(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated accounts for the year ended 31 December 2006 comprise Wing Shan International Limited ("the Company") and its subsidiaries (together referred to as the "Group").

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in these accounts for the years presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 34).

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is the historical cost basis, except that certain financial instruments classified as available-for-sale securities (see note 1(e)) are stated at their fair value.

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

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

Key assumptions and estimation made by management in the application of HKFRSs that have significant effect on the accounts and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year are discussed in note 32.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and minority interests

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

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

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

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

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment loss (see note 1(i)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognized immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Investments in equity securities

The Group's investments are classified as available-for-sale securities and are initially stated at cost, which is their transaction price plus attributable transaction costs unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. These investments are subsequently remeasured at each balance sheet date with any resultant gain or loss being recognized directly in equity. When these investments are derecognized or impaired (see note 1(i)), the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss.

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

(f) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour, interest and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and recognized in profit or loss on the date of retirement or disposal.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

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

– Building situated on leasehold land are depreciated over the shorter of unexpired term of lease and their estimated useful lives.

– Plant, machinery and equipment:

– for manufacturing of pharmaceutical products	10 – 15 years
– for generation of electricity	27 years
– Motor vehicles	5-10 years
– Others	2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Investment property

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)). Rental income from investment properties is accounted for as described in note 1(r)(iii). Depreciation is provided over the properties' estimated useful lives on a straight-line basis. Estimated useful lives of investment properties are 25 to 50 years.

Major costs incurred in restoring investment properties to their nominal working condition are charged to profit or loss. Improvements are capitalized and depreciated over their expected useful lives.

Gains or losses arising from the retirement or disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(i)). Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

– product protection rights	Over the product protection period
– trademarks	50 years

Both the period and method of amortization are reviewed annually.

Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

(i) Impairment of assets

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

Investments in equity securities and trade and other receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognized as follows:

For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for these current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

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

For financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

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

For available-for-sale securities, the cumulative loss that has been recognized directly in equity is removed from equity and is recognized in profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized directly in equity.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other long-lived assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– investment properties;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

– investments in subsidiaries; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other long-lived assets (Continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(j) Inventories and consumables

Inventories are carried at the lower of cost and net realizable value while consumables, comprising of fuel oil, components and replacement parts held for consumption by the Group, are stated at cost less any provisions for damages or obsolescence.

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

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

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

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts (see note 1(i)), unless the effect of discounting would be immaterial. In such case, they are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

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

(o) Employees benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employees benefits (Continued)

(ii) Share-based payments

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it released directly to retained profits).

No benefit cost or obligation is recognized at the date of grant or exercise as the Group has taken advantage of the transitional provisions set out in HKFRS 2 "Share-based payment", under which the recognition and measurement policies have not been applied to the following grants of options:

– all options granted to employees on or before 7 November 2002; and

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

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible difference, unless it is probable that they will reverse in the future.

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

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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

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

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to incomes taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(q) Provisions and contingent liabilities

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Sale of electricity

Revenue arising from sale of electricity is recognized based on electricity supplied as recorded by meters read during the year. Additional fuel cost surcharges and subsidies for electricity supplied, representing an adjustment for tariff of electricity supplied, are recorded as revenue in the period that agreement on the surcharge amount is reached. Subsequent agreement in respect of the current period is accrued in the current period if the agreement occurs prior to finalization of the accounts.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iv) Dividends

Dividends income from listed investments is recognized when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognized as it accrues using the effective interest method.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition (Continued)

(vi) Government grants

Government grants are recognized in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized in profit or loss as revenue on a systematic basis over the useful life of the asset.

(s) Translation of foreign currencies

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

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

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange difference recognized in equity which relate to that foreign operation is included in the calculation of profit or loss on disposal.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Operating lease charges

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

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

(u) Borrowing costs

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

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

(v) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the profit and loss account, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognized on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Related parties

For the purposes of these accounts, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these accounts.

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

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

Unallocated items mainly comprise financial and corporate assets, cash and cash equivalents, interest-bearing borrowings, tax balances, corporate and financing expenses.

(Expressed in Hong Kong dollars)

2 TURNOVER

The principal activities of the Group are manufacture and sale of pharmaceutical products in the People's Republic of China ("PRC") upon the acquisition of Hensil Holdings Company Limited ("HHC") on 9 October 2006 as set out in note 30(a). Turnover represents the sales value of goods sold less returns, discounts, value added tax and sales tax.

Turnover of continuing operation may be analyzed as follows:

	2006	2005
	$'000	$'000
Sale of pharmaceutical products		
– Pills and tablets	**68,776**	–
– Medicine wine	**16,917**	–
– Paste, granules and others	**23,934**	–
	109,627	–

Prior to the disposal of HWI on 28 December 2006 (see note 6), the Group also engaged in the generation and sale of electricity. Turnover included in discontinued operation for the period ended 28 December 2006 represented the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the PRC amounting to $686.5 million (2005: $741.9 million) and additional tariff for peak hour electricity subscription amounting to $35.3 million (2005: $Nil). The amount in 2005 also included additional fuel cost surcharges of $82.1 million for electricity supplied, representing an adjustment for tariff of electricity supplied.

(Expressed in Hong Kong dollars)

3 OTHER REVENUE AND NET INCOME

	2006	2005
	$'000	$'000
Other revenue		
Government grants	**29,416**	11,575
Interest income	**3,380**	1,724
	32,796	13,299
Representing:		
Continuing operation	**1,781**	402
Discontinued operation	**31,015**	12,897
	32,796	13,299
Other net income		
Insurance compensation	**1,551**	119
Rental income	**3,824**	4,576
Others	**56**	387
	5,431	5,082
Representing:		
Continuing operation	**318**	–
Discontinued operation	**5,113**	5,082
	5,431	5,082

(Expressed in Hong Kong dollars)

4 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		2006	2005
		$'000	$'000
(a)	**Finance costs (note (i)):**		
	Interest on bank advances and other borrowings wholly repayable within five years	**15,741**	18,555
	Interest expense and early redemption costs on convertible notes (note (ii))	**6,093**	–
		21,834	18,555
	Representing:		
	Continuing operation	**6,358**	–
	Discontinued operation	**15,476**	18,555
		21,834	18,555

Notes:

(i) No interest was capitalised as construction in progress during the year.

