# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 1. GENERAL INFORMATION

Global Green Tech Group Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 25th September 2000 under the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activities of the Company is investment holding and of its subsidiaries (the Company and its subsidiaries are hereafter collectively referred as the "Group") are the manufacturing and sale of home and personnal care products, industrial products, cosmetics and skincare products and biotechnology products with medical and cosmetics applications and investment and/or trading in marketable securities, bonds, foreign currencies, various funds and income generated fixed assets' portfolios.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements 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 of new and revised HKFRSs that are first effective or available for early adoption for current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The financial statements are in Hong Kong Dollars ("HK$"), rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment property (see note 2(e)); and
– financial instruments classified as available-for-sale securities and financial assets at pair value through profit and loss (see note 2(d)).

# Notes to the Financial Statements



## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (b) Basis of preparation of the financial statements *(cont'd)*

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries.

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

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

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

### (c) Subsidiaries

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

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

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (c) Subsidiaries *(cont'd)*

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

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

### (d) Other investments in debt and equity securities

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

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 2(i)).

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

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 2(i)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (e) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value for from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(r)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(g)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(g).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

### (f) Other property, plant and equipment

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

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(g)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(t)).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (f) Other property, plant and equipment *(cont'd)*

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

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

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

| | |
|---|---|
| – Plant and machinery | 10 years |
| – Other fixed assets | 3 – 5 years |

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

### (g) Leased assets

*(i) Classification of assets leased to the Group*

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

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(e)); and

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

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (g) Leased assets *(cont'd)*

*(ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

*(iii) Operating lease charges*

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

### (h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (h) Intangible assets (other than goodwill) *(cont'd)*

Other intangible assets that are acquired by the group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 2(i)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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

| | | |
|---|---|---|
| – | capitalised development costs | 5 years |
| – | licences | 5 to 10 years |

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

### (i) Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised 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 recognised as follows:

– For unquoted equity securities and 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 current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (i) Impairment of assets *(cont'd)*

*(i) Impairment of investments in debt and equity securities and other receivables (cont'd)*

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

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

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

Impairment losses recognised 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 recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (i) Impairment of assets *(cont'd)*

#### *(ii) Impairment of other assets*

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

– property, plant and equipment (other than properties carried at revalued amounts);
– 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 additions, for goodwill, intangible assets that are not yet available for use 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).

– Recognition of impairment losses

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

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (i) Impairment of assets *(cont'd)*

*(ii) Impairment of other assets (cont'd)*

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

### (j) Inventories

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

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

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

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

### (k) Trade and other receivables

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

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (l) Interest-bearing borrowings

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

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised 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 arte 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) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution 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.

*(ii) Share based payments*

The fair value of share options granted to employees is recognised 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.

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (o) Employee benefits *(cont'd)*

*(ii) Share based payments (cont'd)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised 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 recognised 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 recognised 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 is released directly to retained profits).

*(iii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (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 recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

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

Deferred tax assets and liabilities arise form 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (p) Income tax *(cont'd)*

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

The 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, unless it is probable that they will reverse in the future.

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

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

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (p) Income tax *(cont'd)*

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

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

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

  – the same taxable entity; or

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

### (q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settled 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (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 recognised in profit or loss as follows:

*(i) Sales of goods*

Revenue is recognised 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) Rental income from operating leases*

Rental income receivable under operating leases is recognised 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 lease asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

*(iii) Dividends*

– Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

*(iv) Interest income*

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

*(v) Government grants*

Government grants are recognsied 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 recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognsied in profit or loss as revenue on a systematic basis over the useful life of the asset.

# Notes to the Financial Statements



## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (r) Revenue recognition *(cont'd)*

*(vi) Royalty income*

Royalty income is recognised on a monthly basis in accordance with the terms and condition of the royalty agreement.

### (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 losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in 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 2006, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2006 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 differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### (t) Borrowing costs

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### (u) Related parties

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

### (v) 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 chose business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

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

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

## 3. CHANGE IN ACCOUNTING POLICIES

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.

Note 2 summarises the significant accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 39) except for HK(IFRIC) 10, Interim financial reporting and impairment, which is effective for annual periods beginning on or after 1 November 2006.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### Impairment of property, plant and equipment, Interest in leasehold land and intangible assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

### Impairment of receivables

The policy for impairment on receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

## 5. TURNOVER

The principal activities of the Group are manufacturing and sale of home and personal care products, industrial products, cosmetics and skin care products and biotechnology products with medical and cosmetic applications, money lending and investment and/or trading in market securities, bonds, foreign currencies, various funds and other income generated fixed asset's portfolios.

Turnover represents the sales value of goods supplied to customers net of value added tax, sales returns and discount.

## 6. OTHER REVENUE AND NET INCOME

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Royalty income | **446** | 1,784 |
| Government grants | **–** | 240 |
| Bank interest income | **8,022** | 6,147 |
| Other interest income | **261** | 942 |
| Rentals income from operating leases | **4,421** | 2,289 |
| Gain on disposal of property, plant and equipment | **491** | 55 |
| Write-back of provision for inventories | **–** | 2,204 |
| Gain on fair value changes on investment property | **–** | 2,038 |
| Net unrealised gain on trading securities | **32,545** | 35 |
| Net exchange gain | **35,365** | 28,948 |
| Others | **2,118** | 493 |
| | **83,669** | 45,175 |

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 7. PROFIT BEFORE TAXATION

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

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| **(a) Finance costs** | | |
| Interest expense on bank advances and other borrowings wholly repayable within five years | **10,160** | 7,507 |
| Finance charges on obligations under finance leases | **4** | 31 |
| Other borrowing costs | **3,606** | – |
| Total borrowing costs | **13,770** | 7,538 |
| **(b) Staff costs** | | |
| Contributions to defined contribution retirement plans | **463** | 538 |
| Equity-settled share-based payment expenses | **4,412** | 3,747 |
| Unutilised annual leave | **106** | 103 |
| Salaries, wages and other benefits | **31,864** | 26,182 |
| | **36,845** | 30,570 |
| **(c) Other items** | | |
| Amortisation of interest in leasehold land held for own use | **2,790** | 2,683 |
| Amortisation of intangible assets | **9,459** | 11,791 |
| Depreciation | | |
| – assets held under finance leases | **18** | 215 |
| – other assets | **50,861** | 38,914 |
| Impairment losses | | |
| – trade and other receivables | **–** | 14,305 |
| – club debenture | **–** | 130 |
| Bad debts written off | **115** | 1,061 |
| (Write back)/Provision for slow-moving inventories | **(399)** | 3,097 |
| Write off of inventories | **35,543** | – |
| Auditors' remuneration | **2,305** | 2,000 |
| Research and development costs | **4,979** | 714 |
| Operating lease charges: minimum lease payments | | |
| – property rentals | **5,715** | 6,636 |
| Cost of inventories | **434,105** | 410,082 |

