bank deposits	239,918	135,620
Gain on disposal of available-for-sale investments	268,074	–
Dividend income from unlisted equity investments	38,546	31,371
Net increase in fair value of financial assets at fair value through profit or loss	139,890	190,185
Interest on debt securities	24,292	15,678
Other interest income	2,352	4,817
Dividend income from listed equity investments	3,514	5,231
Rental income from property, plant and equipment	6,229	3,343
Income from investments in available-for-sale investments	3,861	3,215
	<b>726,676</b>	389,460

### 8. Finance Costs

	2006 HK\$'000	2005 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable		
– within five years	105,318	81,916
– over five years	161	108
Total borrowing costs	105,479	82,024
Less: amounts capitalised in construction in progress	(924)	–
	<b>104,555</b>	82,024

## Notes to the Financial Statements

For the year ended 31st December 2006

### 9. Net Gain on Disposal of Interests in Subsidiaries, Associates and Jointly Controlled Entities

	2006 HK\$'000	2005 HK\$'000
Gain on disposal of interest in associates	26,823	126,541
Gain (loss) on disposal of interest in subsidiaries	3,468	(5,506)
Gain on deemed disposal of interest in an associate	583	12,506
Loss on deemed disposal of interest in a jointly controlled entity	(7,032)	–
Gain on disposal of interest in jointly controlled entities	–	43,259
Gain on partial disposal of interest in a subsidiary	–	3,861
	<b>23,842</b>	<b>180,661</b>

### 10. Dilution Loss on Share Reform of a Subsidiary

During the year, the share reform plan for conversion of all non-floating shares of SI Pharmaceutical into floating shares of SI Pharmaceutical was completed. Under the share reform plan, a wholly-owned subsidiary of the Company would offer all holders of floating shares of SI Pharmaceutical three non-floating shares for every ten floating shares held by each of such holders, in exchange for the consent by the holders of floating shares of SI Pharmaceutical to the conversion of all non-floating shares into floating shares of SI Pharmaceutical. Following the conversion of all non-floating shares of SI Pharmaceutical into floating shares of SI Pharmaceutical, the Group's equity interest in SI Pharmaceutical was diluted from 56.63% to 43.62%. A loss on share reform of HK\$214,955,000 was recognised during the year.

### 11. Income Tax Expenses

	2006 HK\$'000	2005 HK\$'000
Current tax		
– Hong Kong	86,106	75,952
– Other regions in the PRC	149,696	111,313
	<b>235,802</b>	<b>187,265</b>
Under(over)provision in prior years		
– Hong Kong	1,291	(15,759)
– Other regions in the PRC	(971)	–
	<b>320</b>	<b>(15,759)</b>
Deferred taxation (note 41)	<b>320</b>	<b>22,536</b>
	<b>236,442</b>	<b>194,042</b>



## Notes to the Financial Statements

For the year ended 31st December 2006

### 11. Income Tax Expenses (Continued)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to certain exemption and reliefs from PRC income tax for a number of years. Certain PRC subsidiaries are also entitled to reduced tax rates because they are classified as "high technology entities" under the relevant rules. The current year's PRC income tax charges are arrived at after taking into account these various tax incentives, ranging from 7.5% to 33%.

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

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	<b>1,736,712</b>	1,449,603
Tax at PRC Statutory Tax rate of 33% (2005: 33%)	<b>573,115</b>	478,369
Tax effect of share of results of jointly controlled entities and associates	<b>(58,861)</b>	(34,772)
Tax effect of expenses not deductible for tax purpose	<b>99,793</b>	37,372
Tax effect of income not taxable for tax purpose	<b>(166,482)</b>	(105,097)
Under(over)provision in respect of prior years	<b>320</b>	(15,759)
Tax effect of tax losses not recognised	<b>650</b>	5,251
Utilisation of tax losses previously not recognised	<b>(9,362)</b>	(19,267)
Effect of tax exemption and tax reliefs granted to PRC subsidiaries	<b>(62,472)</b>	(74,088)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(140,648)</b>	(76,322)
Others	<b>389</b>	(1,645)
Income tax expenses for the year	<b>236,442</b>	194,042

## Notes to the Financial Statements

For the year ended 31st December 2006

### 12. Profit for the Year

	2006 HK\$'000	2005 HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Employee benefits expense for the year, including directors' emoluments:		
Basic salaries and allowances	500,810	421,390
Bonuses	73,840	68,014
Equity-settled share-based payment expense	8,200	4,965
Retirement benefits scheme contributions, net of forfeited contributions of HK\$678,000 (2005: HK\$399,000)	31,848	36,604
	<b>614,698</b>	530,973
Amortisation of toll road operating right (included in cost of sales)	67,335	41,950
Amortisation of other intangible assets (included in administrative expenses)	13,861	6,978
Depreciation and amortisation of property, plant and equipment	234,786	211,538
Release of prepaid lease payments to income statement	6,873	5,500
	<b>322,855</b>	265,966
Auditors' remuneration	8,050	7,327
Equity-settled share-based payment expense in respect of options granted to other eligible participants	2,878	1,173
Impairment loss on bad and doubtful debts	53,292	24,424
Impairment loss recognised on available-for-sale investments (included in other expenses)	1,900	9,648
Increase in fair value of investment properties	(24,861)	(7,133)
(Gain) loss on disposal of property, plant and equipment	(386)	8,783
Gain on transfer of prepaid lease payments	(533)	–
Operating lease rentals in respect of equipment and motor vehicles	521	189
Operating lease rentals in respect of land and buildings to		
– ultimate holding company	7,640	7,279
– fellow subsidiaries	17,521	17,507
– others	18,078	23,967
Research and development costs	49,273	64,711
Share of PRC income tax of jointly controlled entities (included in share of results of jointly controlled entities)	(1,542)	7,968
Share of PRC income tax of associates (included in share of results of associates)	10,823	45,949
Net foreign exchange gains	(39,368)	(19,909)
Cost of inventories recognised as an expense	<b>4,209,506</b>	3,651,223

## Notes to the Financial Statements

For the year ended 31st December 2006

### 13. Directors' Emoluments and Employees' Emoluments

#### Directors' emoluments

The emoluments paid or payable to each of the eleven (2005: thirteen) directors were as follows:

	Cai Lai Xing HK\$'000	Cai Yu Tian HK\$'000	Qu Ding HK\$'000	Lu Ming Fang HK\$'000	Ding Zhong De HK\$'000	Qian Shi Zheng HK\$'000	Yao Fang HK\$'000	Tang Jun HK\$'000	Lo Ka Shui HK\$'000	Woo Chia-Wei HK\$'000	Leung Pak To, Francis HK\$'000	2006 HK\$'000
Directors' fees and committee remuneration of independent non-executive directors	-	-	-	-	-	-	-	-	304	292	292	888
Other emoluments of executive directors:												
Directors' fee and committee remuneration	-	-	50	200	-	-	200	200	-	-	-	650
Basic salaries and allowances	3,103	2,251	2,251	-	1,831	1,588	190	-	-	-	-	11,214
Bonuses	2,000	1,900	1,800	-	800	800	-	-	-	-	-	7,300
Equity-settled share-based payment expense	359	1,661	251	215	1,278	134	-	134	-	-	-	4,032
Retirement benefits scheme contributions	266	193	193	-	157	134	-	-	-	-	-	943
<b>Total directors' emoluments</b>	<b>5,728</b>	<b>6,005</b>	<b>4,545</b>	<b>415</b>	<b>4,066</b>	<b>2,656</b>	<b>390</b>	<b>334</b>	<b>304</b>	<b>292</b>	<b>292</b>	<b>25,027</b>

  

	Cai Lai Xing HK\$'000	Cai Yu Tian HK\$'000	Qu Ding HK\$'000	Lu Ming Fang HK\$'000	Ding Zhong De HK\$'000	Qian Shi Zheng HK\$'000	Yao Fang HK\$'000	Tang Jun HK\$'000	Lu Da Yong Lu Shen HK\$'000	Lo Ka Shui HK\$'000	Woo Chia-Wei HK\$'000	Leung Pak To, Francis HK\$'000	2005 HK\$'000
Directors' fees and committee remuneration of independent non-executive directors	-	-	-	-	-	-	-	-	-	272	272	272	816
Other emoluments of executive directors:													
Basic salaries, allowances and committee remuneration	3,571	-	2,651	2,339	429	200	214	200	1,757	408	-	-	11,769
Bonuses	2,913	-	2,851	2,455	-	-	-	-	-	-	-	-	8,219
Equity-settled share-based payment expense	313	-	219	188	-	117	-	117	-	-	-	-	954
Retirement benefits scheme contributions	345	-	235	203	-	-	-	-	135	-	-	-	918
<b>Total directors' emoluments</b>	<b>7,142</b>	<b>-</b>	<b>5,956</b>	<b>5,185</b>	<b>429</b>	<b>317</b>	<b>214</b>	<b>317</b>	<b>1,892</b>	<b>408</b>	<b>272</b>	<b>272</b>	<b>22,676</b>

In the two years ended 31st December 2006, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors has waived any emoluments during the two years.

Bonus were determined with reference to the Group's operating results, individual performances and comparable market statistics.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 13. Directors' Emoluments and Employees' Emoluments (Continued)

#### Employees' emoluments

During the year, the five highest paid individuals included 5 directors (2005: 4 directors) and details of their emoluments are set out above. The emoluments of the remaining highest paid individual for the year ended 31st December 2005 were as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries and allowances	–	951
Bonuses	–	485
Equity-settled share-based payment expense	–	94
Retirement benefits scheme contributions	–	95
	–	1,625

### 14. Dividends

	2006 HK\$'000	2005 HK\$'000
Ordinary shares:		
Interim – HK22 cents (2005: HK20 cents) per share	<b>213,071</b>	193,458
Final – HK22 cents (2004: HK35 cents) per share	<b>212,987</b>	336,347
	<b>426,058</b>	529,805

A final dividend of HK30 cents per share has been proposed by the Board of Directors and is subject to approval by the shareholders in annual general meeting.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 15. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2006 HK\$'000	2005 HK\$'000
Earnings:		
Profits for the purposes of basic earnings per share (profit for the year attributable to equity holders of the Company)	<b>1,257,778</b>	1,027,940
Effect of dilutive potential ordinary shares		
– adjustment to the share of results of a jointly controlled entity based on potential dilution of its earnings per share	<b>(3,261)</b>	(2,240)
Earnings for the purposes of diluted earnings per share	<b>1,254,517</b>	1,025,700
	2006	2005
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>968,164,208</b>	963,971,274
Effect of dilutive potential ordinary shares – share options	<b>1,625,102</b>	2,925,399
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>969,789,310</b>	966,896,673

## Notes to the Financial Statements

For the year ended 31st December 2006

### 16. Investment Properties

	<b>THE GROUP</b>
	HK\$'000
FAIR VALUE	
At 1st January 2005	45,672
Exchange adjustments	807
Disposals	(1,782)
Net increase in fair value recognised in the income statement	7,133
At 31st December 2005	51,830
Exchange adjustments	2,748
Transfer from property, plant and equipment (note 17)	17,857
Disposals	(16,726)
Net increase in fair value recognised in the income statement	24,861
At 31st December 2006	80,570

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties are situated in the PRC and are held under medium-term land use rights.