(ii) Convertible notes of $282,400,000 were issued to FDC, a shareholder of the Company, upon the acquisition of HHC on 9 October 2006 as set out in note 30(a). The convertible notes were settled on 28 December 2006 by way of offsetting with the consideration for the disposal of HWI as set out in note 30(b).

		2006	2005
(b)	**Staff costs:**		
	Salaries, wages and other benefits	**32,939**	21,584
	Contributions to defined contribution retirement plans	**1,219**	1,089
		34,158	22,673
	Representing:		
	Continuing operation	**14,467**	2,898
	Discontinued operation	**19,691**	19,775
		34,158	22,673

(Expressed in Hong Kong dollars)

4 LOSS BEFORE TAXATION (Continued)

Loss before taxation is arrived at after charging: (Continued)

	2006 $'000	2005 $'000
(c) Other items:		
Continuing operation:		
Auditors' remuneration	**4,789**	940
Cost of inventories	**67,157**	–
Depreciation and amortization		
– assets held for use under operating leases	**66**	–
– lease prepayment	**138**	–
– other assets	**4,800**	29
– intangible assets	**3,450**	–
Impairment losses		
– trade receivables	**164**	–
Operating lease charges on buildings	**311**	300
Discontinued operation:		
Cost of consumables	**876,575**	804,457
Depreciation and amortization		
– assets held for use under operating leases	**4,224**	4,114
– lease prepayment	**1,615**	2,025
– other assets	**75,699**	87,788
Impairment losses		
– goodwill	**–**	578,319
– fixed assets	**280,119**	120,342

(Expressed in Hong Kong dollars)

5 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(a) Taxation in the consolidated profit and loss account represents:

	2006	2005
	$'000	$'000
Current tax		
PRC enterprise income tax for the year	**3,051**	–
Deferred tax		
Origination and reversal of temporary differences (note 20(b))	**(51,792)**	(18,195)
	(48,741)	(18,195)
Representing:		
Continuing operation – tax charge	**510**	–
Discontinued operation – tax credit	**(49,251)**	(18,195)
	(48,741)	(18,195)

No provision has been made for the Hong Kong Profits Tax as the Group sustained losses in Hong Kong for taxation purposes during the year.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC enterprise income tax of the Group's subsidiaries, Foshan Dezhong Pharmaceutical Co., Ltd. ("DZH") and Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("FLX") is 27%. The subsidiaries are granted certain tax relief, under which they are exempted from PRC enterprise income tax for the first two profit making years and entitled to an income tax reduction to 12% for the next three years up to 31 December 2003 and 31 December 2004 respectively.

DZH and FLX are also recognized as new high technology enterprises pursuant to documents "粵外經貿加證字337號" and "粵外經貿加證字458號" respectively issued by The Department of Foreign Trade and Economic Cooperation of Guangdong Province and received approvals from the Foshan Tax Bureau for a three-year extension of the income tax reduction to 12% up to 31 December 2006 and 31 December 2007 respectively. Hence, DZH and FLX are subject to PRC enterprise income tax at 12% for the year.

No provision has been made for PRC enterprise income tax for the year ended 31 December 2005 as the Company's subsidiary, 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co., Ltd.) ("Shakou JV"), sustained a loss for taxation purposes.

(Expressed in Hong Kong dollars)

5 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT (Continued)

(b) Reconciliation between tax credit and accounting loss at applicable tax rates:

	2006	2005
	$'000	$'000
Loss before taxation		
– continuing operation	**(5,881)**	(5,892)
– discontinued operation	**(474,554)**	(819,466)
	(480,435)	(825,358)
Notional tax on loss before tax, calculated at rates applicable to loss in the countries concerned	**(86,047)**	(145,644)
Tax effect on non-deductible expenses	**2,661**	102,311
Tax effect on non-taxable revenue	**(11,926)**	(598)
Tax effect on unused tax losses not recognized (note)	**48,146**	25,736
Income tax concessions	**(1,460)**	–
Others	**(115)**	–
Actual tax credit	**(48,741)**	(18,195)

Note: The amount arose from the tax losses of Shakou JV for the year. No deferred tax assets were recognised as it is not probable that future taxable profits will be available against which the assets can be utilized.

6 DISCONTINUED OPERATION

On 28 December 2006, the Company sold the entire equity interest in HWI for an aggregate consideration of $288 million to FDC.

The loss from the discontinued operation is analyzed as follows:

	From 1 January 2006 to 28 December 2006	For the year ended 31 December 2005
	$'000	$'000
Loss of HWI Group	**488,658**	222,952
Impairment loss on goodwill	**–**	578,319
Gain on disposal (note 30(b))	**(63,355)**	–
	425,303	801,271

(Expressed in Hong Kong dollars)

6 DISCONTINUED OPERATION (Continued)

The result of the HWI Group for the period from 1 January 2005 to 28 December 2006 are as follows:

	From 1 January 2006 to 28 December 2006 $'000	For the year ended 31 December 2005 $'000
Turnover	**721,751**	824,038
Cost of sales	**(981,849)**	(926,106)
Gross loss	**(260,098)**	(102,068)
Other revenue	**31,015**	12,897
Other net income	**5,113**	5,082
Administrative expenses	**(18,344)**	(18,161)
Impairment losses	**(280,119)**	(120,342)
Loss from operations	**(522,433)**	(222,592)
Finance costs	**(15,476)**	(18,555)
Loss before taxation	**(537,909)**	(241,147)
Income tax	**49,251**	18,195
Loss for the period/year	**(488,658)**	(222,952)
Attributable to:		
– Equity shareholders of HWI	**(390,933)**	(178,368)
– Minority interests	**(97,725)**	(44,584)
Loss for the period/year	**(488,658)**	(222,952)

During the year, HWI Group contributed the Group's net operating cash flows by $7,301,000 (2005: $86,932,000), contributed $7,849,000 (2005: paid $5,481,000) in respect of investing activities and paid $22,915,000 (2005: $41,638,000) in respect of financing activities.

No tax charge arose on gain on disposal of HWI.