## 8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Current tax – Hong Kong Profits Tax** | | |
| Provision for the year | **511** | 156 |
| **Current tax – Overseas Income Tax** | | |
| Under-provision in prior year | **888** | – |
| Provision for the year | **30,636** | 20,947 |
| | **31,524** | 20,947 |
| | **32,035** | 21,103 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(1,816)** | (309) |
| | **30,219** | 20,794 |

Provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before taxation | **301,360** | 270,146 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned | **46,626** | 92,223 |
| Tax effect of non-deductible expenses | **3,077** | 4,575 |
| Tax effect of non-taxable income | **(16,649)** | (27,012) |
| Tax effect of unused tax losses not recognised | **6,528** | 5,317 |
| Tax effect of utilisation of tax losses not recognised | **(436)** | – |
| Preferential tax treatment *(note)* | **(8,927)** | (57,755) |
| Others | **–** | 3,446 |
| Tax expense for the year | **30,219** | 20,794 |

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(cont'd)*

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates: *(cont'd)*

Note: Overseas tax provision is required to be made in respect of Dongguan Proamine Chemical Co., Limited ("Dongguan Proamine"), Dongguan Gao Bao Chemicals Co., Limited ("Gao Bao Chemical"), Global Cosmetics (China) Co., Limited ("Global Cosmetics"), and Dongguan Polygene Biotech Co., Limited, all of them are subsidiaries of the Company established in the People's Republic of China (the "PRC"). In accordance with the relevant income tax rules and regulations, the enacted income tax rate is 33%.

On 30 May 2003, Dongguan Proamine was accredited by the Department of Science and Technology of Guangdong Province as a Hi-and-New Tech Enterprise of Guangdong Province. On 16 January 2004, Dongguan Proamine received a written confirmation from Dongguan Local Tax Bureau that it is entitled to a reduced income tax rate of 15% for the period from 1 January 2003 to 31 December 2005. Also, on 1 June 2005, Dongguan Proamine continued to be accredited as a Hi-and-New Tech Enterprise of Guangdong Province and the income tax rate remained as 18% for 2005 and 2006.

Pursuant to a letter of approval issued by the local tax authority on 8 April 2005, Global Cosmetics was exempted from enterprise income tax ("EIT") for the first two profitable years of its operations after offsetting prior years' losses and are entitled to a 50% reduction on the EIT for the following three years. Global Cosmetics began its first two profitable year in the year ended 31 December 2004 and 2005, and was subject to PRC EIT at a rate of 12% for three years ended 2006, 2007 and 2008.

Pursuant to a letter of approval issued by the local tax authority on 1 July 2005, Gao Bao Chemical was exempted from EIT for the first two profitable years of its operations after offsetting prior years' losses and are entitled to a 50% reduction on the EIT for the following three years. Gao Bao Chemical began its first profitable year in the year ended 31 December 2005 and obtained tax exemption for 2005 and 2006, and was entitled to a reduced income tax rate for 2007, 2008 and 2009.

## 9. DIRECTORS' REMUNERATION

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

| | Directors' Fees HK$'000 | Salaries allowances and benefits in kind HK$'000 | Share-based payment HK$'000 | Retirement scheme contributions HK$'000 | 2006 Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Lau Jin Wei, Jim | – | 1,881 | – | 12 | 1,893 |
| Wong Wai Kwan, Connie *(note 1)* | – | 420 | 33 | 6 | 459 |
| Wong Ying Yin | – | 404 | 38 | 12 | 454 |
| Bang Young-Bae, Ray *(note 2)* | – | 420 | 33 | 6 | 459 |
| **Independent non-executive directors** | | | | | |
| Ou Ying Ji | 40 | – | – | – | 40 |
| Lin Jian | 30 | – | – | – | 30 |
| Lee Pak Chung | 20 | – | 11 | – | 31 |
| | 90 | 3,125 | 115 | 36 | 3,366 |

| | Directors' Fees HK$'000 | Salaries allowances and benefits in kind HK$'000 | Share-based payment HK$'000 | Retirement scheme contributions HK$'000 | 2005 Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Lau Jin Wei, Jim | – | 1,040 | – | 12 | 1,052 |
| Wong Wai Kwan, Connie | – | 780 | 55 | 12 | 847 |
| Wong Ying Yin | – | 436 | 55 | 12 | 503 |
| **Non-executive directors** | | | | | |
| Yip Wai Leung, Jerry | 20 | – | 36 | – | 56 |
| **Independent non-executive directors** | | | | | |
| Ou Ying Ji | – | – | – | – | – |
| Lin Jian | 20 | – | – | – | 20 |
| Lee Pak Chung | 50 | – | – | – | 50 |
| | 90 | 2,256 | 146 | 36 | 2,528 |

The above emoluments for the year ended 31 December 2006 include the value of share options granted to certain directors under the Company's share option scheme as estimated at the date of grant. The details of these benefits in kind are disclosed note 31.

No Director received any emoluments from the Group as an inducement to join or leave the Group or compensate for loss of office. No director waived or has agreed to waive any emoluments during the year.

Note 1: Retired on 9/6/2006

Note 2: Appointed on 9/6/2006

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2005: two) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2005: three) individual are as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other emoluments | **1,684** | 2,262 |
| Share-based payments | **197** | 786 |
| Retirement scheme contributions | **24** | 36 |
| | **1,905** | 3,084 |

The emoluments of the two (2005: three) individuals with the highest emoluments are within the following bands:

| | **2006** | 2005 |
|---|---|---|
| | **Number of individuals** | Number of individuals |
| HK$Nil – HK$1,000,000 | **1** | 2 |
| HK$1,000,000 – HK$1,500,000 | **1** | – |
| HK$1,500,001 – HK$2,000,000 | **–** | 1 |

## 11. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of HK$29,987,000 (2005: HK$25,953,000) which has been dealt with in the financial statements of the Company.

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Amount of consolidated loss attributable to equity shareholders dealt with in the Company's financial statements | **(29,987)** | (25,953) |
| Final dividends from subsidiaries and associates attributable to the profits of the previous financial year, approved and paid during the year | **–** | 111,650 |
| Company's (loss)/profit for the year *(note 35(b))* | **(29,987)** | 85,697 |

## 12. DIVIDENDS

### (a) Dividends payable to equity shareholders of the Company attributable to the current financial year

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Final dividend proposed after the balance sheet date of HK$0.03 (2005: HK$0.02) per ordinary share | **31,397** | 19,257 |

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

In 2005, the board of directors approved one unit of 2007 warrant and one unit of 2008 warrant at an exercise price of HK$0.9654 each and HK$1.3 each respectively for every 10 ordinary shares held by the Company's shareholders on the record date which was 27 May 2005. The expiry dates of 2007 warrants and 2008 warrants are 7 July 2007 and 7 July 2008 respectively.