The fair value of the Group's investment properties at 31st December 2006 was arrived at on the basis of a valuation carried out on that date by Messrs. Debenham Tie Leung Limited, an independent firm of qualified professional valuers not connected with the Group. Messrs. Debenham Tie Leung Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to comparable sales transactions as available in the relevant market.

The property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, amounted to HK\$6,229,000 (2005: HK\$2,327,000) with negligible direct operating expenses.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 17. Property, Plant and Equipment

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
COST						
At 1st January 2005	492,979	311,177	89,044	1,681,971	180,007	2,755,178
Exchange adjustments	4,966	1,799	1,556	18,000	3,496	29,817
Acquired on acquisition of subsidiaries	124,150	4,682	9,560	182,269	76,881	397,542
Additions	32,513	41,432	16,256	103,484	156,427	350,112
Transfers/reclassifications	144,951	5,203	3,505	108,139	(261,798)	–
Transfer to assets classified as held for sale	(12,394)	–	–	–	–	(12,394)
Attributable to disposal of subsidiaries	(16,444)	(219)	(73)	(5,848)	–	(22,584)
Disposals	(725)	(12,457)	(10,928)	(20,760)	–	(44,870)
Government grants received	–	–	–	(2,587)	–	(2,587)
At 31st December 2005	769,996	351,617	108,920	2,064,668	155,013	3,450,214
Exchange adjustments	20,954	4,488	4,085	45,184	6,575	81,286
Acquired on acquisition of a subsidiary	–	215	412	21,391	–	22,018
Additions	16,849	13,567	16,293	64,729	348,380	459,818
Transfers/reclassifications	56,720	5,600	686	214,129	(277,135)	–
Transfer to investment properties (note 16)	(18,602)	–	–	–	–	(18,602)
Attributable to disposal of subsidiaries	–	(1,154)	(240)	(5,255)	–	(6,649)
Disposals	(1,515)	(6,321)	(11,847)	(35,283)	(8,575)	(63,541)
Government grants received	–	–	–	(3,879)	–	(3,879)
At 31st December 2006	844,402	368,012	118,309	2,365,684	224,258	3,920,665
DEPRECIATION AND AMORTISATION						
At 1st January 2005	91,824	143,761	40,375	586,784	–	862,744
Exchange adjustments	1,242	850	760	4,793	–	7,645
Provided for the year	23,819	44,270	16,957	126,492	–	211,538
Transfer to assets classified as held for sale	(479)	–	–	–	–	(479)
Attributable to disposal of subsidiaries	(3,318)	(123)	(38)	(842)	–	(4,321)
Eliminated on disposals	(575)	(9,656)	(9,220)	(11,800)	–	(31,251)
At 31st December 2005	112,513	179,102	48,834	705,427	–	1,045,876
Exchange adjustments	3,875	2,325	2,108	13,665	–	21,973
Provided for the year	31,346	35,672	18,495	149,273	–	234,786
Transfer to investment properties (note 16)	(745)	–	–	–	–	(745)
Attributable to disposal of subsidiaries	–	(387)	(216)	(1,385)	–	(1,988)
Eliminated on disposals	(263)	(5,839)	(9,654)	(35,278)	–	(51,034)
At 31st December 2006	146,726	210,873	59,567	831,702	–	1,248,868
CARRYING VALUES						
At 31st December 2006	697,676	157,139	58,742	1,533,982	224,258	2,671,797
At 31st December 2005	657,483	172,515	60,086	1,359,241	155,013	2,404,338

## Notes to the Financial Statements

For the year ended 31st December 2006

### 17. Property, Plant and Equipment (Continued)

At 31st December 2006, certain owner-occupied leasehold land and buildings amounted to HK\$1,015,000 (2005: HK\$1,039,000) is included in property, plant and equipment, as in the opinion of the directors, allocations between the land and buildings elements could not be made reliably.

Property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold land and buildings	the shorter of 4%-5% or over the period of the lease terms
Furniture, fixtures and equipment	20%-33 $\frac{1}{3}$ % or over the period of the lease in case of fixtures in rented premises
Motor vehicles	20%-30%
Plant and machinery	5%-20%

At 31st December 2006, leasehold land and buildings included certain assets carried at cost of HK\$9,361,000 (2005: HK\$9,361,000) in aggregate with accumulated depreciation of HK\$3,130,000 (2005: HK\$2,831,000) in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$273,000 (2005: HK\$273,000).

At 31st December 2005, plant and machinery included certain assets carried at cost of HK\$20,629,000 in aggregate with accumulated depreciation of HK\$15,751,000 in respect of assets rented out under operating leases. Depreciation charged in respect of those assets in the year amounted to HK\$171,600 (2005: HK\$1,374,000) for the year.

The cost of certain plant and machinery, before deduction of government subsidy of HK\$25,938,000 (2005: HK\$22,059,000) is HK\$78,117,000 (2005: HK\$74,238,000).

At 31st December 2006, construction in progress included net interest capitalised of HK\$924,000 (2005: nil).



## Notes to the Financial Statements

For the year ended 31st December 2006

### 17. Property, Plant and Equipment (Continued)

	Buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
COST				
At 1st January 2005	2,803	25,106	8,162	36,071
Additions	–	423	2,417	2,840
Disposals	–	(130)	(1,724)	(1,854)
At 31st December 2005	2,803	25,399	8,855	37,057
Additions	–	1,165	–	1,165
Disposals	–	(2,585)	–	(2,585)
At 31st December 2006	2,803	23,979	8,855	35,637
DEPRECIATION				
At 1st January 2005	373	23,406	6,830	30,609
Provided for the year	112	1,200	856	2,168
Eliminated on disposals	–	(130)	(1,724)	(1,854)
At 31st December 2005	485	24,476	5,962	30,923
Provided for the year	112	590	1,209	1,911
Eliminated on disposals	–	(2,585)	–	(2,585)
At 31st December 2006	597	22,481	7,171	30,249
CARRYING VALUES				
At 31st December 2006	2,206	1,498	1,684	5,388
At 31st December 2005	2,318	923	2,893	6,134

## Notes to the Financial Statements

For the year ended 31st December 2006

### 17. Property, Plant and Equipment (Continued)

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The carrying values of property interests comprises:				
Properties erected on land held under				
– medium-term leases in Macau	1,083	1,131	–	–
– medium-term leases in Hong Kong	277,963	286,613	–	–
– medium-term land use rights in the PRC	418,630	369,739	2,206	2,318
	<b>697,676</b>	657,483	<b>2,206</b>	2,318

### 18. Prepaid Lease Payments

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
The Group's prepaid lease payments comprises:		
– short-term land use rights in the PRC	–	349
– medium-term leases in Hong Kong	45,186	46,273
– medium-term land use rights in the PRC	212,865	186,745
	<b>258,051</b>	233,367
Analysed for reporting purposes as:		
Current portion	7,035	8,129
Non-current portion	251,016	225,238
	<b>258,051</b>	233,367

## Notes to the Financial Statements

For the year ended 31st December 2006

### 19. Toll Road Operating Right

	<b>THE GROUP</b> HK\$'000
<b>COST</b>	
At 1st January 2005	1,826,277
Exchange adjustments	35,197
At 31st December 2005	1,861,474
Exchange adjustments	74,459
At 31st December 2006	1,935,933
<b>AMORTISATION</b>	
At 1st January 2005	41,626
Exchange adjustments	1,100
Charge for the year	41,950
At 31st December 2005	84,676
Exchange adjustments	5,326
Charge for the year	67,335
At 31st December 2006	157,337
<b>CARRYING VALUES</b>	
At 31st December 2006	1,778,596
At 31st December 2005	1,776,798

The amount represents the right to receive toll fees from vehicles using the Shanghai section of the Shanghai-Nanjing Expressway and to operate service facilities in designated areas along the Shanghai section for a period of 25 years.

The Group's right to operate the toll road is amortised on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the period for which the Group is granted the rights to operate the toll road which is 25 years.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 20. Other Intangible Assets

	Patents HK\$'000	Premium on prepaid lease payments HK\$'000	Total HK\$'000
<b>THE GROUP</b>			
<b>COST</b>			
At 1st January 2005	39,206	–	39,206
Exchange adjustments	753	–	753
Arising on acquisition of subsidiaries	–	59,121	59,121
Additions	2,975	–	2,975
At 31st December 2005	42,934	59,121	102,055
Exchange adjustments	1,717	2,365	4,082
Arising on acquisition of a subsidiary	4,640	–	4,640
At 31st December 2006	49,291	61,486	110,777
<b>AMORTISATION</b>			
At 1st January 2005	–	–	–
Charge for the year	4,956	2,022	6,978
At 31st December 2005	4,956	2,022	6,978
Exchange adjustments	198	81	279
Charge for the year	12,401	1,460	13,861
At 31st December 2006	17,555	3,563	21,118
<b>CARRYING VALUES</b>			
At 31st December 2006	31,736	57,923	89,659
At 31st December 2005	37,978	57,099	95,077

Patents are held to produce pharmaceutical products for a period ranging from 5 to 10 years and are amortised on a straight line basis over useful lives ranging from 5 to 10 years.

Premium on prepaid lease payments represents the premium on acquisition of prepaid lease payments which is to be amortised on the same basis as the related prepaid lease payments.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 21. Goodwill

	<b>THE GROUP</b> HK\$'000
<b>COST</b>	
At 1st January 2005	349,365
Exchange adjustments	1,479
Arising on acquisition of subsidiaries	37,274
Arising on acquisition of additional interests in subsidiaries	6,592
Transfer from goodwill of associates	57,159
Transfer to interests in jointly controlled entities	(1,759)
Transfer to interests in associates	(43,560)
Eliminated on disposal of interest in a subsidiary	(2,003)
At 31st December 2005	404,547
Exchange adjustments	5,521
Arising on acquisition of a subsidiary	22,569
Eliminated on dilution of interest on share reform of a subsidiary	(4,252)
At 31st December 2006	428,385
<b>IMPAIRMENT</b>	
At 1st January 2005	3,161
Impairment loss recognised for the year	5,402
Eliminated on disposal of interest in a subsidiary	(2,003)
At 31st December 2005 and 31st December 2006	6,560
<b>CARRYING VALUES</b>	
At 31st December 2006	421,825
At 31st December 2005	397,987

Goodwill acquired in business combinations was allocated, at acquisition, to the individual cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill was allocated as follows:

	<b>THE GROUP</b>	
	<b>2006</b> HK\$'000	2005 HK\$'000
Sale and manufacture of Chinese medicine and health food	<b>291,814</b>	293,921
Sale and manufacture of biomedicine	<b>130,011</b>	104,066
	<b>421,825</b>	397,987

## Notes to the Financial Statements

For the year ended 31st December 2006

### 21. Goodwill (Continued)

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

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the coming year and extrapolates cash flows for the following four years with a steady growth rate of 5%.