The carrying amounts of the assets and liabilities of the HWI Group at the date of disposal have been disclosed in note 30(b).

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	Directors' fees	Salaries and allowances	Discretionary bonuses	Retirement scheme contributions	2006 Total
	$'000	$'000	$'000	$'000	$'000
Executive directors					
He Haochang	100	365	88	18	571
Lam Siu Hung	100	461	108	23	692
Situ Min	100	365	88	18	571
Li Feng	100	52	123	12	287
Independent non-executive directors					
Chan Ting Chuen, David	100	–	–	–	100
Ng Pui Cheung, Joseph	100	–	–	–	100
Cheung Kin Piu, Valiant	100	–	–	–	100
	700	1,243	407	71	2,421

	Directors' fees	Salaries and allowances	Discretionary bonuses	Retirement scheme contributions	2005 Total
	$'000	$'000	$'000	$'000	$'000
Executive directors					
He Haochang	100	390	45	18	553
Lam Siu Hung	50	244	38	11	343
Chan Che Kan, Edward	70	916	–	83	1,069
Situ Min	100	390	45	18	553
Li Feng	100	89	266	17	472
Independent non-executive directors					
Chan Ting Chuen, David	100	–	–	–	100
Ng Pui Cheung, Joseph	100	–	–	–	100
Cheung Kin Piu, Valiant	100	–	–	–	100
	720	2,029	394	147	3,290

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

Of the five individuals with the highest emoluments, four (2005: five) are directors whose emoluments are disclosed in the above. The details of the remaining one in 2006 were:

	2006
	$'000
Salaries and other emoluments	**242**
Retirement scheme contributions	**–**
	242

8 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of $363,523,000 (2005: $726,151,000) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2006	2005
	$'000	$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the Company's accounts	**(363,523)**	(726,151)
Final dividends from subsidiary attributable to the profits of the previous financial year, approved and paid during the year	**–**	12,680
Company's loss for the year (note 26)	**(363,523)**	(713,471)

(Expressed in Hong Kong dollars)

9 LOSS PER SHARE

(a) Basic

From continuing and discontinued operations

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $337,401,000 (2005: $762,579,000) and the weighted average of 830,146,244 ordinary shares (2005: 830,146,244) in issue during the year.

From continuing operation

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $9,823,000 (2005: $5,892,000) and the weighted average of 830,146,244 ordinary shares (2005: 830,146,244) in issue during the year.

From discontinued operation

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of $327,578,000 (2005: $756,687,000) and the weighted average of 830,146,244 ordinary shares (2005: 830,146,244) in issue during the year.

(b) Diluted

The diluted loss per share for the years ended 31 December 2005 and 2006 is not shown as all potential ordinary shares are anti-dilutive.

(Expressed in Hong Kong dollars)

10 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associate

Foshan City District Electric Power Construction Corporation ("Power Construction Corporation") is a substantial shareholder of Shakou JV. Power Construction Corporation is a part of a larger group of companies under Power Group Corporation, which are owned by the PRC government and Shakou JV has significant transactions and relationships with Power Group Corporation, its subsidiaries and associate. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

The following is a summary of principal related party transactions with Power Group Corporation, its subsidiaries and associate, which were carried out in the ordinary course of business. These transactions also constitute connected transactions under Listing Rules. Further details of these transactions are disclosed under the paragraph "Material Connected Transactions" in the directors' report.

Name of related company	Nature of transaction	Note	2006 $'000	2005 $'000
Foshan City District Electricity Fuel Supply Company	Purchase of fuel (excluding value added tax)	(i)	**864,487**	700,531
Foshan City District Electric Power Construction Corporation and its associate	Interest on loans	(ii)	**7,791**	12,073
Funeng Power Supply Co., Ltd.	Lease of facilities and premises	(iii)	**3,503**	4,550

(Expressed in Hong Kong dollars)

10 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associate (Continued)

Notes:

(i) During the year, the Group purchased fuel from 佛山市區電力燃料公司 (Foshan City District Electricity Fuel Supply Company) ("Fuel Company"). As at 31 December 2005, amount due to Fuel Company was $120.8 million. The Fuel Company, being a fellow subsidiary of Power Construction Corporation, is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV. The Fuel Company supplies fuel to the Group at prices which are determined by Shakou JV and the Fuel Company from time to time, but in any event will not be higher than: (i) the then prevailing market prices for sales of fuel by the Fuel Company to independent third parties; or (ii) the then quotation of price of the fuel that Shakou JV could obtain from other independent supplier, whichever is lower.

(ii) During the year, Shakou JV had outstanding loans due to Power Construction Corporation and its associate pursuant to certain loan agreements entered into between Shakou JV and the respective counterparties. As at 31 December 2005, the outstanding loans amounted to approximately $296.98 million. The loans amounting to $161.02 million were interest bearing at a fixed rate of 5.76% per annum and the remaining balances were interest free.

As at 31 December 2005, there was no significant overdue interest payable to these parties.

(iii) In July 2004, Shakou JV entered into a facilities lease agreement with Funeng Power Supply Co., Ltd. ("Funeng JV"). Funeng JV, being a fellow subsidiary of Power Construction Corporation, is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV. Pursuant to the facilities lease agreement, Shakou JV leased to Funeng JV certain assets (including office premises, factory premises, land use rights and auxiliary power generation facilities) for two years commencing from the date of the agreement and Shakou JV would receive two annual rental payments of approximately $4.55 million (Rmb: 4.80 million) for each of the two years.

(b) Acquisition of HHC from Foshan Development (Holdings) Limited ("FDH")

On 9 October 2006, the Group acquired the entire equity interest in HHC and amount due from HHC from FDH by way of issuance of convertible notes of $282.4 million to FDC. FDH is a related party to the Group because FDH is a related party of FDC, a substantial shareholder of the Company.

(Expressed in Hong Kong dollars)

10 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Disposal of HWI to FDC

On 28 December 2006, the Group disposed of the entire equity interest in HWI to FDC, a substantial shareholder of the Company, at a consideration of $288 million. The consideration for the disposal was satisfied by way of offsetting with the outstanding principal amount of the convertible notes of $282.4 million issued by the Company upon the acquisition of HHC on 9 October 2006, together with related interest and early redemption costs.