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.02 (2005: HK$0.02) per share | **20,396** | 18,692 |

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 13. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately HK$197,039,000 (2005: HK$223,305,000) and the weighted average of approximately 999,418,000 (2005: 924,931,000) ordinary shares in issue shares during the year.

Weighted average number of ordinary shares

| | **2006** | 2005 |
|---|---|---|
| | **'000** | '000 |
| Issued ordinary shares at 1 January | **935,193** | 905,077 |
| Effect of capitalisation issue | **–** | (6,031) |
| Effect of warrants exercised | **4,340** | – |
| Effect of share options exercised | **59,885** | 25,885 |
| Weighted average number of ordinary shares at 31 December | **999,418** | 924,931 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately HK$197,039,000 (2005: HK$223,305,000) and the weighted average number of diluted ordinary shares of approximately 1,004,435,000 shares (2005: 928,025,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted):

| | **2006** | 2005 |
|---|---|---|
| | **'000** | '000 |
| Weighted average number of ordinary shares at 31 December | **999,418** | 924,931 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration | **5,017** | 3,094 |
| Weighted average number of ordinary shares (diluted) at 31 December | **1,004,435** | 928,025 |

## 14. SEGMENT REPORTING

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

### Business segments

The Group comprises the following main business segments:

a) Home and personal care products segment – manufacture of home and personal care products for sale to wholesalers and retailers in the general consumer market;

b) Industrial products segment – manufacture of industrial surfactants for sale principally to textile and garment manufactures and traders;

c) Cosmetics and skin care products segment – manufacture of cosmetics and skin care products under the brand name of Marjorie Bertagne for sale to authorised distributors and retailers in the general consumer market;

d) Biotechnology products segment – manufacture of biotechnology products with medical and cosmetic applications;

e) Investment segment – engaged in money lending and investment and/or trading in market securities, bonds, foreign currencies, various funds and other income generated fixed assets portfolios; and

f) Others – sale of gift and premium.

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 14. SEGMENT REPORTING *(cont'd)*

### Primary reporting format – business segments

| | Home and personal care products | | Industrial products | | Cosmetics and skin care products | | Bio-technology products | | Investment | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Revenue from external customers | **166,176** | 167,052 | **258,032** | 224,206 | **409,479** | 351,965 | **7,128** | 18,150 | **6,101** | 132,150 | **-** | 8,501 | **846,916** | 902,024 |
| Segment results | **32,382** | 21,410 | **24,483** | (2,977) | **210,400** | 139,448 | **(5,063)** | (2,045) | **35,129** | 92,440 | **-** | 226 | **297,331** | 248,502 |
| Unallocated operating income and expenses | | | | | | | | | | | | | **17,799** | 29,182 |
| Profit from operations | | | | | | | | | | | | | **315,130** | 277,684 |
| Finance costs | | | | | | | | | | | | | **(13,770)** | (7,538) |
| Profit before taxation | | | | | | | | | | | | | **301,360** | 270,146 |
| Income tax | | | | | | | | | | | | | **(30,219)** | (20,794) |
| Profit for the year | | | | | | | | | | | | | **271,141** | 249,352 |
| Segment assets | **256,464** | 235,146 | **415,253** | 315,489 | **604,083** | 494,771 | **67,215** | 71,883 | **191,906** | 64,610 | **-** | 9,866 | **1,534,921** | 1,191,765 |
| Investment properties | | | | | | | | | | | | | **19,240** | 18,500 |
| Bank balances and cash | | | | | | | | | | | | | **405,181** | 514,066 |
| Other unallocated assets | | | | | | | | | | | | | **197,763** | 31,726 |
| Total assets | | | | | | | | | | | | | **2,157,105** | 1,756,057 |
| Segment liabilities | **25,187** | 18,835 | **39,105** | 25,279 | **141,491** | 39,685 | **1,079** | 1,807 | **1,004** | 558 | **-** | – | **207,866** | 86,164 |
| Unallocated liabilities | | | | | | | | | | | | | **207,378** | 196,589 |
| Total liabilities | | | | | | | | | | | | | **415,244** | 282,753 |
| Depreciation | **15,736** | 8,490 | **24,430** | 11,396 | **9,975** | 17,889 | **738** | 922 | **-** | – | **-** | 432 | **50,879** | 39,129 |
| Amortisation | **3,446** | 582 | **5,350** | 781 | **3,358** | 1,227 | **95** | 11,854 | **-** | – | **-** | 30 | **12,249** | 14,474 |
| Capital expenditure | **151,535** | 105,399 | **235,267** | 141,439 | **172,175** | 222,067 | **6,489** | 11,463 | **-** | – | **-** | – | **565,466** | 480,368 |
| Unallocated capital expenditure | | | | | | | | | | | | | **190** | 5,343 |
| | | | | | | | | | | | | | **565,656** | 485,711 |

## 14. SEGMENT REPORTING *(cont'd)*

### Geographical segments

The Group operates in two main geographical areas:

The PRC – manufacturing and trading of home and personal care products, industrial products, cosmetics and skin care products and biotechnology products with medical and cosmetic applications.

Hong Kong – trading of home and personal care products, industrial products and cosmetic and skin care products and also money lending and investment and/or trading in marketable securities, banks, foreign currencies, various funds and income generated fixed assets portfolios.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of Company's subsidiaries. Segment assets and capital expenditure are based on the geographical location of the assets.

| | **Hong Kong** | | **The PRC** | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Revenue from external customers | **81,543** | 163,873 | **765,373** | 738,151 |
| Segment results | **79,290** | 80,039 | **218,041** | 168,463 |
| Segment assets | **414,731** | 319,209 | **1,120,190** | 1,392,451 |
| Capital expenditure incurred during the year | **3,791** | 165,989 | **561,865** | 319,772 |

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 15. PROPERTY, PLANT AND EQUIPMENT