The rate used to discount the forecast cash flows is commercial borrowing rate.

### 22. Investment In Subsidiaries

	THE COMPANY	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	<b>1,023,154</b>	1,023,154

Details of the Company's principal subsidiaries at 31st December 2006 are set out in note 52.

### 23. Interests/Investment in Jointly Controlled Entities

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cost of unlisted investments in jointly controlled entities	<b>1,981,859</b>	1,973,211	<b>112,921</b>	166,790
Share of post-acquisition profits and reserves, net of dividends received	<b>585,729</b>	509,879	–	–
	<b>2,567,588</b>	2,483,090	<b>112,921</b>	166,790
Less: Impairment loss recognised	<b>(122,595)</b>	(92,582)	<b>(112,921)</b>	(25,117)
	<b>2,444,993</b>	2,390,508	–	141,673

## Notes to the Financial Statements

For the year ended 31st December 2006

### 23. Interests/Investment In Jointly Controlled Entities (Continued)

Included in the cost of investment is goodwill of HK\$17,146,000 (2005: HK\$47,275,000) arising on acquisition of interests in jointly controlled entities. The movement of goodwill is set out below:

	<b>THE GROUP</b> HK\$'000
<b>COST</b>	
At 1st January 2005	85,436
Exchange adjustments	544
Arising on acquisition of a jointly controlled entity	28,314
Transfer from goodwill of subsidiaries	1,759
	<hr/>
At 31st December 2005	116,053
Exchange adjustments	1,155
Eliminated on deemed disposal of interest in a jointly controlled entity	(1,271)
	<hr/>
At 31st December 2006	115,937
<b>IMPAIRMENT</b>	
At 1st January 2005	67,369
Impairment loss recognised for the year	1,409
	<hr/>
At 31st December 2005	68,778
Impairment loss recognised for the year	30,013
	<hr/>
At 31st December 2006	98,791
<b>CARRYING VALUES</b>	
At 31st December 2006	17,146
	<hr/>
At 31st December 2005	47,275
	<hr/>

During the year, the directors considered that in light of the decrease in operating results of a jointly controlled entity, with reference to the estimated cash flows from the operations of the jointly controlled entity, full impairment loss in respect of the goodwill of this jointly controlled entity of HK\$30,013,000 was recognised in profit or loss.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 23. Interests/Investment In Jointly Controlled Entities (Continued)

A summary of the combined financial information in respect of the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Group's share of total assets of jointly controlled entities	5,861,209	5,181,395
Group's share of total liabilities of jointly controlled entities	(3,422,971)	(2,816,049)
Group's share of net assets of jointly controlled entities	2,438,238	2,365,346
Income	6,661,432	6,738,886
Profit for the year	238,999	61,206
Group's share of results of jointly controlled entities for the year	21,152	2,839

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of losses of the jointly controlled entities, both for the year and cumulatively, are as follows:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Unrecognised share of losses of jointly controlled entities for the year	11,722	1,691
Accumulated unrecognised share of losses of jointly controlled entities	13,413	1,691

Details of the Group's principal jointly controlled entities at 31st December 2006 are set out in note 53.



## Notes to the Financial Statements

For the year ended 31st December 2006

### 24. Interests in Associates

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Cost of investment in associates		
– Listed in Hong Kong	<b>1,819,766</b>	1,819,766
– Listed in the PRC	<b>141,506</b>	174,824
– Unlisted	<b>230,664</b>	269,785
Share of post-acquisition profits and reserves, net of dividends received	<b>1,630,747</b>	1,632,475
	<b>3,822,683</b>	3,896,850
Less: Impairment loss recognised	<b>(28,793)</b>	(28,793)
	<b>3,793,890</b>	3,868,057
Fair value of listed investments	<b>3,640,093</b>	3,265,874

Included in the cost of investments is goodwill of HK\$3,320,000 (2005: HK\$3,320,000) arising on acquisition of interests in associates. The movement of goodwill is set out below:

	THE GROUP HK\$'000
COST	
At 1st January 2005	72,291
Transfer from goodwill of subsidiaries	43,560
Eliminated on deemed disposal of interest in an associate	(74)
Transfer to goodwill of subsidiaries	(57,159)
Transfer to assets classified as held for sale	(35,924)
At 31st December 2005 and 31st December 2006	22,694
IMPAIRMENT	
Impairment loss recognised for the year ended 31st December 2005 and balance at 31st December 2005 and 31st December 2006	19,374
CARRYING VALUES	
At 31st December 2006	3,320
At 31st December 2005	3,320

## Notes to the Financial Statements

For the year ended 31st December 2006

### 24. Interests in Associates (Continued)

A summary of the combined financial information in respect of the Group's associates is set out below:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Total assets	<b>41,261,076</b>	43,287,778
Total liabilities	<b>(13,968,625)</b>	(14,693,352)
Net assets	<b>27,292,451</b>	28,594,426
Group's share of net assets of associates	<b>3,799,989</b>	3,874,156
Income	<b>19,822,344</b>	18,020,749
Profit (loss) for the year	<b>106,914</b>	(485,328)
Group's share of results of associates for the year	<b>157,215</b>	102,532

Details of the Group's principal associates at 31st December 2006 are set out in note 54.

### 25. Available-for-sale Investments

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Available-for-sale investments comprise:		
Listed equity securities:		
– in Hong Kong	<b>15,523</b>	11,521
– in the PRC	<b>6,699</b>	17,957
Unlisted equity securities:		
– in Hong Kong	<b>5</b>	5
– in the PRC	<b>174,882</b>	291,571
	<b>197,109</b>	321,054

## Notes to the Financial Statements

For the year ended 31st December 2006

### 25. Available-for-sale Investments (Continued)

At the balance sheet date, all available-for-sale investments are stated at fair value, except for those unlisted equity investments of which their fair values cannot be measured reliably.

The above investments in unlisted equity securities are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

The Group's unlisted investments at the balance sheet date include HK\$34,159,000 (2005: HK\$34,159,000) investments in the companies with shareholding of 30% and 26.14% respectively established in the PRC which are engaged in the manufacture and sale of paper products. Pursuant to various addendums to the joint venture agreements with the respective PRC joint venture partners, the Group has surrendered its economic interests in connection with the operation and management of these companies in return for the receipt of contracted annual payments. At the end of the joint venture period, the Group is entitled to the distribution of all the remaining assets in accordance with their shareholdings in these companies. In the opinion of the directors, these companies are not regarded as the Group's associates as the Group cannot exercise significant influence on these companies.

During the year, the directors reviewed the carrying amount of the available-for-sale investments in light of the current market condition with reference to the estimated discounted future cash flows from the business operated by the investees. The directors identified an impairment loss of HK\$1,900,000 (2005: HK\$9,648,000) on the investment and the amount has been recognised in profit or loss accordingly.

### 26. Loan Receivables

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Fixed-rate loan receivables at interest rate of 5.5% per annum	3,689	4,444
Variable-rate loan receivables at interest rate of HIBOR+1% per annum	–	62,590
	<b>3,689</b>	67,034
Analysed for reporting purposes:		
Non-current portion (receivable after 12 months)	3,689	4,277
Current portion (receivable within 12 months)	–	62,757
	<b>3,689</b>	67,034

## Notes to the Financial Statements

For the year ended 31st December 2006

### 26. Loan Receivables (Continued)

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Fixed-rate loan receivables:		
Within one year	–	167
In more than three years but not more than four years	3,689	4,277
	<b>3,689</b>	<b>4,444</b>

The Group's loan receivables are denominated in the following currencies:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Hong Kong dollars	3,689	4,444
United States dollars	–	62,590
	<b>3,689</b>	<b>67,034</b>

At 31st December 2006, the fixed-rate loan receivable of HK\$3,689,000 (2005: HK\$4,444,000) represents the amount due from a minority shareholder of a subsidiary (the "MI shareholder"). It is secured by the MI shareholder's equity interest in the subsidiary and the dividend distribution by the subsidiary.

At 31st December 2005, the variable-rate loan receivable of HK\$62,590,000 represented the amount due from 中環保水務投資有限公司 (General Water of China Co., Ltd.) ("General Water of China"), a jointly controlled entity of the Group, and was secured by General Water of China's 55% equity interest in 廈門水務中環污水處理有限公司 and 45% equity interest in 廈門水務中環制水有限公司 and fully settled during the year.

### 27. Deposits Paid on Acquisition of Property, Plant and Equipment

#### The Group

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment for new production facilities and the widening work of the Shanghai section of the Shanghai-Nanjing Expressway.

### 28. Deposit Paid on Acquisition of a Subsidiary

#### The Group

At 31st December 2005, the deposits were paid by the Group in connection with the acquisition of a subsidiary which was engaged in manufacture of pharmaceutical raw materials.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 29. Derivative Financial Instruments

#### Derivative under hedge accounting

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Cash flow hedge - Interest rate swaps:		
Non-current asset	-	6,421

Cash flow hedge:

At 31st December 2005, the Group used interest rate swaps to minimise its exposure to changes in cash flow of interest payments of its floating-rate Hong Kong dollars bank borrowings by swapping HK\$800 million long-term portion syndicated loan, which due at 10th April 2007, from floating rate of HIBOR plus 0.45% to the predetermined rates. The interest rate swaps was terminated during the year.

### 30. Inventories

	<b>THE GROUP</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>643,605</b>	649,608
Work in progress	<b>130,161</b>	112,557
Finished goods	<b>319,371</b>	330,465
Merchandise held for resale	<b>123,475</b>	123,095
	<b>1,216,612</b>	1,215,725

## Notes to the Financial Statements

For the year ended 31st December 2006

### 31. Trade and Other Receivables

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Trade receivables	<b>982,142</b>	1,003,161
Less: accumulated impairment	<b>(86,908)</b>	(60,014)
	<b>895,234</b>	943,147
Other receivables	<b>617,893</b>	596,714
Total trade and other receivables	<b>1,513,127</b>	1,539,861

The Group generally allows credit period ranging from 30 days to 90 days to its trade customers. An aged analysis of trade receivables net of impairment losses, are as follows:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Trade receivables:		
Within 30 days	<b>377,371</b>	496,563
Within 31 – 60 days	<b>200,436</b>	174,943
Within 61 – 90 days	<b>93,395</b>	78,413
Within 91 – 180 days	<b>104,554</b>	106,355
Within 181 – 360 days	<b>99,781</b>	57,750
Over 360 days	<b>19,697</b>	29,123
	<b>895,234</b>	943,147

## Notes to the Financial Statements

For the year ended 31st December 2006

### 32. Financial Assets at Fair Value Through Profit or Loss

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Investments held-for-trading:		
Listed equity securities in		
– Hong Kong	155,985	147,806
– Others	153,945	98,356
Unlisted investment funds in equity and debt securities	785,564	229,767
	<b>1,095,494</b>	475,929
Financial assets designated at fair value through profit or loss:		
– Convertible notes/bonds	155,430	103,162
– Structured deposits	329,785	467,271
– Equity-linked notes	79,402	23,680
	<b>564,617</b>	594,113
	<b>1,660,111</b>	1,070,042

At the balance sheet date, all financial assets at fair value through profit or loss are stated at fair value. The fair values are determined by reference to bid prices quoted in active markets or valuation performed by the respective issuing banks or financial institutions.