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees as disclosed in note 7, is as follows:

	2006	2005
	$'000	$'000
Short-term employee benefits	2,592	3,143
Post-employments benefits	71	147
	2,663	3,290

Total remuneration is included in "staff costs" (see note 4(b)).

(e) Transactions with other state-owned entities in the PRC

Power Group Corporation is a state-owned entity and together with Shakou JV both operate in an economic regime currently predominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities").

Apart from transactions mentioned in note 10(a), transactions with state-owned entities include but not limited to the sales and purchases of electricity.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-owned. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-owned entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the accounts, the directors are of the opinion that the following transactions require disclosures as related party transactions:

	2006	2005
	$'000	$'000
Sale of electricity to grid company	721,751	824,038
Purchase of electricity from grid company	1,740	–

Balance with grid company as at 31 December 2005 was $79.1 million.

(Expressed in Hong Kong dollars)

11 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segment. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system. In view of the fact that the Group operates mainly in the PRC, no geographical segment information is presented.

The Group comprises the following main business segments:

Pharmaceutical: The manufacture and sale of pharmaceutical products in the PRC

Electricity: The generation and sale of electricity in the PRC

	Continuing operation		Discontinued operation			
	Pharmaceutical		Electricity		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Revenue	**109,627**	–	**721,751**	824,038	**831,378**	824,038
Segment results	**8,846**	–	**(459,078)**	(800,911)	**(450,232)**	(800,911)
Unallocated operating income					**561**	402
Unallocated operating expenses					**(8,930)**	(6,294)
Loss from operations					**(458,601)**	(806,803)
Finance costs					**(21,834)**	(18,555)
Loss before taxation					**(480,435)**	(825,358)
Income tax					**48,741**	18,195
Loss for the year					**(431,694)**	(807,163)

(Expressed in Hong Kong dollars)

11 SEGMENT REPORTING (Continued)

	Continuing operation		Discontinued operation			
	Pharmaceutical		Electricity		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Depreciation and amortization for the year	**8,453**	–	**81,539**	93,956	**89,992**	93,956
Impairment losses of						
– trade receivables	**164**	–	**–**	–	**164**	–
– fixed assets	**–**	–	**280,119**	120,342	**280,119**	120,342
– goodwill	**–**	–	**–**	578,319	**–**	578,319
Gain on disposal of subsidiaries	**–**	–	**(63,355)**	–	**(63,355)**	–
Segment assets	**502,548**	–	**–**	1,206,846	**502,548**	1,206,846
Unallocated assets					**108,928**	164,481
Total assets					**611,476**	1,371,327
Segment liabilities	**103,547**	–	**–**	134,614	**103,547**	134,614
Unallocated liabilities					**57,159**	427,054
Total liabilities					**160,706**	561,668
Capital expenditure incurred during the year	**1,365**	–	**235**	338		

(Expressed in Hong Kong dollars)

12 FIXED ASSETS

	Buildings $'000	Plant machinery and equipment $'000	Motor vehicles $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interests in leasehold land held for own use under operating leases $'000	The Group Total $'000	The Company Total $'000
Cost:									
At 1 January 2005	142,599	1,796,110	8,592	10,610	1,957,911	–	55,972	2,013,883	1,021
Additions	–	–	229	109	338	–	–	338	–
Disposal	–	–	–	(893)	(893)	–	–	(893)	(893)
Exchange adjustments	3,922	49,393	218	251	53,784	–	1,539	55,323	–
At 31 December 2005	146,521	1,845,503	9,039	10,077	2,011,140	–	57,511	2,068,651	128
At 1 January 2006	146,521	1,845,503	9,039	10,077	2,011,140	–	57,511	2,068,651	128
Acquisition of subsidiaries (note 30(a))	68,022	127,593	2,824	35,281	233,720	10,555	27,249	271,524	–
Additions	–	665	140	795	1,600	–	–	1,600	–
Transfer from construction in progress (note 13)	–	1,082	–	–	1,082	–	–	1,082	–
Disposal of subsidiaries (note 30(b))	(151,574)	(1,909,181)	(8,671)	(9,858)	(2,079,284)	–	(59,494)	(2,138,778)	–
Exchange adjustments	5,705	64,861	314	670	71,550	101	2,245	73,896	–
At 31 December 2006	68,674	130,523	3,646	36,965	239,808	10,656	27,511	277,975	128

(Expressed in Hong Kong dollars)

12 FIXED ASSETS (Continued)

	Buildings $'000	Plant machinery and equipment $'000	Motor vehicles $'000	Others $'000	Sub-total $'000	Investment properties $'000	Interests in leasehold land held for own use under operating leases $'000	The Group Total $'000	The Company Total $'000
Accumulated depreciation and amortization and impairment loss:									
At 1 January 2005	49,244	673,029	7,930	9,730	739,933	–	19,490	759,423	1,021
Charge for the year	5,352	85,889	205	485	91,931	–	2,025	93,956	–
Impairment loss (note 15)	9,628	107,104	–	–	116,732	–	3,610	120,342	–
Written back on disposal	–	–	–	(893)	(893)	–	–	(893)	(893)
Exchange adjustments	1,431	19,747	199	234	21,611	–	565	22,176	–
At 31 December 2005	65,655	885,769	8,334	9,556	969,314	–	25,690	995,004	128
At 1 January 2006	65,655	885,769	8,334	9,556	969,314	–	25,690	995,004	128
Acquisition of subsidiaries (note 30(a))	21,941	41,994	1,964	20,033	85,932	2,899	3,216	92,047	–
Charge for the year	4,880	77,855	333	1,655	84,723	66	1,753	86,542	–
Impairment loss (note 15)	21,361	250,342	–	–	271,703	–	8,416	280,119	–
Written back on disposal of subsidiaries (note 30(b))	(94,141)	(1,248,779)	(8,040)	(9,788)	(1,360,748)	–	(36,831)	(1,397,579)	–
Exchange adjustments	3,048	38,178	284	516	42,026	28	1,140	43,194	–
At 31 December 2006	22,744	45,359	2,875	21,972	92,950	2,993	3,384	99,327	128
Net book value:									
At 31 December 2006	45,930	85,164	771	14,993	146,858	7,663	24,127	178,648	–
At 31 December 2005	80,866	959,734	705	521	1,041,826	–	31,821	1,073,647	–

(Expressed in Hong Kong dollars)

12 FIXED ASSETS (Continued)

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on a medium-term lease of 50 years in the PRC.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of 30 years with three months' notice for termination. Lease payments are usually increased every three to ten years to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	2006	2005
	$'000	$'000
Within 1 year	**174**	2,692

All investment properties of the Group were stated in the balance sheet at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2006 is $7,699,000 by reference to net rental income allowing for reversionary income potential. The valuation was carried out by Sallmanns (Far East) Limited, an independent firm of professional surveyors.