### (a) The Group

| | Buildings held for own use carried at fair value HK$'000 | Plant, machinery and other fixed assets HK$'000 | Construction in progress HK$'000 | Sub-total HK$'000 | Investment property HK$'000 | Interests in leasehold land held for own use under operating leases HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| At 1 January 2005 (restated) | 31,172 | 345,805 | 16,701 | 393,678 | 16,000 | 11,535 | 421,213 |
| Exchange adjustment | 899 | 9,834 | 482 | 11,215 | 462 | 333 | 12,010 |
| Transfer | 8,922 | 10,310 | (19,232) | – | – | – | – |
| Additions | – | 28,010 | 111,084 | 139,094 | – | 121,638 | 260,732 |
| Disposals | – | (718) | – | (718) | – | – | (718) |
| Fair value adjustment | – | – | – | – | 2,038 | – | 2,038 |
| At 31 December 2005 (restated) | 40,993 | 393,241 | 109,035 | 543,269 | 18,500 | 133,506 | 695,275 |
| **Representing:** | | | | | | | |
| Cost (restated) | 40,993 | 393,241 | 109,035 | 543,269 | – | 133,506 | 676,775 |
| Valuation – 2005 | – | – | – | – | 18,500 | – | 18,500 |
| At 1 January 2006 | 40,993 | 393,241 | 109,035 | 543,269 | 18,500 | 133,506 | 695,275 |
| At 1 January 2006 | 40,993 | 393,241 | 109,035 | 543,269 | 18,500 | 133,506 | 695,275 |
| Exchange adjustment | 1,640 | 15,712 | 4,361 | 21,713 | 740 | 5,340 | 27,793 |
| Additions | 121,906 | 166,278 | 277,472 | 565,656 | – | – | 565,656 |
| Disposals | – | (1,631) | – | (1,631) | – | – | (1,631) |
| Transfer | 45,671 | 253,802 | (299,473) | – | – | – | – |
| At 31 December 2006 | 210,210 | 827,402 | 91,395 | 1,129,007 | 19,240 | 138,846 | 1,287,093 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

### (a) The Group *(cont'd)*

| | Buildings held for own use carried at fair value | Plant, machinery and other fixed assets | Construction in progress | Sub-total | Investment property | Interests in leasehold land held for own use under operating leases | Total |
|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Accumulated amortisation and depreciation:** | | | | | | | |
| At 1 January 2005 (restated) | 3,565 | 90,023 | – | 93,588 | – | 1,925 | 95,513 |
| Exchange adjustment | 102 | 2,364 | – | 2,466 | – | 56 | 2,522 |
| Charge for the year | 721 | 38,408 | – | 39,129 | – | 2,683 | 41,812 |
| Written back on disposals | – | (773) | – | (773) | – | – | (773) |
| At 31 December 2005 | 4,388 | 130,022 | – | 134,410 | – | 4,664 | 139,074 |
| At 1 January 2006 | 4,388 | 130,022 | – | 134,410 | – | 4,664 | 139,074 |
| Exchange adjustment | 176 | 4,774 | – | 4,950 | – | 186 | 5,136 |
| Charge for the year | 3,138 | 47,741 | – | 50,879 | – | 2,790 | 53,669 |
| Written back on disposals | – | (1,582) | – | (1,582) | – | – | (1,582) |
| Elimination on revaluation | – | – | – | – | – | – | – |
| At 31 December 2006 | 7,702 | 180,955 | – | 188,657 | – | 7,640 | 196,297 |
| **Net book value** | | | | | | | |
| At 31 December 2006 | 202,508 | 646,447 | 91,395 | 940,350 | 19,240 | 131,206 | 1,090,796 |
| At 31 December 2005 | 36,605 | 263,219 | 109,035 | 408,859 | 18,500 | 128,842 | 556,201 |

**(b)** All investment properties of the Group were revalued as at 31 December 2006 on an open market value basis. The valuations were carried out by an independent firm of surveyors, AA Property Services Limited, who has among their staff fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

**(c) The analysis of net book value of properties is as follows:**

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Outside Hong Kong | | |
| – medium-term leases | **352,954** | 183,947 |
| Representing: | | |
| Investment property | **19,240** | 18,500 |
| Interest in leasehold land held for own use under operating leases | **131,206** | 128,842 |
| Buildings carried at fair value | **202,508** | 36,605 |
| | **352,954** | 183,947 |

**(d)** The Group leases out investment property under operating leases. The leases typically run for an initial period of one to five years, with an opinion to renew the lease after that date at which time all terms are renegotiated.

Lease payments are usually reviewed every year to reflect market rental. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

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

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Within 1 year | **515** | 588 |
| After 1 year but within 5 years | **655** | 1,125 |
| After 5 years | **–** | – |
| | **1,170** | 1,713 |

## 16. INTANGIBLE ASSETS

| | Licenses HK$'000 |
|---|---|
| **Cost** | |
| At 1 January 2005 | 82,533 |
| Exchange adjustment | 1,782 |
| At 31 December 2005 and at 1 January 2006 | 84,315 |
| Exchange adjustment | 2,542 |
| At 31 December 2006 | 86,857 |
| **Accumulated amortisation** | |
| At 1 January 2005 | 31,271 |
| Exchange adjustment | 528 |
| Charge for the year | 11,791 |
| At 31 December 2005 and at 1 January 2006 | 43,590 |
| Exchange adjustment | 1,017 |
| Charge for the year | 9,459 |
| At 31 December 2006 | 54,066 |
| **Net book value** | |
| At 31 December 2006 | 32,791 |
| At 31 December 2005 | 40,725 |

Licences comprise licence rights acquired from independent third parties to exploit technical know-how for the manufacture of certain biotechnology products with medical and cosmetic applications. The underlying products relating to the licences acquired have been put into commercial production. Amortisation on the cost of licences has been provided on a straight-line basis over their estimated useful lives to the Group.

The amortisation charge for the year is included in cost of sales in the consolidated income statement.

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 17. DEPOSITS FOR ACQUISITION OF OTHER PROPERTY, PLANT AND EQUIPMENT

At 31 December 2006, the Group paid a total sum of approximately HK$207,110,000 (2005: HK$342,961,000) as deposits for the acquisition of certain other property, plant and equipment, which comprise of plant and machinery for manufacturing operations as well as for a new business line of recycling waste tyres and plastic products into usable oil, diesel, gasoline and natural gas.

The Group's application for a site located at Yuen Long Industrial Estate to pursue its recycling business was approved by Hong Kong Science and Technology Parks Corporation. It is expected that the Group will invest approximately HK$250,000,000 to pursue the recycling business and the Company expects that the recycling plant will start commercial production in the mid of the year 2008.

Capital commitments of the Group in respect of the remaining unpaid balances of approximately HK$128,372,000 (2005: HK$134,146,000) for these purchases are disclosed in note 38(a) to the financial statements.

## 18. DEPOSIT FOR ACQUISITION OF INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

During the year, the Group paid a total sum of approximately HK$39,015,000 (2005: HK$Nil) as a deposit for the acquisition of interest in leasehold land held for own use under operating leases; which were used to purchase a piece of land in Yuen Long, Hong Kong with a lease term of 40 years starting from 2 January 2007.

## 19. DEPOSITS FOR ACQUISITION OF INTANGIBLE ASSETS

At 31 December 2006 the Group paid a total sum of approximately HK$13,272,000 (2005: HK$12,762,000) as deposits for the purchase of the licenses rights for the manufacturing of enzymes. The underlying products relating to the licenses acquired will put into commercial production. The deposit and further contract sums will be capitalised as intangible assets upon subsequent completion and transfer of the intangible assets to the Group.