Included in financial assets designated at fair value through profit or loss is structured deposits of HK\$329,785,000 (2005: HK\$467,271,000) placed with banks. Under the relevant agreements, these structured deposits contain embedded derivatives in which their returns are determined by reference to the change in exchange rate of certain foreign currencies and the change in certain interest rates quoted in the market.

### 33. Pledged Bank Deposits, Short-term Bank Deposits and Bank Balances and Cash

#### The Group

Pledged bank deposits with maturity of less than three months represents deposits pledged to banks to secure general banking facilities granted to the Group and an associate. Deposits amounting to HK\$28,560,000 (2005: HK\$28,000,000) have been pledged to secure general banking facilities and are therefore classified as current assets.

The pledged bank deposits carry interest at fixed interest rate of 3.28% (2005: 3.58%) per annum and the short-term bank deposits with maturity of more than three months carry interest at market rate ranging from 1.8% to 5.57% (2005: 1.9% to 4.34%) per annum. The bank deposits with maturity of less than three months carry interest at market rate ranging from 0.72% to 5.31% (2005: 0.72% to 4.37%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

#### The Company

The short-term bank deposits carry interest at market rate ranging from 5.47% to 5.57% (2005: 4.34%) per annum and the bank deposits with maturity of less than three months carry interest at market rate ranging from 3.72% to 5.31% (2005: 3.85% to 4.37%) per annum.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 34. Assets Classified as Held for Sale

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Assets classified as held for sale comprise:		
Property interests (note a)	<b>28,833</b>	27,790
An associate (note b)	–	317,395
	<b>28,833</b>	345,185

Notes:

- (a) In 2005, the Group resolved to dispose of two pieces of land and buildings with aggregate carrying amounts of HK\$28,833,000 (2005: HK\$27,790,000) to an outsider within twelve months subsequent to the balance sheet date. Accordingly, the amounts have been classified as assets held for sale and are presented separately in the balance sheet. The proceeds of disposal will exceed their net carrying amounts and, accordingly, no impairment loss has been recognised. The disposal transaction was completed in January 2007.
- (b) In October 2005, the Group entered into a conditional share repurchase agreement with Shanghai Jahwa United Co. Ltd. ("Shanghai Jahwa"), a 28.15% held associate of the Group, pursuant to which Shanghai Jahwa shall repurchase from the Group its entire interest in Shanghai Jahwa at a consideration of RMB336,680,000 (equivalent to approximately HK\$323,731,000). Accordingly, the Group's interest in Shanghai Jahwa of HK\$348,642,000 (including goodwill asset of HK\$35,924,000) had been reclassified as assets held for sale and was presented separately in the consolidated balance sheet. Since the net realisable value on the share repurchase would fall below the carrying amounts of the reclassified assets, an impairment loss of HK\$31,247,000 was recognised during the year ended 31st December 2005. The disposal transaction was completed during the year.

### 35. Trade and Other Payables

Included in trade and other payables are trade payables of HK\$681,779,000 (2005: HK\$578,475,000) and their aged analysis is as follows:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Trade payables:		
Within 30 days	<b>483,708</b>	356,876
Within 31 – 60 days	<b>78,084</b>	91,492
Within 61 – 90 days	<b>29,017</b>	42,345
Within 91 – 180 days	<b>42,482</b>	37,727
Within 181 – 360 days	<b>17,499</b>	25,738
Over 360 days	<b>30,989</b>	24,297
	<b>681,779</b>	578,475



## Notes to the Financial Statements

For the year ended 31st December 2006

### 36. Bank and Other Borrowings

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank loans	<b>2,112,143</b>	2,171,265	–	1,600,000
Other loans	<b>64,560</b>	122,484	–	–
	<b>2,176,703</b>	2,293,749	–	1,600,000
Analysed as:				
Secured	<b>365,963</b>	393,267	–	–
Unsecured	<b>1,810,740</b>	1,900,482	–	1,600,000
	<b>2,176,703</b>	2,293,749	–	1,600,000
Carrying amount repayable:				
On demand or within one year	<b>614,741</b>	1,320,175	–	800,000
More than one year but not more than two years	<b>63,071</b>	865,495	–	800,000
More than two years but not more than five years	<b>1,490,362</b>	100,812	–	–
Over five years	<b>8,529</b>	7,267	–	–
	<b>2,176,703</b>	2,293,749	–	1,600,000
Less: Amounts due within one year shown under current liabilities	<b>(614,741)</b>	(1,320,175)	–	(800,000)
	<b>1,561,962</b>	973,574	–	800,000

## Notes to the Financial Statements

For the year ended 31st December 2006

### 36. Bank and Other Borrowings (Continued)

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or repricing dates) are as follows:

	2006 HK\$'000	2005 HK\$'000
Fixed-rate borrowings:		
Within one year	279,911	420,974
In more than one year but not more than two years	63,071	65,495
In more than two years but not more than three years	171	62,021
In more than three years but not more than four years	171	38,626
In more than four years but not more than five years	170	165
In more than five years	8,529	7,267
	<b>352,023</b>	594,548

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2006	2005
Effective interest rate:		
Fixed-rate borrowings	2.4% to 7.9%	2.4% to 9%
Variable-rate borrowings	4.32% to 9.36%	0.97% to 4.65%

Included in the bank borrowings is an amount of HK\$1,500 million drawn under a syndicated loan facility of HK\$3,000 million newly obtained by the Group during the year. Transaction costs directly attributable to such bank borrowings amounted to approximately HK\$10.5 million and was deducted from the fair value of the bank borrowing on initial recognition. At 31st December 2006, the carrying value of such bank borrowings amounted to approximately HK\$1,490 million.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 37. Share Capital

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
– at 1st January 2005, 31st December 2005 and 31st December 2006	2,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
– balance at 1st January 2005	958,638,000	95,864
– exercise of share options	8,895,000	889
– balance at 31st December 2005	967,533,000	96,753
– exercise of share options	971,000	97
– balance at 31st December 2006	968,504,000	96,850

### 38. Share-based Payment Transactions

Details of the equity-settled share option schemes adopted by members of the Group are as follows:

#### (a) SIHL Scheme

The Company has, in accordance with Chapter 17 of the Listing Rules, adopted a new share option scheme (the "SIHL Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 31st May 2002. The SIHL Scheme shall be valid and effective for a period of 10 years commencing on the adoption of the Scheme, after which period no further share options will be granted. The SIHL Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible participants and for such other purposes as the Board may approve from time to time.

According to the SIHL Scheme, the Board of Directors of the Company may grant options to any director or employee of each member of the Group (including a company in which (i) the Company is directly or indirectly interested in less than 20% of the issued share capital or equity interest or voting rights of such company but is the largest shareholder or the holder of the largest voting rights of such company; or (ii) in the opinion of the Board of Directors, the Company is able to exercise significant influence to such company); and any executive or employee of any business consultant, professional and other advisers in each member of the Group who have rendered service or will render service to the Group, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Share options granted should be accepted within 30 days from the date of grant.

The Board of Directors may at its absolute discretion determine and notified by the Board of Directors to each grantee the period during which a share option may be exercised, such period should expire not later than 10 years from the date of grant of the share options. Subject to the provisions of the SIHL Scheme, the Board of Directors may at its discretion when offering the grant of a share option impose any conditions, restrictions or limitations in relation thereto as it may think fit.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 38. Share-based Payment Transactions (Continued)

#### (a) SIHL Scheme (Continued)

The subscription price for shares in the Company shall be a price solely determined by the Board of Directors of the Company and notified to an eligible participant, and shall be at least the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the SIHL Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the SIHL Scheme. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the SIHL Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant under the SIHL Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue unless approved by the shareholders of the Company.

The number of shares available for issue, save for those granted but yet to be exercised, under the SIHL Scheme totalled 49,617,000 shares, which represented 5.1% (2005: 5.6%) of the issued share capital of the Company as at the date of this annual report.

The following table discloses details of the Company's options under the SIHL Scheme held by the Group's employees and other eligible participants and movement in such holdings during the year:

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2006
September 2002	11.71	7,385,000	–	(885,000)	(6,500,000)	–
September 2005	14.89	10,000,000	–	(86,000)	(383,000)	9,531,000
May 2006	17.10	–	5,000,000	–	–	5,000,000
		<b>17,385,000</b>	<b>5,000,000</b>	<b>(971,000)</b>	<b>(6,883,000)</b>	<b>14,531,000</b>
Exercisable at the end of the year						<b>4,359,300</b>
Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2005
September 2002	11.71	16,280,000	–	(8,895,000)	–	7,385,000
September 2005	14.89	–	10,000,000	–	–	10,000,000
		<b>16,280,000</b>	<b>10,000,000</b>	<b>(8,895,000)</b>	<b>–</b>	<b>17,385,000</b>
Exercisable at the end of the year						<b>7,385,000</b>

## Notes to the Financial Statements

For the year ended 31st December 2006

### 38. Share-based Payment Transactions (Continued)

#### (a) SIHL Scheme (Continued)

Details of the share options held by the directors included in the above table are as follows:

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Outstanding at 31.12.2006
September 2005	14.89	2,440,000	–	–	2,440,000
May 2006	17.10	–	2,300,000	–	2,300,000
		2,440,000	2,300,000	–	4,740,000

Month of grant	Exercise price per share HK\$	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
September 2002	11.71	500,000	–	(500,000)	–
September 2005	14.89	–	2,440,000	–	2,440,000
		500,000	2,440,000	(500,000)	2,440,000

The options granted on 10th September 2002 may be exercised in accordance with the terms of the relevant scheme as to:

1. 30% of the options within three and a half years commencing on 10th March 2003;
2. a further 30% of the options within two and a half years commencing on 10th March 2004;
3. the remaining 40% of the options within one and a half years commencing on 10th March 2005; and
4. the options will expire at the close of business on 9th September 2006.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 38. Share-based Payment Transactions (Continued)

#### (a) SIHL Scheme (Continued)

The options granted on 2nd September 2005 may be exercised in accordance with the terms of the relevant scheme as to:

1. 30% of the options within three years commencing on 2nd March 2006;
2. a further 30% of the options within two years commencing on 2nd March 2007;
3. the remaining 40% of the options within one year commencing on 2nd March 2008; and
4. the options will expire at the close of business on 1st March 2009.

The options granted on 2nd May 2006 ("Third Lot Share Options") may be exercised in accordance with the terms of the relevant scheme as to:

1. 30% of the options within three years commencing on 2nd November 2006;
2. a further 30% of the options within two years commencing on 2nd November 2007;
3. the remaining 40% of the options within one year commencing on 2nd November 2008; and
4. the options will expire at the close of business on 1st November 2009.