13 CONSTRUCTION IN PROGRESS

	$'000
At 1 January 2006	**–**
Acquisition of subsidiaries (note 30(a))	**1,051**
Exchange adjustments	**10**
Additions	**21**
Transfer to fixed assets (note 12)	**(1,082)**
At 31 December 2006	**–**

(Expressed in Hong Kong dollars)

14 INTANGIBLE ASSETS

	The Group		
	Product protection rights	Trademarks	Total
	$'000	$'000	$'000
Cost:			
At 1 January 2006	–	–	–
Acquisition of subsidiaries (note 30(a))	64,440	36,259	100,699
Exchange adjustments	635	358	993
At 31 December 2006	65,075	36,617	101,692
Accumulated amortization:			
At 1 January 2006	–	–	–
Amortization for the year	(3,236)	(214)	(3,450)
Exchange adjustments	(17)	(1)	(18)
At 31 December 2006	(3,253)	(215)	(3,468)
Net book value:			
At 31 December 2006	61,822	36,402	98,224

(Expressed in Hong Kong dollars)

15 GOODWILL

	The Group $'000
Cost:	
At 1 January 2005	790,533
Opening balance adjustment to eliminate accumulated amortization	(212,214)
At 31 December 2005	578,319
At 1 January 2006	578,319
Acquisition of subsidiaries (note 30(a))	122,234
Disposal	(578,319)
Exchange adjustments	1,203
At 31 December 2006	123,437
Accumulated amortization and impairment loss:	
At 1 January 2005	212,214
Eliminated against cost at 1 January 2005	(212,214)
Impairment loss	(578,319)
At 31 December 2005	(578,319)
At 1 January 2006	(578,319)
Written back on disposal	578,319
At 31 December 2006	–
Carrying amount:	
At 31 December 2006	123,437
At 31 December 2005	–

15 GOODWILL (Continued)

Goodwill acquired through business combination in 2006 is allocated to the pharmaceutical business cash-generating unit ("CGU") for impairment testing.

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Company determined the value-in-use by preparing cash flow projections derived from the most recent financial forecast approved by the management covering a two-year period and extrapolated to cover a period of eight more years with an estimated increase in selling prices and costs of 3% and no growth in sales volume. The rate used to discount the forecast cash flows is 8.5%.

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the CGU to exceed the recoverable amount.

Goodwill in 2005 was allocated to the fixed assets of Shakou JV in the PRC. The impairment loss recognized solely related to Shakou JV as the continuing increase in fuel oil price caused the decrease in recoverable amount of goodwill and the related fixed assets. Based on the assessment, the carrying amount of the goodwill and fixed assets were written down by $578.3 million and $120.3 million respectively. The estimates of recoverable amount was based on the value in use determined using cash flow projections based on financial forecast approved by management covering the remaining useful lives of power generating facilities in Shakou JV discounted at a rate of approximately 7%.

In 2006, the continuing increase in fuel oil price and expected decrease in future subsidies caused the Group to assess the recoverable amount of fixed assets of Shakou JV. Based on this assessment, the carrying amount of fixed assets was further written down by $280.1 million. The estimates of recoverable amount were based on the value in use, determined using a discount rate of 7%.

16 INTEREST IN SUBSIDIARIES

	The Company	
	2006	2005
	$'000	$'000
Unlisted shares, at cost	**223,569**	1,338,500
Amounts due from subsidiaries	**58,831**	–
Less: impairment losses	**–**	(702,691)
	282,400	635,809

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

(Expressed in Hong Kong dollars)

16 INTEREST IN SUBSIDIARIES (Continued)

The following list contains the particulars of subsidiaries of the Group at 31 December 2006.

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the Group accounts.

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Lipromate Limited	Hong Kong	Ordinary HK$2	100%	–	Provision of financial and management services to the Group
Lipromate Resources Limited (note (i))	Hong Kong	Ordinary HK$1	100%	–	Dormant
Hensil Holdings Company Limited	British Virgin Islands 7 July 2006	Ordinary US$1	100%	–	Investment holding
Hensil Industrial Inc.	British Virgin Islands 26 May 1998	Ordinary US$51	–	100%	Investment holding
Hensil Trading & Investments Limited	British Virgin Islands 26 May 1998	Ordinary US$2	–	100%	Investment holding
Foshan Dezhong Pharmaceutical Co., Ltd. (note (ii))	The PRC 1 November 1998	US$5,760,000	–	51%	Manufacturing and sale of Chinese Pharmaceutical products
Foshan Feng Liao Xing Pharmaceutical Co., Ltd. (note (ii))	The PRC 16 March 2000	US$6,926,100	–	51%	Manufacturing and sale of Chinese Pharmaceutical products
Dezhong Pharmaceutical (Hong Kong) Company Limited	Hong Kong 13 December 1999	Ordinary HK$2	–	51%	Dormant

(Expressed in Hong Kong dollars)

16 INTEREST IN SUBSIDIARIES (Continued)

Notes:

(i) The subsidiary is incorporated on 14 December 2006.

(ii) DZH and FLX are sino-foreign equity joint ventures established pursuant to the law of the PRC on sino-foreign equity joint ventures. DZH and FLX have joint venture periods of 50 years expiring on 30 October 2048 and 15 March 2050, respectively.