Capital commitments of the Group in respect of the remaining unpaid balances of approximately HK$168,000 (2005: HK$161,000) for these acquisitions are disclosed in note 38(a) to the financial statements.

## 20. OTHER DEPOSITS AND CLUB DEBENTURE

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Rental deposits | **–** | 360 |
| Club debenture | **460** | 460 |
| | **460** | 820 |
| Less: Impairment loss on club debenture | **(290)** | (290) |
| | **170** | 530 |

## 21. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **89,412** | 89,412 |

Amounts due from/to subsidiaries are unsecured interest free and repayable on demand. Particulars of the major subsidiaries of the Group are as follows:–

| Name | Place of incorporation/ establishment | Principal activities/place of operation | Particulars of issued paid-up share capital | Interest held |
|---|---|---|---|---|
| Global Success Properties Limited | The British Virgin Island | Investment holding/ Hong Kong | 200 ordinary shares of US$1 each | 100% (#) |
| GCC Finance Company Limited | Hong Kong | Money lending/ Hong Kong | 2 ordinary shares of HK$1 each | 100% (#) |
| Global Chemicals (China) Company Limited *(Note (i))* | Hong Kong | Trading of home and personal care products and industrial products/ Hong Kong | 10,000 ordinary shares of HK$1 each and 1,000,000 non-voting deferred ordinary shares of HK$1 each | 100% |

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 21. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

| Name | Place of incorporation/ establishment | Principal activities/place of operation | Particulars of issued paid-up share capital | Interest held |
|---|---|---|---|---|
| Global Power and Energy Company Limited (Formerly known as Global Green Energy Company Limited) | Hong Kong | Energy recycling business/Hong Kong | 10,000 ordinary share of HK$ 1 each | 100% (#) |
| Global Cosmetics (HK) Company Limited | Hong Kong | Trading of cosmetics and skin care products/ Hong Kong | 40,000,000 shares of HK$ 1 each | 70% |
| Global Idea (Int'l) Company Limited | Hong Kong | Trading of ODM's Gift and premium, skin care products/ Hong Kong | 1,000 ordinary Share of HK$ 1 each | 100% |
| Dongguan Proamine Chemical Co., Limited *(Note (ii))* | The PRC | Manufacture and sale of home and personal care products, industrial products/the PRC | Approximately HK$111,319,000 | 100% |
| Global Cosmetics (China) Co., Limited *(Note (iii))* | The PRC | Manufacture and sale of professional and saloon skin care products/ the PRC | HK$60,000,000 | 100% |
| Dongguan Gao Bao Chemical Co., Limited *(Note (iv))* | The PRC | Manufacture and sale of home and personal care products, industrial products/the PRC | RMB7,761,000 | 100% |
| Dongguan Polygene Biotech Co., Limited *(Note (v))* | The PRC | Research and development of bio-engineering products/the PRC | HK$16,000,000 | 100% |
| High Billion Investment Limited* | Hong Kong | Holding of licence/ Hong Kong | 10,000 ordinary shares of HK$1 each | 100% |

* Not audited by CCIF CPA Limited

# Shares held directly by the Company

## 21. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

*Notes:*

(i) The non-voting deferred shares carry no rights as to dividends, no rights to attend or vote at general meetings, and no rights to receive any surplus in return of capital in a winding-up of Global Chemicals (China) Company Limited ("Global Chemicals") (other than 1% of the surplus assets of Global Chemicals available for distribution after a total of HK$1,000,000,000,000 has been distributed to holders of the ordinary shares of Global Chemicals in such winding-up).

(ii) Dongguan Proamine is a foreign wholly owned enterprise established by the Company in the PRC for an operating period of 12 years commencing from the date of the issuance of its business licence on 29 August 1995. The registered capital of Dongguan Proamine was HK$112,000,000 of which approximately HK$111,319,000 was paid up by the Group as at 31 December 2006 (2005: HK$111,319,000).

(iii) Global Cosmetics (China) Co., Limited ("Global Cosmetics") is a foreign wholly owned enterprise established by the company in the PRC for an operating period of 30 years commencing from the date of the issuance of its business licence on 1 April 2005. The registered capital of Global Cosmetics was increased to HK$60,000,000 in 2006 which was fully paid up by the Group as at 31 December 2006.

(iv) Dongguan Gao Bao Chemical Co., Limited ("Dongguan Gao Bao") is a foreign wholly owned enterprise acquired by the Company in the PRC in June 2005 for an operating period of 10 years commencing from the date of the issuance of its business licence on 11 December 1998. The registered capital of Dongguan Gao Bao was RMB7,761,000 (equivalent to approximately HK$7,462,000) which was fully paid up by the Group as at 31 December 2006.

(v) Dongguan Polygene Biotech Co., Limited is a foreign wholly owned enterprise established by the Company in the PRC for an operating period of 30 years commencing from the date of the issuance of its business licence on 18 July 2003. The registered capital of Dongguan Polygene Biotech Co., Limited was HK$20,000,000 of which approximately HK$16,000,000 was paid up by the Group as at 31 December 2006.

## 22. INVESTMENTS IN SECURITIES

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Available-for-sale equity securities | | |
| Unlisted equity securities, at cost | **–** | 31,500 |

At 31 December 2005, the details of available-for-sale equity securities are as follows:–

| Name | Place of incorporation and operation | Principal activities | Percentage of interest |
|---|---|---|---|
| Bio-Tech Pharm Group Limited | The British Virgin Islands/ the PRC | Investment holding company whose subsidiaries are principally engaged in research and development, manufacture and trading of biotechnology products | 4.5% |

On 5 January 2002, one of the Group's subsidiaries was entered into a share swap arrangement with an independent third party- Leung Kar Loon, Stanley. Mr Leung would transfer those share of Bio-Tech Pharm Group Limited for 4.5% with consideration of HK$31.5 million to the Group's subsidiary.

However, on 13 December 2003, there was another share swap arrangement between the subsidiary and another independent third party – Li Kit Yuk. The arrangement was about the subsidiary to transfer the 4.5% of share of Bio-Tech Pharm Group Limited to him amounting to HK$31.5 million in exchange with the 11,250,000 shares for HK$2.80 per share of Uni-Bio Science Group Limited ("Uni-Bio") on or before 31 December 2006. Together with the unrealised gain as at 31 December 2006, there was altogether HK$38,812,500.

The subsidiary executed the shares swap on 18 December 2006 with the intention to dispose the share in Uni-Bio in the near future and transferred as trading securities under listed equity securities in note 23.