During the year, the weighted average closing price immediately before the dates on which the share options under the SIHL Scheme were exercised was HK\$16.16.

The closing price immediately before 2nd May 2006, being the date of grant of the Third Lot Share Options, was HK\$16.70.

Total consideration received for shares issued upon exercise of share options under the SIHL Scheme during the year was approximately HK\$11,644,000 (2005: HK\$104,160,000).

The estimated fair value of the options granted to the Group's employees and other eligible participants during the year is approximately HK\$12,250,000 (2005: HK\$9,946,000).

## Notes to the Financial Statements

For the year ended 31st December 2006

### 38. Share-based Payment Transactions (Continued)

#### (a) SIHL Scheme (Continued)

The fair value was calculated using The Black-Scholes option pricing model. The inputs into the model were as follows:

	2006	2005
Weighted average fair value	<b>HK\$2.45</b>	HK\$0.9946
Weighted average share price	<b>HK\$17.1</b>	HK\$14.85
Exercise price	<b>HK\$17.1</b>	HK\$14.89
Expected volatility	<b>22.21%</b>	16.7%
Expected life	<b>2 to 3 years</b>	0.5 to 1.5 years
Hong Kong Exchange Fund Note rate	<b>4.22% to 4.41%</b>	3.33% to 3.62%
Expected dividend yield	<b>2.5%</b>	3.7%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

As the services to be performed by other eligible participants are similar to services performed by the employees of the Group, the fair value of such services is also measured with reference to the fair value of share options granted using the Black-Scholes option pricing model.

The Group recognised an expense of approximately HK\$10,872,000 for the year ended 31st December 2006 (2005: HK\$3,911,000) in relation to the share options granted by the Company, in which approximately HK\$7,994,000 (2005: HK\$2,738,000) was related to options granted to the Group's employees and shown as staff costs, and the remaining balance represents share option expense for other eligible participants.

#### (b) Mergen Biotech Scheme

A subsidiary of the Company, Mergen Biotech Limited ("Mergen Biotech") adopted a share option scheme (the "Mergen Biotech Scheme") on 28th May 2004 for the primary purpose of providing incentives to eligible participants to contribute to Mergen Biotech and to enable Mergen Biotech to recruit and attract high-calibre employees and attract human resources that are valuable to Mergen Biotech and its subsidiaries (the "Mergen Group"), and the scheme will remain valid for a period of 10 years commencing on the date of its adoption.

Under the Mergen Biotech Scheme, the Board of Directors of Mergen Biotech (the "Mergen Board") can grant options to eligible participants, including any director, management, employee (whether full-time or part-time) or business consultant and professional adviser of the Mergen Group, to subscribe for shares in Mergen Biotech for a consideration of HK\$1 for each lot of share options granted. Options granted have to be accepted within 30 days from the date of grant.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 38. Share-based Payment Transactions (Continued)

#### (b) Mergen Biotech Scheme (Continued)

An option may be exercised in accordance with the terms of the Mergen Biotech Scheme at any time during a period to be notified by the Mergen Board to each grantee, such period shall not be more than 10 years from the date upon which the grant of a share option is made to a participant in accordance with the Mergen Biotech Scheme but subject to the provisions for early termination contained therein. Subject to the provisions of the Mergen Biotech Scheme, the Mergen Board may at its discretion when offering the grant of a share option imposed any conditions, restrictions or limitations in relation thereto as it may think fit.

The subscription price of the share options shall be determined by the Mergen Board with reference to the unaudited net asset per share of Mergen Biotech ("Mergen Share") as at 31st December 2003 and shall not be less than US\$8.22 (or its equivalent in HK\$) per Mergen Share. The subscription price of options granted after the Company has contemplated a separate listing of Mergen Biotech on the Main Board or the Growth Enterprise Market ("GEM") of the Stock Exchange or any overseas stock exchange and up to the date of listing of the Mergen Shares shall not be lower than the new issue price of the Mergen Shares on listing. Without prejudice to the foregoing, any options granted during the period commencing 6 months before the lodgement of Form A1 (or its equivalent for listing on GEM or any overseas exchange) are subject to the above requirement. The subscription price of any options granted during such period shall be adjusted at the absolute discretion of the Mergen Board to a price not lower than the new issue price of the Mergen Shares on listing.

The maximum number of Mergen Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Mergen Biotech Scheme and other share option scheme(s) of Mergen Biotech shall not exceed 10% of the total number of Mergen Shares in issue from time to time. The Mergen Board will have the right to grant to the eligible participants options to subscribe for Mergen Shares, which when aggregated with any securities to be granted subject to any other share option schemes of Mergen Biotech shall not in aggregate exceed 10% of the total number of Mergen Shares in issue as at the date of approval of the Mergen Biotech Scheme. No eligible participants under the Mergen Biotech Scheme shall be granted an option which, if exercised, would result in the aggregate number of Mergen Shares issued and to be issued upon exercise of all options granted and to be granted to such participant, in any 12-month period (including exercised, cancelled and outstanding options), would exceed 1% of the Mergen Shares in issue unless approved by the shareholders of the Company.



## Notes to the Financial Statements

For the year ended 31st December 2006

### 38. Share-based Payment Transactions (Continued)

#### (b) Mergen Biotech Scheme (Continued)

The following table discloses details of the options under the Mergen Biotech Scheme during the year:

Month of grant	Exercise price per share	Outstanding at 1.1.2005, 31.12.2005 and 31.12.2006
December 2004	US\$8.22	63,400

The number of shares available for issue, save for those granted but yet to be exercised, under the Mergen Biotech Scheme totalled 14,600 Mergen Shares which represented 1.87% (2005: 1.87%) of the issued share capital of Mergen Biotech as at the date of this annual report.

The share options can be exercised during the period from 30th June 2005 to 27th May 2014 with details below, subject to the performance targets as determined by the Mergen Board to be accomplished by the grantees:

1. 70% of the options within nine years and eleven months commencing on 30th June 2005;
2. a further 15% of the options within nine years and five months commencing on 31st December 2005;
3. the remaining 15% of the options within eight years and eleven months commencing on 30th June 2006; and
4. the options will expire at the close of business on 27th May 2014.

No options was granted or exercised under the Mergen Biotech Scheme for both years.

The Group recognised an expense of approximately HK\$206,000 for the year ended 31st December 2006 (2005: HK\$2,227,000) in relation to the share options granted by Mergen Biotech.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 39. Reserves

	Share premium HK\$'000	Share options reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Hedging reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>							
At 1st January 2005	10,032,631	–	1,071	1,137,728	(3,328)	3,035,407	14,203,509
Gain on cash flow hedges and net income recognised directly in equity	–	–	–	–	9,749	–	9,749
Profit for the year	–	–	–	–	–	661,159	661,159
Total recognised income and expense for the year	–	–	–	–	9,749	661,159	670,908
Premium arising on issue of shares	103,271	–	–	–	–	–	103,271
Transaction costs attributable to issue of new shares	(121)	–	–	–	–	–	(121)
Recognition of equity-settled share-based payment expenses	–	3,911	–	–	–	–	3,911
Dividends paid (note 14)	–	–	–	–	–	(529,805)	(529,805)
At 31st December 2005	10,135,781	3,911	1,071	1,137,728	6,421	3,166,761	14,451,673
Loss on cash flow hedges and net expense recognised directly in equity	–	–	–	–	(6,421)	–	(6,421)
Profit for the year	–	–	–	–	–	1,938,435	1,938,435
Total recognised income and expense for the year	–	–	–	–	(6,421)	1,938,435	1,932,014
Premium arising on issue of shares	11,547	–	–	–	–	–	11,547
Release of share options reserve on exercise of share options	72	(72)	–	–	–	–	–
Reversal upon cancellation of share option	–	(321)	–	–	–	321	–
Transaction costs attributable to issue of new shares	(25)	–	–	–	–	–	(25)
Recognition of equity-settled share-based payment expenses	–	10,872	–	–	–	–	10,872
Dividends paid (note 14)	–	–	–	–	–	(426,058)	(426,058)
At 31st December 2006	10,147,375	14,390	1,071	1,137,728	–	4,679,459	15,980,023

## Notes to the Financial Statements

For the year ended 31st December 2006

### 39. Reserves (Continued)

The Company's reserve available for distribution to shareholders as at 31st December 2006 represents its accumulated profits of approximately HK\$4,679.5 million (2005: HK\$3,166.8 million).

The Company's capital reserve which arose in 1997 upon reduction of share premium as confirmed by the Order of the High Court of Hong Kong was not realised profits and is an undistributable reserve.

### 40. Amounts Due from (to) Subsidiaries

At 31st December 2006, the amounts due from subsidiaries are unsecured and repayable on demand. Except for an amount of approximately HK\$60 million (2005: HK\$80 million) which carries interest at HIBOR plus 0.45% per annum, the balances are non-interest bearing.

The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

### 41. Deferred Taxation

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Tax losses HK\$'000	Other deferred tax liabilities HK\$'000	Other deferred tax assets HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
At 1st January 2005	101,945	–	(4,950)	3,394	(41,684)	58,705
Exchange adjustments	62	–	–	65	235	362
(Credit) charge to income for the year (note 11)	(595)	2,126	(2,850)	6,555	17,300	22,536
At 31st December 2005	101,412	2,126	(7,800)	10,014	(24,149)	81,603
Exchange adjustments	161	–	–	129	(6,388)	(6,098)
Arising on acquisition of a subsidiary	–	–	–	7,459	–	7,459
(Credit) charge to income for the year (note 11)	(6,879)	3,546	700	2,278	675	320
At 31st December 2006	94,694	5,672	(7,100)	19,880	(29,862)	83,284

## Notes to the Financial Statements

For the year ended 31st December 2006

### 41. Deferred Taxation (Continued)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 HK\$'000	2005 HK\$'000
Deferred tax liabilities	112,046	107,479
Deferred tax assets	(28,762)	(25,876)
	<b>83,284</b>	81,603

At 31st December 2006, the Group had unused tax losses of HK\$46.5 million (2005: HK\$76.9 million) available for offset against future assessable profits. A deferred tax asset amounting to approximately HK\$7.1 million (2005: HK\$7.8 million) in respect of tax losses amounting to approximately HK\$40.6 million (2005: HK\$44.6 million) was recognised. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$5.9 million (2005: HK\$32.3 million) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

### 42. Acquisition of a Subsidiary

On 1st January 2006, the Group acquired 69.63% equity interest in 常州天普藥業有限公司 (Changzhou Techpool Pharmaceutical Co., Ltd) ("Changzhou Techpool"), a company engaged in developing, manufacturing and sale of raw and finished bio-chemical pharmaceutical, for a consideration of RMB71,000,000 (equivalent to approximately HK\$68,269,000). The acquisition has been accounted for using the purchase method of accounting. The amount of goodwill arising as a result of this acquisition was HK\$22,569,000.