17 OTHER FINANCIAL ASSETS

	The Group	
	2006	2005
	$'000	$'000
Available-for-sale equity securities		
– Listed in the PRC	**1,103**	–
Market value of listed securities	**1,103**	–

18 INVENTORIES AND CONSUMABLES

(a) Inventories in the balance sheet comprise:

	2006	2005
	$'000	$'000
Raw materials	**27,753**	–
Packaging materials	**4,620**	–
Work in progress	**13,866**	–
Finished goods	**8,936**	–
Low value consumables	**2,814**	–
Fuel oil	**–**	6,334
Components and replacement parts	**–**	19,025
	57,989	25,359

(Expressed in Hong Kong dollars)

18 INVENTORIES AND CONSUMABLES (Continued)

(b) The analysis of the amount of inventories and consumables recognized as an expense is as follows:

	2006	2005
	$'000	$'000
Cost of inventories sold and consumables	**943,732**	804,457
Representing:		
Continuing operation	**67,157**	–
Discontinued operation	**876,575**	804,457

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Trade receivables	**36,550**	79,106	**–**	–
Other receivables	**6,994**	22,640	**217**	278
	43,544	101,746	**217**	278

Included in trade and other receivables are trade debtors (net of impairment losses) with the following ageing analysis:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within 3 months	**33,113**	79,106	**–**	–
Over 3 months but less than 6 months	**1,248**	–	**–**	–
Over 6 months	**2,189**	–	**–**	–
	36,550	79,106	**–**	–

Debts are due within 30 to 90 days from the date of billing. All of the trade and other receivables are expected to be recovered within one year.

(Expressed in Hong Kong dollars)

20 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	2006	2005
	$'000	$'000
Provision for PRC enterprise income tax	**3,671**	–
Balance of income tax relating to prior years	**–**	(25)
Tax payable/(recoverable)	**3,671**	(25)

(Expressed in Hong Kong dollars)

20 INCOME TAX IN THE BALANCE SHEET (Continued)

(b) Deferred tax assets/(liabilities) recognized

The components of deferred tax assets/(liabilities) recognized in the consolidated balance sheet and the movements during the year are as follows:

	Intangible assets $'000	Tax losses $'000	Depreciation in excess of related depreciation allowance $'000	Impairment loss in respect of fixed assets $'000	Impairment losses for bad and doubtful debts $'000	Available-for-sale securities $'000	Others $'000	Total $'000
Deferred tax arising from:								
At 1 January 2005	–	5,341	7,515	–	–	–	–	12,856
(Charged)/credited to consolidated profit and loss account (note 5(a))	–	(5,777)	2,310	21,662	–	–	–	18,195
Exchange adjustments	–	436	238	–	–	–	–	674
At 31 December 2005	–	–	10,063	21,662	–	–	–	31,725
At 1 January 2006	–	–	10,063	21,662	–	–	–	31,725
Acquisition of subsidiaries (note 30(a))	(26,525)	–	(10,466)	–	723	(176)	(3,344)	(39,788)
Credited/(charged) to consolidated profit and loss account (note 5(a))	934	–	(981)	50,421	346	–	1,072	51,792
Disposal of subsidiaries (note 30(b))	–	–	(9,587)	(73,577)	–	–	–	(83,164)
Charged to reserves (note 26(a))	–	–	–	–	–	(89)	–	(89)
Exchange adjustments	(261)	–	591	1,494	10	(3)	(16)	1,815
At 31 December 2006	(25,852)	–	(10,380)	–	1,079	(268)	(2,288)	(37,709)

(c) Deferred tax assets were not recognized in respect of tax losses of $160,605,000 as at 31 December 2005 as it was not probable that future taxable profits would be available against which the assets could be utilized.

(Expressed in Hong Kong dollars)

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Deposits with banks	**25,326**	15,498	**7,024**	15,498
Cash at bank and in hand	**83,205**	116,842	**308**	4
Cash and cash equivalents in the balance sheet	**108,531**	132,340	**7,332**	15,502
Bank overdrafts (note 24)	**(309)**	–		
Less: Deposits with bank mature beyond three months	**(18,303)**	–		
Cash and cash equivalents in the consolidated cash flow statement	**89,919**	132,340		

(Expressed in Hong Kong dollars)

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Creditors and accrued charges	**70,361**	10,756	**2,478**	873
Amounts due to related companies	**–**	124,825	**–**	–
	70,361	135,581	**2,478**	873

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Due within 1 month or on demand	**70,361**	123,258	**–**	–

All of the trade and other payables are expected to be settled within one year.

The amounts due to related companies in 2005 were unsecured and interest free.

23 PROVISION FOR STAFF WELFARE

	The Group	
	2006	2005
	$'000	$'000
At 1 January	**257**	1,241
Amount utilized	**(247)**	(984)
Disposal of subsidiaries (note 30(b))	**(10)**	–
At 31 December	**–**	257

(Expressed in Hong Kong dollars)

24 BANK LOANS AND OVERDRAFTS

At 31 December 2006, the Group's bank loans and overdrafts are repayable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within 1 year or on demand	**20,203**	28,846	**309**	–
After 1 year but within 2 years	**–**	51,923	**–**	–
After 2 years but within 5 years	**–**	48,077	**–**	–
	–	100,000	**–**	–
	20,203	128,846	**309**	–
Representing:				
Bank overdrafts (note 21)	**309**	–	**309**	–
Bank loans				
– secured	**–**	128,846	**–**	–
– unsecured	**19,894**	–	**–**	–
	20,203	128,846	**309**	–

The bank loans as at 31 December 2006 are unsecured, bear interest at 6.12% and are repayable within one year.

The banking facilities of the PRC subsidiary in 2005 were secured by charges over its power generating facilities with an aggregate carrying value of $1,066,173,000 at 31 December 2005. Such banking facilities amounted to $201,923,000, out of which $128,846,000 were drawn down at 31 December 2005. The bank loans were denominated in Renminbi bearing floating interest rates ranging from 4.941% to 5.184% per annum as at 31 December 2005.

(Expressed in Hong Kong dollars)

25 OTHER LOANS – UNSECURED

The Group's other loans in 2005 were denominated in Renminbi. The loans amounting to $161.02 million were interest-bearing at a fixed rate of 5.76% per annum and the remaining balances were interest free. These loans were due to Power Construction Corporation and its associate by Shakou JV and were repayable as follows:

	2005
	$'000
Within 1 year	–
After 1 year but within 2 years	136,503
After 2 years but within 5 years	160,481
	296,984
	296,984

Upon the disposal of HWI on 28 December 2006 as set out in note 30(b), the Group had no other loans as at 31 December 2006.