## 23. TRADING SECURITIES

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Listed equity securities at market value | | |
| – in Hong Kong | **167,727** | – |
| – outside Hong Kong | **8,549** | 10,773 |
| | **176,276** | 10,773 |

## 24. INVENTORIES

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Raw materials, at cost | **27,552** | 20,985 |
| Finished goods, at cost | **13,974** | 21,583 |
| | **41,526** | 42,568 |
| Less: Provision | **(8,326)** | (8,581) |
| | **33,200** | 33,987 |

## 25. TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade receivables | **103,768** | 145,926 | **–** | – |
| Bills receivables | **4,591** | 5,679 | **–** | – |
| | **108,359** | 151,605 | **–** | – |
| Prepayments, deposits and other receivables | **44,010** | 49,564 | **142** | 136 |
| Amounts due from related companies *(note 26)* | **–** | 6,274 | **–** | – |
| | **152,369** | 207,443 | **142** | 136 |

Included in trade and other receivables are trade and bills receivables with the following ageing anlaysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Within 30 years | **93,740** | 77,779 |
| 31 – 60 days | **8,236** | 33,206 |
| 61 – 90 days | **4,431** | 6,447 |
| Over 90 days | **16,259** | 48,219 |
| | **122,666** | 165,651 |
| Less: Impairment losses for bad and doubtful debts | **(14,307)** | (14,046) |
| | **108,359** | 151,605 |

The normal credit period granted to the customers of the Group is 30 to 180 days (2005: 30 to 180 days).

## 26. AMOUNTS DUE FROM RELATED COMPANIES

The information in relation to the amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

| Name | Balance at 1 January | | Balance at 31 December | | Maximum amount outstanding during the year | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| 北博康健基因科技有限公司 | **3,410** | 3,473 | **–** | 3,410 | **3,410** | 3,473 |
| 深圳華生元基因工程發展有限公司 | **1,184** | 2,802 | **–** | 1,184 | **1,184** | 2,802 |
| Golden Idea Bio-Engineering (Dongguan) Co., Limited | **1,680** | 840 | **–** | 1,680 | **1,680** | 1,680 |
| | **6,274** | 7,115 | **–** | 6,274 | | |

The above balances are unsecured, interest-free and repayable on demand.

Details of relationships and transactions with these companies are set out in note 40 to the financial statements.

## 27. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash at bank and in hand | **405,181** | 514,066 | **5,574** | 35,528 |

The Group's bank balances and cash of approximately HK$263,066,478 (2005: HK$399,113,000) were denominated in Renminbi ("RMB"). The conversion of these balances into other currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of the PRC.

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 28. TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade payables | **76,399** | 24,356 | **–** | – |
| Bills payable | **7,334** | 20,556 | **–** | – |
| | **83,733** | 44,912 | **–** | – |
| Accrued liabilities and other payables | **100,256** | 37,470 | **2,370** | 2,403 |
| Amounts due to related companies* | **–** | 333 | **–** | – |
| | **183,989** | 82,715 | **2,370** | 2,403 |

* Amounts due to related companies are unsecured, non-interest bearing and repayable on demand.

Included in trade and other payables were trade and bills payables with the following ageing analysis as of the balance sheet date.

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Within 30 days | **29,521** | 17,258 |
| 31 – 60 days | **17,791** | 15,522 |
| 61 – 90 days | **9,803** | 8,572 |
| Over 90 days | **26,618** | 3,560 |
| | **83,733** | 44,912 |

## 29. LONG-TERM BANK LOANS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Unsecured bank loans repayable: | | | | |
| Within one year | **60,000** | 117,500 | **60,000** | – |
| In the second year | **60,000** | 58,750 | **60,000** | – |
| In the third to fifth year | **80,000** | – | **80,000** | – |
| Total unsecured bank loans | **200,000** | 176,250 | **200,000** | – |
| Less: Current portion of long-term bank loans | **(60,000)** | (117,500) | **(60,000)** | – |
| Non-current portion | **140,000** | 58,750 | **140,000** | – |

(a) On 19 January 2004, Global Chemicals entered into a term loan facility agreement (the "Agreement") with certain banks for financing general corporate funding requirements of the Group. During the year, the Company repaid the outstanding loan with the amount of HK$176,250,000 which bears an interest rate at Hong Kong Inter-Bank offered Rate ("HIBOR") plus 1% per annum.

(b) On 27 February 2006, the Company obtained a new syndicated loan of HK$200,000,000. The loan was fully drawn during the year and it bears an interest rate at HIBOR plus 1% per annum and repayable by 6 unequal semi-annual instalments commencing 12 months after the date of the relevant loan agreement.

The Group's borrowings are denominated in Hong Kong dollar.

## 30. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2006, the Group had obligations under finance leases repayable as follows:

### The Group

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **Present value of the minimum lease payments HK$'000** | **Interest expense relating to future periods HK$'000** | **Total minimum lease payments HK$'000** | Present value of the minimum lease payments HK$'000 | Interest expense relating to future periods HK$'000 | Total minimum lease payments HK$'000 |
| Within 1 year as classified under current liabilities | **39** | **4** | **43** | 18 | 4 | 22 |
| After 1 year but within 2 years | **39** | **4** | **43** | 18 | 4 | 22 |
| After 2 years but within 5 years | **34** | **9** | **43** | 40 | 9 | 49 |
| Non-current portion | **73** | **13** | **86** | 58 | 13 | 71 |
| Total | **112** | **17** | **129** | 76 | 17 | 93 |

## 31. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 20 December 2001 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company. The options vest immediately from the date of grant and are then exercisable within a period of three years. Each options gives the holder the right to subscribe for one ordinary share in the Company.

## 31. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(cont'd)*

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

| | Number of instruments '000 | Vesting conditions | Contractual life of options |
|---|---|---|---|
| **Options granted to directors:** | | | |
| – on 7 June 2005 | 460 | Immediately from the date of grant | 3 years |
| – on 13 June 2006 | 800 | Immediately from the date of grant | 3 years |
| – on 20 June 2006 | 650 | Immediately from the date of grant | 3 years |
| **Option granted to employees:** | | | |
| – on 8 January 2003 | 498 | Immediately from the date of grant | 3 years |
| – on 9 June 2003 | 892 | Immediately from the date of grant | 3 years |
| – on 7 June 2005 | 15,340 | Immediately from the date of grant | 3 years |
| – on 13 June 2006 | 19,709 | Immediately from the date of grant | 3 years |
| – on 20 June 2006 | 40,787 | Immediately from the date of grant | 3 years |
| **Options granted to others:** | | | |
| – on 22 March 2002 | 1,200 | Immediately from the date of grant | 3 years |
| – on 29 July 2002 | 10,300 | Immediately from the date of grant | 3 years |
| – on 8 January 2003 | 5,882 | Immediately from the date of grant | 3 years |
| – on 9 June 2003 | 9,486 | Immediately from the date of grant | 3 years |
| – on 7 June 2005 | 32,700 | Immediately from the date of grant | 3 years |
| – on 13 June 2006 | 73,000 | Immediately from the date of grant | 3 years |
| – on 20 June 2006 | 60,500 | Immediately from the date of grant | 3 years |
| Total share options | 272,204 | | |