During the year ended 31st December 2005, the Group acquired certain subsidiaries, details of which are as follows:

- (a) In February 2005, the Group increased its interest in Chengdu Jiuxing Printing and Packing Co., Ltd. ("Chengdu Jiuxing") from 30% to 51%, at a consideration of RMB22,480,000 (equivalent to HK\$21,208,000). No goodwill or discount arose on this acquisition.
- (b) In September 2005, the Group increased its interest in HebeiYongxin Paper Co., Ltd. from 39% to 66%, at a consideration of RMB14,070,000 (equivalent to HK\$13,529,000). No goodwill or discount arose on this acquisition.
- (c) In July 2005, the Group increased its interest in 杭州胡慶餘堂藥業有限公司 (Hangzhou Huqingyutang Pharmaceutical Co., Ltd) ("Huqingyutang Pharmaceutical") from 30.006% to 51.007%, at a consideration of RMB134,800,000 (equivalent to HK\$129,615,000). The amount of goodwill arising as a result of this acquisition was HK\$37,274,000.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 42. Acquisition of a Subsidiary (Continued)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	2006			2005 HK\$'000
	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000	
Net assets acquired:				
Property, plant and equipment	17,335	4,683	22,018	397,542
Prepaid lease payments	1,385	–	1,385	62,776
Other intangible assets	598	4,042	4,640	59,121
Interests in associates	6,655	–	6,655	–
Available-for-sale investments	–	–	–	18,621
Inventories	55,325	11,065	66,390	133,838
Trade and other receivables	11,764	–	11,764	272,083
Taxation recoverable	–	–	–	1,529
Bank balances and cash	11,038	–	11,038	208,248
Trade and other payables	(27,097)	–	(27,097)	(426,195)
Taxation payable	(12)	–	(12)	(2,822)
Deferred tax liabilities	(928)	(6,531)	(7,459)	–
Bank and other borrowings	(24,038)	–	(24,038)	(302,749)
	52,025	13,259	65,284	421,992
Minority interests of investees	–	–	–	(9,970)
Minority interests	(15,553)	(4,031)	(19,584)	(199,736)
	36,472	9,228	45,700	212,286
Other revaluation reserve			–	(8,716)
Goodwill arising on acquisition (note 21)			22,569	37,274
			68,269	240,844
Satisfied by:				
Deposit paid on acquisition of a subsidiary in prior year			68,269	–
Cash consideration paid			–	164,352
Interests in associates			–	54,505
Interest in a jointly controlled entity			–	21,987
			68,269	240,844
Net cash (outflow) inflow arising on acquisition:				
Cash consideration paid			–	(164,352)
Cash and cash equivalents acquired			11,038	208,248
			11,038	43,896

## Notes to the Financial Statements

For the year ended 31st December 2006

### 42. Acquisition of a Subsidiary (Continued)

The goodwill arising on the acquisition of Changzhou Techpool is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

The subsidiary acquired contributed approximately HK\$72 million (2005: HK\$469.7 million) and HK\$9 million (2005: HK\$26.1 million) to the Group's turnover and profit for the year, respectively.

Had the acquisitions for the year ended 31st December 2005 been completed on 1st January 2005, the Group's turnover and profit for the year would have been increased by approximately HK\$1,011.0 million and HK\$60.6 million, respectively.

### 43. Disposal of Subsidiaries

During the year, the Group disposed of its entire interests in 北京上實中葯有限公司 and 上海實業聯合集團大葯房有限公司. The net assets of the subsidiaries at the date of disposal were as follows:

During the year ended 31st December 2005, the Group disposed of its entire interests in Guiyang Jiuxing Printing Co., Ltd., China Luck Property Limited ("China Luck") and Ningxia SII CViopes Nutraceuticals Co., Ltd. A net loss on disposal of interest in subsidiaries of HK\$5,506,000 was recognised for that year.

	2006 HK\$'000	2005 HK\$'000
Net assets disposed of:		
Property, plant and equipment	4,661	18,263
Prepaid lease payments	1,047	1,493
Inventories	5,323	3,683
Trade and other receivables	2,055	4,791
Taxation recoverable	–	130
Bank balances and cash	3,033	1,205
Trade and other payables	(6,772)	(15,466)
Bank and other borrowings	–	(962)
Taxation payable	(287)	–
	<b>9,060</b>	13,137
Minority interests	(315)	(2,315)
	<b>8,745</b>	10,822
Translation reserve realised	(31)	11
	<b>8,714</b>	10,833
Gain (loss) on disposal of interest in subsidiaries	3,468	(5,506)
Consideration	<b>12,182</b>	5,327

## Notes to the Financial Statements

For the year ended 31st December 2006

### 43. Disposal of Subsidiaries (Continued)

	2006 HK\$'000	2005 HK\$'000
Satisfied by:		
Cash consideration received	12,182	5,327
Net cash inflow arising on disposal:		
Cash received	12,182	5,327
Bank balances and cash disposed of	(3,033)	(1,205)
	<b>9,149</b>	4,122

The subsidiaries disposed of during the year did not make any significant contribution to the results and cash flows of the Group during the period prior to the disposals.

### 44. Operating Leases

#### The Group as lessee

At the balance sheet date, the Group and the Company had commitments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	33,176	29,831	3,281	6,562
In the second to fifth year inclusive	73,917	67,283	–	3,281
After five years	88,960	92,225	–	–
	<b>196,053</b>	189,339	<b>3,281</b>	9,843

Operating lease payments represent rental payable by the Group and the Company for certain office and factory properties. Leases are negotiated for an average term of 20 years and rentals are fixed for an average term of 1 to 2 years.

Included in the above are operating lease commitments for land and buildings of approximately HK\$174 million (2005: HK\$165 million) and approximately HK\$3.3 million (2005: HK\$9.8 million) payable by the Group and the Company, respectively, to the ultimate holding company and fellow subsidiaries.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 44. Operating Leases (Continued)

#### The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2006	2005
	Land and buildings	
	HK\$'000	HK\$'000
Within one year	2,323	797
In the second to fifth year inclusive	8,627	106
Over five years	7,000	–
	<b>17,950</b>	903

The Company had no significant operating lease arrangements as lessor at the balance sheet date.

### 45. Capital Commitments

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– toll road construction costs	1,055,813	29,182
– investments in PRC jointly controlled entities	53,072	40,718
– investments in overseas jointly controlled entity	15,132	–
– acquisition of property, plant and equipment	79,796	85,055
– additions in construction in progress	71,245	73,938
	<b>1,275,058</b>	228,893
Capital expenditure authorised but not contracted for in respect of		
– toll road construction costs	–	1,747,066
– acquisition of property, plant and equipment	–	85,519
	–	1,832,585



## Notes to the Financial Statements

For the year ended 31st December 2006

### 45. Capital Commitments (Continued)

In addition to the above, the Group's share of capital commitments of the jointly controlled entities are as follows:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– toll road construction costs	–	27,519
– investments in PRC jointly controlled entities and associates	<b>31,735</b>	13,011
– acquisition of property, plant and equipment	<b>428,299</b>	430,615
– additions in construction in progress	<b>3,229</b>	76,763
	<b>463,263</b>	547,908
Capital expenditure authorised but not contracted for in respect of		
– additions in construction in progress	–	116,550

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

### 46. Contingent Liabilities

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Guarantees given to banks in respect of banking facilities utilised by		
– associates	<b>38,000</b>	18,000
– a supplier	<b>26,800</b>	1,635
	<b>64,800</b>	19,635

The Company did not have significant contingent liabilities at the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 47. Pledge of Assets

At 31st December 2006, the following assets were pledged by the Group to banks in order to secure general banking facilities granted by these banks to the Group:

- (i) plant and machinery with a carrying value of approximately HK\$22.9 million (2005: HK\$32.0 million);
- (ii) leasehold land and buildings with a carrying value of approximately HK\$195.5 million (2005: HK\$230.1 million);
- (iii) motor vehicles with a carrying value of approximately HK\$82,000 (2005: HK\$0.2 million); and
- (iv) bank deposits of approximately HK\$0.6 million (2005: nil).

In addition, at 31st December 2006, certain of the Group's plant and machinery with a carrying value of HK\$180,322,000 (2005: HK\$158,548,000) were pledged to an independent third party which provided a guarantee to a bank in respect of a bank loan granted to the Group.

At 31st December 2006, the Group had bank deposits of approximately HK\$28.0 million (2005: HK\$28.0 million) pledged to banks in respect of banking facilities granted to an associate.

### 48. Retirement Benefits Schemes

The Company and its subsidiaries in Hong Kong operate defined contribution retirement benefits scheme for their qualifying employees pursuant to the Occupational Retirement Schemes Ordinance. To comply with the Mandatory Provident Fund Schemes Ordinance (the "MPFO"), a Mandatory Provident Fund Scheme (the "MPF Scheme") was also established. The assets of both schemes are held separately in funds which are under the control of independent trustees. The retirement benefits schemes contributions charged to the consolidated income statement represent contributions payable by the Company and its subsidiaries in Hong Kong to the funds at rates specified in the rules of the schemes. When there are employees who leave the defined contribution retirement benefits scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Company and its subsidiaries in Hong Kong.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the balance sheet date, no forfeited contributions were available to reduce the contribution payable in the future years.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 49. Connected and Related Party Transactions and Balances

#### (I) Connected persons

- (a) During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules. The significant transactions with the connected parties during the year, and significant balances with them at the balance sheet date, are as follows:

Connected persons	Nature of transaction	THE GROUP	
		2006 HK\$'000	2005 HK\$'000
<b>Transactions</b>			
<i>Ultimate holding company:</i>			
Shanghai Industrial Investment (Holdings) Company Limited ("SIIC")	Rentals paid on land and buildings (note (i))	<b>7,640</b>	7,279
<i>Fellow subsidiaries:</i>			
Nanyang Enterprises Properties Limited	Rentals paid on land and buildings (note (i))	<b>14,520</b>	13,800
The Tien Chu (HK) Co. Ltd.	Rentals paid on land and buildings (note (i))	<b>26</b>	700
	Purchase of materials (note (ii))	<b>276</b>	158
	Printing services income (note (ii))	<b>278</b>	287
上海上實(集團)有限公司 (SIIC Shanghai Holdings Co., Ltd.)	Rentals paid on land and buildings (note (i))	<b>2,975</b>	3,007
Eternal Success Holdings Limited ("Eternal")	Disposal of interest in a subsidiary and assignment of loan (note (iii))	-	4,654
<i>Minority shareholders of subsidiaries:</i>			
中國(杭州)青春寶集團有限公司 (China (Hangzhou) Qingchunbao Group Co. Ltd.) ("China Qingchunbao") and its subsidiaries	Sales of finished medicine and health products (note (iv))	<b>14</b>	13
許昌捲煙總廠	Sales of cigarette box packaging materials (note (iv))	<b>122,694</b>	113,491
Kong Hee Enterprises Limited ("Kong Hee")	Acquisition of additional interest in a subsidiary (note (v))	-	11,450
Shanghai Pharmaceutical (Group) Co., Ltd. ("SPGC")	Acquisition of additional interest in a subsidiary (note (vi))	-	71,509
	Disposal of interest in a jointly controlled entity (note (vi))	-	146,981