(Expressed in Hong Kong dollars)

26 CAPITAL AND RESERVES

(a) The Group

	Share capital (Note (c))	Share premium (Note (d))	Capital redemption reserve (Note (d))	Exchange reserve (Note (e))	Reserve fund (Note (f))	Enterprise development fund (Note (f))	Fair value reserve (Note (g))	Retained profits/ (accumulated losses)	Total equity attributable to equity shareholders of the Company	Minority interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2005	83,015	1,041,726	297	–	23,481	23,481	–	220,535	1,392,535	201,550	1,594,085
Loss for the year	–	–	–	–	–	–	–	(762,579)	(762,579)	(44,584)	(807,163)
Dividends paid to minority equity shareholder of subsidiaries	–	–	–	–	–	–	–	–	–	(3,182)	(3,182)
Exchange differences on translation of accounts of a PRC subsidiary	–	–	–	20,729	–	–	–	–	20,729	5,190	25,919
At 31 December 2005	83,015	1,041,726	297	20,729	23,481	23,481	–	(542,044)	650,685	158,974	809,659
At 1 January 2006	83,015	1,041,726	297	20,729	23,481	23,481	–	(542,044)	650,685	158,974	809,659
Loss for the year	–	–	–	–	–	–	–	(337,401)	(337,401)	(94,293)	(431,694)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	152,902	152,902
Disposal of subsidiaries	–	–	–	(33,640)	(23,481)	(23,481)	–	46,962	(33,640)	(64,549)	(98,189)
Available-for-sale securities											
–changes in fair value	–	–	–	–	–	–	(259)	–	(259)	(249)	(508)
–to deferred tax (note 20(b))	–	–	–	–	–	–	(45)	–	(45)	(44)	(89)
Transfer to reserve	–	–	–	–	1,065	–	–	(1,065)	–	–	–
Exchange differences on translation of accounts of PRC subsidiaries (note (e))	–	–	–	13,918	–	–	–	–	13,918	4,771	18,689
At 31 December 2006	83,015	1,041,726	297	1,007	1,065	–	(304)	(833,548)	293,258	157,512	450,770

(Expressed in Hong Kong dollars)

26 CAPITAL AND RESERVES (Continued)

(b) The Company

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Retained profits/ (accumulated losses) $'000	Total $'000
At 1 January 2005	83,015	1,041,726	297	239,118	1,364,156
Loss for the year	–	–	–	(713,471)	(713,471)
At 31 December 2005	83,015	1,041,726	297	(474,353)	650,685
At 1 January 2006	83,015	1,041,726	297	(474,353)	650,685
Loss for the year	–	–	–	(363,523)	(363,523)
At 31 December 2006	83,015	1,041,726	297	(837,876)	287,162

(c) Share capital

	2006 Number of shares '000	**2006** Nominal value $'000	2005 Number of shares '000	2005 Nominal value $'000
Authorized:				
Share of $0.10 each	**3,000,000**	**300,000**	1,100,000	110,000
Issued and fully paid:				
At 1 January and 31 December	**830,146**	**83,015**	830,146	83,015

By a written resolution passed on 14 September 2006, the Company's authorised share capital was increased to $300,000,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(Expressed in Hong Kong dollars)

26 CAPITAL AND RESERVES (Continued)

(d) Share premium and capital redemption reserve

The application of the share premium account and capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(s).

Exchange differences recognized in exchange reserve in 2006 were arising from the translation of accounts of HWI Group on the date of disposal and HHC Group as at 31 December 2006 amounting to $12.9 million and $1 million respectively.

(f) Reserve fund and enterprise development fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund and the enterprise development fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfer are made before profit distribution to the joint-venture partners. Reserve fund can only be used to make good losses, if any, and for increasing capital. Enterprise development fund can only be used for increasing capital.

(g) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date, and is dealt with in accordance with the accounting policy set out in note 1(e).

(h) Distributability of reserves

At 31 December 2006, there were no reserves available for distribution to equity shareholders of the Company (2005: $Nil).

(Expressed in Hong Kong dollars)

27 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of $20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions, which is the excess of 5%, or 10% for employees working over ten years, of the basic salary over the mandatory contribution. Mandatory contribution to the plan vest immediately. Where there are employees who leave the Group prior to vesting fully in the voluntary contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The employees in the Group's PRC subsidiaries are members of the stated-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 22 May 2002 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited at the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately proceeding the date of grant. The options vest after six months from the date of grant and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Exercise period	Exercise price	2006 '000
25 July 2002	25 January 2003 to 24 January 2008	$0.350	**828**
30 July 2002	30 January 2003 to 29 January 2008	$0.350	**8,000**
19 May 2003	22 November 2003 to 21 November 2008	$0.415	**1,500**
			10,328

All the above share options are granted to the directors.

(Expressed in Hong Kong dollars)

28 EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2006		2005	
	Weighted average exercise price	**Number of shares '000**	Weighted average exercise price	Number of shares '000
At 1 January	**$0.36**	**10,328**	$0.36	14,228
Lapsed and cancelled	**–**	**–**	$0.35	(3,900)
At 31 December	**$0.36**	**10,328**	$0.36	10,328
Options vested at 31 December	**$0.36**	**10,328**	$0.36	10,328

No benefit cost or obligation is recognized at the date of grant or exercise as the Group has taken advantage of the transitional provisions set out in HKFRS 2 "Share-based payment", under which the recognition and measurement policies have not been applied to the following grants of options:

– all options granted to employees on or before 7 November 2002; and

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

29 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2006 not provided for in the accounts were as follows:

	The Group	
	2006	2005
	$'000	$'000
Contracted for	**–**	51,187

(Expressed in Hong Kong dollars)

29 COMMITMENTS (Continued)

(b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
Within 1 year	**–**	25	**–**	–

30 ACQUISITION AND DISPOSAL OF SUBSIDIARIES

(a) Acquisition of subsidiaries

On 9 October 2006, pursuant to the passing by the independent shareholders of the resolution at the extraordinary general meeting on 3 October 2006 and the completion of the acquisition on 9 October 2006, the Company acquired the entire equity interest in HHC and amount due from HHC from FDH. HHC is an investment holding company and its principal assets are its indirect interests in 51% equity interests in DZH and 51% equity interests in FLX. Each of DZH and FLX is principally engaged in the manufacture and sale of pharmaceutical products in the PRC.