## 31. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(cont'd)*

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

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Weighted average exercise price** | **Number of option '000** | Weighted average exercise price | Number of option '000 |
| Outstanding at the beginning of the period | **HK$0.84** | **122,447** | HK$0.88 | 76,758 |
| Exercised during the period | **HK$0.78** | **(104,469)** | HK$0.63 | (36,320) |
| Granted during the period | **HK$0.89** | **101,937** | $0.80 | 93,509 |
| Lapsed during the year | **HK$1.18** | **(16,758)** | HK$1.48 | (11,500) |
| Outstanding at the end of the period | **HK$0.89** | **103,157** | $0.84 | 122,447 |

The weighted average share price at the date of exercise for shares options exercised during the year was HK$1.03 (2005: HK$0.71).

The options outstanding at 31 December 2006 had an exercise price of HK$0.63, HK$0.80 or HK$0.89 (2005: HK$1.23, HK$1.15, HK$0.63 or HK$0.80) and a weighted average remaining contractual life of 2.49 years (2005: 2.05 years).

**(c) Fair value of share options and assumptions**

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

## 31. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(cont'd)*

### (c) Fair value of share options and assumptions *(cont'd)*

*Fair value of share options and assumptions*

| | **2006** |
|---|---|
| Fair value at measurement date | **HK$0.21** |
| Share price | **HK$0.90** |
| Exercise price | **HK$0.89** |
| Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model) | **41%** |
| Option life (expressed as weighted average life used in the modeling under binomial lattice model) | **3 years** |
| Expected dividends | **3.42%** |
| Risk-free interest rate (based on Exchange Fund Notes) | **4.65%** |

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumption could materially affect the fair value estimate.

## 32. TAX PAYABLE

| | **The Group** | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Hong Kong Profit Tax/overseas income tax | | |
| At 1 January | **20,897** | 19,915 |
| Exchange adjustment | **696** | 477 |
| Provision for the year | | |
| – Hong Kong profit tax | **511** | 156 |
| – Overseas income tax | **30,636** | 20,947 |
| | **31,147** | 21,103 |
| Under-provision in prior years | | |
| – Overseas income tax | **888** | – |
| Tax paid | | |
| – Hong Kong profit tax | **(714)** | – |
| – Overseas income tax | **(21,771)** | (20,598) |
| | **(22,485)** | (20,598) |
| At 31 December | **31,143** | 20,897 |

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 33. DEFERRED TAXATION

### (a) Deferred tax assets and liabilities recognised:

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

| Deferred tax arising from: | Revaluation of investment property | Depreciation in excess of the related depreciation allowances | Provisions | Others | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2005 (restated) | (21) | 2,207 | 2,717 | (104) | 4,799 |
| Exchange adjustment | 1 | – | – | – | 1 |
| (Charged)/credited to the consolidated income statement | (306) | 615 | – | – | 309 |
| At 31 December 2005 (restated) | (326) | 2,822 | 2,717 | (104) | 5,109 |
| At 1 January 2006 | (326) | 2,822 | 2,717 | (104) | 5,109 |
| (Charged)/credited to the consolidated income statement | – | 1,816 | – | – | 1,816 |
| At 31 December 2006 | (326) | 4,638 | 2,717 | (104) | 6,925 |

### (c) Deferred tax assets/liabilities not recognised

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$184,841,000 (2005: HK$149,590,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

There are no material deferred tax liabilities not recognised.

## 34. SHARE CAPITAL

### (a) Authorised and issued share capital

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | No. of shares '000 | HK$'000 | No. of shares '000 | HK$'000 |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.10 each | **2,000,000** | **200,000** | 2,000,000 | 200,000 |
| **Ordinary shares, issued and fully paid:** | | | | |
| At 1 January | **935,193** | **93,519** | 905,077 | 90,508 |
| Share issued under conversion | | | | |
| Exercise of warrants | **6,917** | **692** | – | – |
| Exercise of share options | **104,469** | **10,447** | 36,320 | 3,632 |
| Shares repurchased | **–** | **–** | (6,204) | (621) |
| At 31 December | **1,046,579** | **104,658** | 935,193 | 93,519 |

### (b) Exercise of warrants

During the year, warrants were exercised to subscribe for 6,917,000 (2005: Nil) ordinary shares in the Company at a consideration of HK$6,681,000 of which HK$692,000 was credited to share capital and the balance of HK$5,989,000 was credited to the share premium.

### (c) Exercise of share options

During the year, options were exercised to subscribe for 104,469,000 (2005: 36,320,000) ordinary shares in the Company at a consideration of HK$81,535,000 (2005: HK$22,881,000) of which HK$10,447,000 (2005: HK$3,632,000) was credited to share capital and the balance of HK$71,088,000 (2005: HK$19,249,000) was credited to the share premium.

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 34. SHARE CAPITAL *(cont'd)*

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

| **Exercise period** | **Exercise price** | **2006 Number '000** | 2005 Number '000 |
|---|---|---|---|
| 8 January 2003 to 7 January 2006 | HK$1.23 | **–** | 6,380 |
| 9 June 2003 to 8 June 2006 | HK$1.15 | **–** | 10,378 |
| 7 June 2004 to 6 June 2007 | HK$0.63 | **180** | 12,180 |
| 13 June 2005 to 12 June 2008 | HK$0.80 | **1,040** | 93,509 |
| 20 June 2006 to 19 June 2008 | HK$0.89 | **101,937** | – |
| | | **103,157** | 122,447 |

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 31 to the financial statements.