## Notes to the Financial Statements

For the year ended 31st December 2006

### 49. Connected and Related Party Transactions and Balances (Continued)

#### (I) Connected persons (Continued)

(a) (Continued)

Connected persons	Nature of transaction	THE GROUP	
		2006 HK\$'000	2005 HK\$'000
<b>Transactions (Continued)</b>			
<i>Minority shareholders of subsidiaries: (Continued)</i>			
Guangzhou Bopu Bio-Technology Co., Ltd. ("Guangzhou Bopu") and its subsidiary	Proposed acquisition of interest in a subsidiary (note (vii)) Purchase of raw materials (note (iv)) Additional capital in a subsidiary (note (viii))	– <b>26,381</b> <b>28,890</b>	68,269 40,706 –
Famerise Group Limited ("Famerise")	Disposal of interest in a subsidiary (note (ix))	<b>26,000</b>	–
Sichuan Quanxing Co., Ltd.	Sales of packaging materials (note (iv))	<b>26,267</b>	28,688
Xinnan (Tianjin) Paper Co., Ltd.	Purchase of raw materials (note (iv)) Port agency service fees (note (iv))	<b>94,514</b> <b>5,173</b>	131,028 4,237
Chifeng Pharmaceutical (Group) Co., Ltd.	Purchase of raw materials (note (iv))	<b>9,282</b>	765
<i>Fellow subsidiary of a minority shareholder of a subsidiary:</i>			
福建省廈門醫藥採購供應站	Sales of medicine products (note (iv))	<b>6,664</b>	7,547
<b>Balances</b>			
<i>Minority shareholders of subsidiaries:</i>			
China Qingchunbao and its subsidiaries	Balance at 31st December – trade receivables – trade payables – dividend payable	<b>191</b> <b>713</b> –	173 711 9,230
許昌捲煙總廠	Balance at 31st December – trade receivables – bills receivables	<b>15,139</b> <b>9,100</b>	19,217 14,615

## Notes to the Financial Statements

For the year ended 31st December 2006

### 49. Connected and Related Party Transactions and Balances (Continued)

#### (I) Connected persons (Continued)

##### (a) (Continued)

Notes:

- (i) The rentals were charged in accordance with the relevant tenancy agreements and the prevailing rent was equivalent or approximate to the open market rentals as certified by an independent firm of professional property valuers when the tenancy agreements were entered into.
- (ii) The terms of these transactions were determined and agreed by both parties.
- (iii) On 6th December 2005, the Company entered into a sale and purchase agreement with Eternal to dispose of its entire interest in China Luck and the loan of HK\$4,216,000 to China Luck at a consideration of HK\$4,654,000.
- (iv) These transactions were carried out at market prices or, where no market price was available, at cost plus a percentage of profit mark-up.
- (v) On 17th January 2005, SIIC MedTech Health Products Limited ("SIIC Health Products"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement, pursuant to which SIIC Health Products acquired a further 5% interest in Xiamen TCM from Kong Hee at a consideration of HK\$11,450,000. Details of this acquisition were included in a published announcement of the Company on the same date.
- (vi) On 21st April 2005, SI Pharmaceutical entered into an acquisition agreement with SPGC to acquire an additional 40% interest in Shanghai Medical Instruments Co., Ltd. at a consideration of RMB75,800,000 (approximately HK\$71,509,000).

On the same date, S. I. Pharmaceutical Holdings Ltd., a subsidiary of the Company, entered into a disposal agreement with SPGC to dispose of its entire 48% interest in Shanghai Sunve Pharmaceutical Co., Ltd. to SPGC at a consideration of RMB155,800,000 (approximately HK\$146,981,000).

Details of this acquisition and disposal were included in a circular issued by the Company dated 13th May 2005.

- (vii) On 20th October 2005, Guangzhou Techpool International Pharmaceutical Co., Ltd. ("Techpool International"), a subsidiary to be established by the Group, entered into an acquisition agreement to acquire an approximately 69.63% interest in Changzhou Techpool from Guangzhou Bopu at a consideration of RMB71,000,000 (approximately HK\$68,269,000). Details of this acquisition were included in a published announcement of the Company on the same date.
- (viii) On 28th December 2006, SI Pharmaceutical agreed to contribute additional capital of RMB30,069,600 (approximately HK\$30,069,600) to Guangdong Techpool Biochem Pharma Co. Ltd. ("Guangdong Techpool") by subscribing for 13,668,000 new shares in Guangdong Techpool at RMB2.2 per share. Guangzhou Bopu also agreed to contribute additional capital of RMB28,890,400 (approximately HK\$28,890,400) to Guangdong Techpool by subscribing for 13,132,000 new shares in Guangdong Techpool at RMB2.2 per share. Details of these transactions were included in a published announcement of the Company on the same date.
- (ix) On 28th December 2006, Techpool International entered into a transfer agreement to transfer its 69.63% interest in Changzhou Techpool to Guangdong Techpool at a consideration of RMB71,000,000 (approximately HK\$71,000,000).

On the same date, Famerise agreed to transfer its 25.82% interest in Changzhou Techpool to Shanghai United International Ltd., a non-wholly owned subsidiary of SI Pharmaceutical, at a consideration of HK\$26,000,000.

Details of these transactions were included in a published announcement of the Company on 28th December 2006.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 49. Connected and Related Party Transactions and Balances (Continued)

#### (I) Connected persons (Continued)

- (b) At 31st December 2006, SI Pharmaceutical had given guarantees amounting to approximately HK\$30 million (2005: nil) to banks in respect of banking facilities granted to Guangdong Techpool. Details of this provision of financial assistance were included in a published announcement of the Company dated 13th October 2006.
- (c) Details of operating lease commitments with connected parties are set out in note 44.

#### (II) Related parties, other than connected persons

- (a) In addition to the transactions with ultimate holding company and fellow subsidiaries as mentioned in note 49(I)(a) above, the significant transactions with related parties, during the year, and significant balances with them at the balance sheet date, are as follows:

Related parties	Nature of transaction	THE GROUP	
		2006 HK\$'000	2005 HK\$'000
<b>Transactions</b>			
<i>A jointly controlled entity:</i>			
河北永新紙業有限公司 (Hebei Yongxin Paper Co., Ltd.)	Interest income received	-	2,528
<i>Associates:</i>			
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Purchase of materials	<b>2,667</b>	2,316
浙江天外包裝印刷股份有限公司 (Zhejiang Tianwai Printing Co., Ltd.)	Sales of cigarette box packaging materials (note(iv))	<b>10</b>	-
	Purchase of materials	-	385
	Dividend income received	<b>2,040</b>	-
四川科美紙業有限公司	Printing services income	<b>679</b>	227
Chengdu Jiuxing	Interest income received	-	107
廣西甲天下水松紙有限公司	Printing services income	<b>8,369</b>	9,601
西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co., Ltd.)	Interest paid	<b>197</b>	2,002
陝西永鑫紙業包裝有限公司	Sales of materials	<b>3,672</b>	2,380

## Notes to the Financial Statements

For the year ended 31st December 2006

### 49. Connected and Related Party Transactions and Balances (Continued)

#### (II) Related parties, other than connected persons (Continued)

(a) (Continued)

Related parties	Nature of transaction	THE GROUP	
		2006 HK\$'000	2005 HK\$'000
<b>Balances</b>			
<i>Jointly controlled entities:</i>			
杭州胡慶餘堂國藥號有限公司 (Hangzhou Huqingyutang Drugstore Co., Ltd.)	Balance at 31st December – non-trade receivable	<b>2,500</b>	2,404
General Water of China	Balance at 31st December – short-term loan receivable	–	62,590
<i>Associates:</i>			
上海家化聯合股份有限公司	Balance at 31st December – short-term loan receivable	–	3,000
上海申永燙金材料有限公司 (Shanghai Shen Yong Stamping Foil Co., Ltd.)	Balance at 31st December – trade payable	<b>2,241</b>	1,980
浙江天外印刷股份有限公司 (Zhejiang Tianwai Printing Co., Ltd.)	Balance at 31st December – trade receivable	<b>16</b>	251
四川科美紙業有限公司	Balance at 31st December – trade receivable – shareholder loan	<b>523</b> <b>1,274</b>	397 1,225
廣西甲天下水松紙有限公司	Balance at 31st December – trade receivable	<b>4,075</b>	2,995
西安永發醫藥包裝有限公司 (Xian Wing Fat Packing Co., Ltd.)	Balance at 31st December – other short-term loan payable – non-trade receivables	– <b>7,477</b>	27,200 7,477

(b) Details of pledged assets given by the Group to related parties are set out in note 47.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 49. Connected and Related Party Transactions and Balances (Continued)

#### (III) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 HK\$'000	2005 HK\$'000
Short-term benefits	30,752	24,413
Share-based payments	5,392	1,204
	<b>36,144</b>	25,617

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

The Company's outstanding balances with related parties are set out in the balance sheet of the Company and in note 40.

### 50. Material Transactions and Balances with Other State-controlled Enterprises

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under SIIC which is controlled by the PRC government. Apart from the transactions with SIIC, other connected persons and related parties disclosed in note 49, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Material transactions/balances with other state-controlled entities are as follows:

	2006 HK\$'000	2005 HK\$'000
<b>Transactions</b>		
Trade sales	906,405	850,703
Trade purchases	371,828	240,810
<b>Balances</b>		
Amounts due from other state-controlled entities	249,450	283,988
Amounts due to other state-controlled entities	48,728	4,591

In view of the nature of the Group's toll road operating business, the directors are of the opinion that, except as disclosed above, it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions were with other state-controlled entities.



## Notes to the Financial Statements

For the year ended 31st December 2006

### 50. Material Transactions and Balances with Other State-controlled Enterprises (Continued)

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

### 51. Government Grants

During the year, the Group received government subsidies of approximately HK\$3,879,000 (2005: HK\$2,587,000) towards the cost of acquisition of plant and machinery. The amount has been deducted from the carrying amount of the relevant asset. The amount is transferred to income in the form of reduced depreciation charges over the useful lives of the relevant assets. This policy has resulted in a credit to income in the current year of approximately HK\$2,330,000 (2005: HK\$1,985,000). As at 31st December 2006, an amount of HK\$20,628,000 (2005: HK\$18,237,000) remains to be amortised.

In addition, government grants of HK\$171.76 million (2005: nil) was received in the current year as compensation for the decrease of the toll fee income arising from the widening project of the toll road. The amount has been included in other income for the year.