From the date of acquisition to 31 December 2006, the subsidiaries contributed net profit of $8 million to the net loss for the year of the Group. Had the acquisition occurred on 1 January 2006, turnover, profit from continuing operation and net loss for the year of the Group would have been $348.2 million, $23.9 million and $401.4 million respectively.

(Expressed in Hong Kong dollars)

30 ACQUISITION AND DISPOSAL OF SUBSIDIARIES (Continued)

(a) Acquisition of subsidiaries (Continued)

The details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amount $'000	Fair value adjustments $'000	Recognized values on acquisition $'000
Fixed assets	140,714	38,763	179,477
Construction in progress	1,051	–	1,051
Intangible assets	–	100,699	100,699
Other financial assets	1,611	–	1,611
Inventories	48,743	6,707	55,450
Trade and other receivables	49,439	–	49,439
Deposits with banks mature beyond three months	18,130	–	18,130
Cash and cash equivalents	69,725	–	69,725
Trade and other payables	(39,865)	–	(39,865)
Bank loans	(16,750)	–	(16,750)
Dividend payable	(63,481)	–	(63,481)
Amount due to FDH	(58,830)	–	(58,830)
Tax payable	(2,630)	–	(2,630)
Deferred tax liabilities	(1,992)	(37,796)	(39,788)
Minority interests	(99,799)	(53,103)	(152,902)
Share of net identifiable assets and liabilities	46,066	55,270	101,336
Add: Amount due from HHC			58,830
Goodwill on acquisition			122,234
Consideration			282,400
Satisfied by:			
Convertible notes issued to FDC			282,400

Net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:

Cash and cash equivalents of the subsidiaries acquired	69,725

Goodwill has arisen on acquisition of HHC because of certain products without the protection rights that did not meet the criteria for recognition as intangible assets at the date of acquisition.

(Expressed in Hong Kong dollars)

30 ACQUISITION AND DISPOSAL OF SUBSIDIARIES (Continued)

(b) Disposal of subsidiaries

The Group disposed of the HWI Group on 28 December 2006 to FDC and the net assets of the HWI Group at the date of disposal were as follows:

	$'000
Net assets of:	
Fixed assets	741,199
Deferred tax assets	83,164
Consumables	105,912
Trade and other receivables	66,936
Cash and cash equivalents	108,997
Trade and other payables	(350,805)
Provision for staff welfare	(10)
Bank loans	(125,332)
Other loans	(307,227)
	322,834
Minority interests	(64,549)
Exchange reserve	(33,640)
Gain on disposal	63,355
Consideration	288,000
Satisfied by:	
Offsetting with convertible notes issued and related interest and early redemption costs (see note 4(a)(ii))	288,000
Net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:	
Cash and cash equivalents of the subsidiaries disposed of	(108,997)

The impact of HWI Group on the Group's results and cash flows in the current and prior years has been disclosed in note 6.

(Expressed in Hong Kong dollars)

31 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 30 to 90 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At 31 December 2006, the Group has a certain concentration of credit risk as 11% and 32% of the total trade receivables were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the balance sheet. The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the shorter and longer term.

31 FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

In respect of income-earning financial assets, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

The Group

	2006		2005	
	Effective interest rate	**One year or less $'000**	Effective interest rate	One year or less $'000
Cash and cash equivalents	**0.9%**	**$ 108,531**	0.86%	$ 132,340

The Company

	2006		2005	
	Effective interest rate	**One year or less $'000**	Effective interest rate	One year or less $'000
Cash and cash equivalents	**3.38%**	**$ 7,332**	1.88%	$ 15,502

The interest rates and terms of repayment of the outstanding loans of the Group are disclosed in notes 24 and 25.

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries, DZH and FLX, mainly carried out transactions in Renminbi, therefore any appreciation or depreciation of Hong Kong dollars against Renminbi will affect the Group's financial position and reflect in exchange reserve.

31 FINANCIAL INSTRUMENTS (Continued)

(e) Fair values

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of other loans from related parties as it is not considered practicable to estimate their fair value because of the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the terms of the borrowings.

All other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

(f) Business risk

The Group is dependent on specific herb materials for its production of certain pharmaceutical products. At 31 December 2006, the Group has a certain concentration of business risk as 13% of the total purchases were made from the Group's five largest suppliers. If the Group could not purchase adequate quantity of specific herb materials from these suppliers and failed to identify alternative sources, its results and financial position could be adversely affected.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the accounts. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the accounts. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the accounts.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) Impairment for long-lived assets

If circumstances indicate that the net book value of a long-lived asset, except in the case of goodwill, may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in accordance with HKAS 36 "Impairment of assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the recoverable amount is estimated annually to assess if the carrying amounts may not be recoverable whether or not there is any indication of impairment. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price, material cost and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, tariff, expected changes to selling prices and operating costs, and discount rate.

(b) Depreciation and amortization

Property, plant and equipment and intangible assets are depreciated and amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortization expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(d) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition.

(Expressed in Hong Kong dollars)

33 COMPARATIVE FIGURES

Certain comparative figures have been re-classified as a result of the presentation of discontinued operation.

The result of continuing operation in 2005 mainly represented interest income and administrative expenses earned and incurred by the Company and its subsidiary, Lipromate Limited.

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

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these accounts.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the accounts:

		Effective for accounting periods beginning on or after
HK(IFRIC) 10	Interim financial reporting and impairment	1 November 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
HKFRS 8	Operating segments	1 January 2009

35 NON-ADJUSTING POST BALANCE SHEET EVENTS

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to DZH and FLX will be reduced from 27% to 25% from 1 January 2008. If the new rates were used to measure the Group's deferred tax liabilities as at 31 December 2006, it would decrease by $2.8 million. The changes will be reflected in the Group's 2007 accounts. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.