### 52. Principal Subsidiaries

Particulars of the Company's principal subsidiaries at 31st December 2006 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company/ subsidiaries	Principal activities
Chia Tai Qingchunbao (note (i))	PRC	RMB128,500,000	55%	Manufacture and sale of Chinese medicine and health products
上海滬寧高速公路(上海段)發展有限公司 (Shanghai Hu-Ning Expressway (Shanghai Section) Company Limited) (note (ii))	PRC	RMB2,000,000,000	100%	Holding of a right to operate a toll road
S.I. Infrastructure Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Investment holding
SIHL Treasury Limited	Hong Kong	Ordinary shares – HK\$2	100%	Investment

## Notes to the Financial Statements

For the year ended 31st December 2006

### 52. Principal Subsidiaries (Continued)

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company/ subsidiaries	Principal activities
SIIC Medicinal Science and Technology (Group) Limited	Cayman Islands/ Hong Kong	Ordinary shares – HK\$40,893,400	100%	Investment holding
Nanyang Tobacco (Marketing) Company, Limited	British Virgin Islands/ PRC and Macau	Ordinary shares – US\$1 – HK\$100,000,000	100%	Sale and marketing of cigarettes and raw materials sourcing
Nanyang Brothers Tobacco Company, Limited	Hong Kong	Ordinary shares – HK\$2  Non-voting deferred shares – HK\$8,000,000	100%  –	Manufacture and sale of cigarettes
The Wing Fat Printing Company, Limited	Hong Kong	Ordinary shares – HK\$2,000,000  Non-voting deferred shares – HK\$1,829,510	93.44%  –	Manufacture and sale of packaging materials, printed products and paper making
SI Pharmaceutical (note (iii))	PRC	Ordinary shares – RMB367,814,821	43.62%	Investment holding
廈門中藥廠有限公司 Xiamen Traditional Chinese Medicine Co., Ltd. ("Xiamen TCM") (note (i))	PRC	RMB47,830,000	61%	Manufacture and sale of Chinese medicine
遼寧好護士藥業(集團)有限公司 Liaoning Herbapex Pharmaceutical (Group) Co., Ltd. ("Liaoning Herbapex") (note (i))	PRC	RMB51,000,000	55%	Manufacture and sale of Chinese medicine

## Notes to the Financial Statements

For the year ended 31st December 2006

### 52. Principal Subsidiaries (Continued)

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Percentage of issued share/ registered capital held by the Company/ subsidiaries	Principal activities
上海三維生物技術有限公司 (Shanghai Sunway Biotech Co., Ltd.) (note (i))	PRC	US\$15,343,300	70.4%	Manufacture and sale of biomedicine
Huqingyutang Pharmaceutical (note (i))	PRC	RMB53,160,000	51.007%	Manufacture and sale of Chinese medicine and health products

Notes:

- (i) The company was established in the PRC as a sino-foreign equity joint venture company.
- (ii) The company was established in the PRC as a wholly foreign owned enterprise.
- (iii) The company is a company listed on the A share market of the Shanghai Stock Exchange.

With the exception of S. I. Infrastructure Holdings Limited and SIHL Treasury Limited, all the above subsidiaries are indirectly held by the Company.

None of the deferred shares are held by the Group. The deferred shares carry no rights to receive notice of or to attend or vote at any general meeting of the respective companies and have practically no rights to dividends or to participate in any distributions on winding up.

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

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 53. Principal Jointly Controlled Entities

Particulars of the Group's principal jointly controlled entities at 31st December 2006 are as follows:

Name of jointly controlled entity	Place of incorporation or establishment/ operations	Percentage of registered capital attributable to the Group	Principal activities
上海滙眾汽車製造有限公司 (Shanghai Huizhong Automotive Manufacturing Company Limited)	PRC	50%	Manufacture and sale of vehicles, automobile components and spare parts
上海市信息投資股份有限公司 (Shanghai Information Investment Inc.)	PRC	20%	Development of communication infrastructure and cable network and provision of internet-related services
上海萬眾汽車零部件有限公司 (Shanghai Wanzhong Automotive Components Co., Ltd.)	PRC	50%	Manufacture and sale of automobile components and spare parts
General Water of China	PRC	50%	Joint investment and operation of water-related and environment protection business in the PRC
浙江金華甬金高速公路有限公司 (Zhejiang Jinhua Yongjin Expressway Co., Ltd.)	PRC	30%	Construction and operation of a toll road

All the above jointly controlled entities are sino-foreign equity joint venture companies and indirectly held by the Company.

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 54. Principal Associates

Particulars of the Group's principal associates at 31st December 2006 and which are all sino-foreign equity joint venture companies established in the PRC are as follows:

Name of associate	Percentage of registered capital		Principal activities
	held by the subsidiaries	attributable to the Group	
Semiconductor Manufacturing International Corporation ("SMIC") (note)	9.85%	9.85%	Investment holding and manufacture and marketing of advanced technology semiconductors
光明乳業股份有限公司 (Bright Dairy and Food Co., Ltd.) ("Bright Dairy")	25.17%	25.17%	Manufacture, distribution and sale of dairy and related products
上海實業交通電器有限公司 (Shanghai SIIC Transportation Electric Co., Ltd.)	30%	30%	Manufacture, distribution and sale of automobile components

Note: In the opinion of the directors, the Group can exercise significant influence over the financial and operating policy decisions of SMIC through the Group's ability to appoint a board representative and accordingly SMIC is classified as an associate.

All the above associates are indirectly held by the Company.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

## Notes to the Financial Statements

For the year ended 31st December 2006

### 55. Segment Information

For management purposes, the Group is currently organised into four operating businesses – infrastructure facilities, medicine, consumer products and information technology. These businesses are the basis on which the Group reports its primary segment information.

Principal businesses are as follows:

- Infrastructure facilities – investment in toll road projects and water-related business
- Medicine – manufacture and sale of medicine and health food; medical equipment
- Consumer products – manufacture and sale of cigarettes, packaging materials, printed products, paper making, dairy products, commercial vehicles, automobile components and spare parts
- Information technology – development of communication infrastructure and information technology business

Segment information about these businesses is presented below:

2006	Infrastructure facilities HK\$'000	Medicine HK\$'000	Consumer products HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Income statement:</b>						
External sales	276,419	3,729,130	2,845,474	–	–	6,851,023
Segment results	388,249	385,908	565,312	–	–	1,339,469
Net unallocated corporate income						306,561
Finance costs						(104,555)
Share of results of jointly controlled entities	12,785	43,086	23,832	20,080	(78,631)	21,152
Share of results of associates	–	15,440	172,855	(31,080)	–	157,215
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities						23,842
Gain on disposal of available-for-sale investments						268,074
Dilution loss on share reform of a subsidiary						(214,955)
Loss on share reform of an associate						(27,739)
Impairment losses recognised in respect of goodwill relating to a subsidiary and interest in a jointly controlled entity						(32,352)
Profit before taxation						1,736,712
Income tax expenses						(236,442)
Profit for the year						1,500,270

## Notes to the Financial Statements

For the year ended 31st December 2006

### 55. Segment Information (Continued)

2006	Infrastructure facilities HK\$'000	Medicine HK\$'000	Consumer products HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Balance sheet:</b>						
ASSETS						
Segment assets	2,656,970	4,269,893	3,712,845	100	–	10,639,808
Interests in jointly controlled entities	773,918	129,261	1,251,863	289,951	–	2,444,993
Interests in associates	–	134,466	1,348,282	2,311,142	–	3,793,890
Unallocated corporate assets						6,779,437
Consolidated total assets						<u>23,658,128</u>
LIABILITIES						
Segment liabilities	20,878	905,852	498,893	–	–	1,425,623
Unallocated corporate liabilities						<u>2,501,510</u>
Consolidated total liabilities						<u>3,927,133</u>
Other information:						
Capital additions	101,761	295,702	110,986	–	2,741	511,190
Depreciation and amortisation	67,654	120,494	131,833	–	2,874	322,855
Impairment loss on available- for-sale investments	–	1,900	–	–	–	1,900
Impairment loss on bad and doubtful debts	–	25,918	27,374	–	–	53,292
Equity-settled share-based payment expense	–	206	–	–	10,872	11,078

## Notes to the Financial Statements

For the year ended 31st December 2006

### 55. Segment Information (Continued)

2005	Infrastructure facilities HK\$'000	Medicine HK\$'000	Consumer products HK\$'000	Information technology HK\$'000	Consolidated HK\$'000
<b>Income statement:</b>					
External sales	181,578	3,567,264	2,276,443	–	6,025,285
Segment results	146,673	336,477	551,149	109,578	1,143,877
Net unallocated corporate income					156,826
Finance costs					(82,024)
Share of results of jointly controlled entities	26,669	48,677	(104,648)	32,141	2,839
Share of results of associates	–	26,632	162,386	(86,486)	102,532
Net gain on disposal of interests in subsidiaries, associates and jointly controlled entities					180,661
Impairment losses recognised in respect of goodwill relating to subsidiaries and interests in an associate and a jointly controlled entity					(26,185)
Discount on acquisition of additional interests in subsidiaries					2,324
Impairment loss on assets classified as held for sale					(31,247)
Profit before taxation					1,449,603
Income tax expenses					(194,042)
Profit for the year					1,255,561



## Notes to the Financial Statements

For the year ended 31st December 2006

### 55. Segment Information (Continued)

2005	Infrastructure facilities HK\$'000	Medicine HK\$'000	Consumer products HK\$'000	Information technology HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Balance sheet:</b>						
<b>ASSETS</b>						
Segment assets	2,419,323	4,113,766	3,858,753	145,844	–	10,537,686
Interests in jointly controlled entities	778,176	89,527	1,124,418	398,387	–	2,390,508
Interests in associates	–	563,110	963,308	2,341,639	–	3,868,057
Unallocated corporate assets						5,175,904
Consolidated total assets						21,972,155
<b>LIABILITIES</b>						
Segment liabilities	12,590	803,191	418,756	15,000	–	1,249,537
Unallocated corporate liabilities						2,514,589
Consolidated total liabilities						3,764,126
<b>Other information:</b>						
Capital additions	15,679	374,102	579,334	–	4,436	973,551
Depreciation and amortisation	42,234	90,136	130,294	–	3,302	265,966
Impairment loss on available- for-sale investments	–	9,648	–	–	–	9,648
Impairment loss on bad and doubtful debts	–	10,940	13,484	–	–	24,424
Loss on disposal of property, plant and equipment	–	1,365	7,474	–	(56)	8,783
Equity-settled share-based payment expense	–	2,227	–	–	3,911	6,138

## Notes to the Financial Statements

For the year ended 31st December 2006

### 55. Segment Information (Continued)

#### Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services:

	Sales revenue by geographical market	
	2006 HK\$'000	2005 HK\$'000
PRC	5,511,545	4,557,639
Asia	926,123	931,842
Hong Kong	323,438	485,762
Other areas	89,917	50,042
	<b>6,851,023</b>	<b>6,025,285</b>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

Geographical region	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
PRC	8,996,885	9,413,085	490,322	876,571
Asia	1,083	1,131	–	–
Hong Kong	1,641,840	1,067,850	20,868	96,980
Other areas	–	55,620	–	–
	<b>10,639,808</b>	<b>10,537,686</b>	<b>511,190</b>	<b>973,551</b>