## 35. RESERVES

### (a) The Group

| | Note | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share premium | Capital reserve | Share-based compensation reserve | Revaluation reserve on investment property | Revaluation reserve on land and buildings | Statutory reserve | Exchange fluctuation reserve | Fair value reserve | Retained profits | Total | Minority interests | Total reserve |
| | | HK$'000 | HK$'000 (note i) | HK$'000 (note ii) | HK$'000 | HK$'000 | HK$'000 (note iii) | HK$'000 (note iv) | HK$'000 (note v) | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2005 | | | | | | | | | | | | | |
| – as previously stated | | 675,037 | 900 | – | 116 | 15,009 | – | 212 | – | 428,350 | 1,119,624 | 7,806 | 1,127,430 |
| – prior period adjustment in respect of: | | | | | | | | | | | | | |
| – HKAS 17 | | – | – | – | – | (15,009) | – | 874 | – | – | (14,135) | – | (14,135) |
| – HKAS 40 | | – | – | – | (116) | – | – | – | – | 116 | – | – | – |
| As restated before opening balance adjustments | | 675,037 | 900 | – | – | – | – | 1,086 | – | 428,466 | 1,105,489 | 7,806 | 1,113,295 |
| Opening balance adjustment in respect of HKAS39 | | – | – | – | – | – | – | – | 97,196 | – | 97,196 | – | 97,196 |
| As restated after opening balance adjustments | | 675,037 | 900 | – | – | – | – | 1,086 | 97,196 | 428,466 | 1,202,685 | 7,806 | 1,210,491 |
| Purchase of own shares: | | | | | | | | | | | | | |
| – par value paid | | – | – | – | – | – | – | – | – | – | – | – | – |
| – premium paid | | (3,382) | – | – | – | – | – | – | – | – | (3,382) | – | (3,382) |
| Exercise of share options | 34(c) | 19,249 | – | – | – | – | – | – | – | – | 19,249 | – | 19,249 |
| Transfer to statutory reserve | | – | – | – | – | – | 18,694 | – | – | (18,694) | – | – | – |
| Equity settled share-based transactions | | – | – | 17,086 | – | – | – | – | – | – | 17,086 | – | 17,086 |
| 2004 final dividend paid | 12(b) | – | – | – | – | – | – | – | – | (18,692) | (18,692) | – | (18,692) |
| Exchange difference on translation of financial statements of overseas subsidiaries | | – | – | – | – | – | – | 2,878 | – | – | 2,878 | (1) | 2,877 |
| Available-for-sale securities: | | | | | | | | | | | | | |
| – changes in fair value | | – | – | – | – | – | – | – | (4,756) | – | (4,756) | – | (4,756) |
| – transfer to profit or loss on disposal | | – | – | – | – | – | – | – | (92,440) | – | (92,440) | – | (92,440) |
| Profit for the year | | – | – | – | – | – | – | – | – | 223,305 | 223,305 | 26,047 | 249,352 |
| At 31 December 2005 and 1 January 2006 | | 690,904 | 900 | 17,086 | – | – | 18,694 | 3,964 | – | 614,385 | 1,345,933 | 33,852 | 1,379,785 |
| Exercise of warrants | 34(b) | 5,989 | – | – | – | – | – | – | – | – | 5,989 | – | 5,989 |
| Equity-settled share based transactions | | – | – | 11,135 | – | – | – | – | – | – | 11,135 | – | 11,135 |
| Exercise of share options | 34(c) | 87,984 | – | (16,896) | – | – | – | – | – | – | 71,088 | – | 71,088 |
| Dividend paid to a minority shareholder | | – | – | – | – | – | – | – | – | – | – | (100,000) | (100,000) |
| 2005 final dividend paid | 12(b) | – | – | – | – | – | – | – | – | (20,396) | (20,396) | – | (20,396) |
| Exchange difference on translation of financial statements of overseas subsidiaries | | – | – | – | – | – | – | 18,461 | – | – | 18,461 | – | 18,461 |
| Profit for the year | | – | – | – | – | – | – | – | – | 197,039 | 197,039 | 74,102 | 271,141 |
| At 31 December 2006 | | 784,877 | 900 | 11,325 | – | – | 18,694 | 22,425 | – | 791,028 | 1,629,249 | 7,954 | 1,637,203 |

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 35. RESERVES *(cont'd)*

### (b) The Company

| | Note | Share premium HK$'000 | Capital reserve HK$'000 (note i) | Share-based compensation reserve HK$'000 (note ii) | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2005 | | 675,037 | 89,247 | – | 19,989 | 784,273 |
| Purchase of own shares: | | | | | | |
| – par value paid | | – | – | – | – | – |
| – premium paid | | (3,382) | – | – | – | (3,382) |
| Exercise of share options | 34(c) | 19,249 | – | – | – | 19,249 |
| Equity settled share–based transactions | | – | – | 17,086 | – | 17,086 |
| 2004 final dividend paid | 12(b) | – | – | – | (18,692) | (18,692) |
| Profit for the year | 11 | – | – | – | 85,697 | 85,697 |
| At 31 December 2005 | | 690,904 | 89,247 | 17,086 | 86,994 | 884,231 |
| At 1 January 2006 | | 690,904 | 89,247 | 17,086 | 86,994 | 884,231 |
| Exercise of warrants | 34(b) | 5,989 | – | – | – | 5,989 |
| Equity settled share–based transactions | | – | – | 11,135 | – | 11,135 |
| Exercise of share options | 34(c) | 87,984 | – | (16,896) | – | 71,088 |
| 2005 final dividend paid | 12(b) | – | – | – | (20,396) | (20,396) |
| Loss for the year | 11 | – | – | – | (29,987) | (29,987) |
| At 31 December 2006 | | 784,877 | 89,247 | 11,325 | 36,611 | 922,060 |

## 35. RESERVES *(cont'd)*

### (b) The Company *(cont'd)*

*Notes*

*(i)* *Capital reserve*

The capital reserve of the Group represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired pursuant to the group reorganisation carried on 28 November 2000, over the nominal value of the share capital of the Company issued in exchange therefore.

The capital reserve of the Company arose as a result of the same group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

*(ii)* *Share-based compensation reserve*

The fair value of the actual or estimated number of unexercised in accordance with the accounting policy adopted for share based payments in note 2(o)(ii).

*(iii)* *Statutory reserve*

Subsidiaries of the Group in the PRC, which are wholly owned-foreign enterprises, follow the accounting principles and relevant financial regulations of the PRC applicable to wholly owned-foreign enterprises ("PRC GAAP-WFOE"), in the preparation of its accounting records and financial statements. Pursuant to the accounting regulations for business enterprises (企業會計制度財會(2000) 25號), the subsidiaries are required to appropriate 10% of the profit arrived at in accordance with PRC GAAP-WFOE for each year to a statutory reserve. The profit arrived at must be used initially to set off against any accumulated losses. The appropriations to statutory reserve, after offsetting against any accumulated losses, must be made before the distribution of dividends to shareholders. The appropriation is required until the statutory reserve reaches 50% of the registered capital. This statutory reserve is not distributable in the form of cash dividends, but may be used to set off losses or be converted into paid-in capital.

*(iv)* *Exchange fluctuation reserve*

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with the accounting policy set out in note 2(s).

*(v)* *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 in note 2(d).

## 35. RESERVES *(cont'd)*

### (b) The Company *(cont'd)*

*Notes (cont'd)*

(vi) *Distributability of reserves*

Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium and capital reserve are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business.

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$1,026,718,000 (2005: HK$977,750,000). After the balance sheet date the directors proposed a final dividend of HK$0.03 (2005: HK$0.02) per ordinary share, amounting to HK$31,397,000 (2005: HK$19,257,000), subject to the restrictions stated above. The dividend has not been recognised as a liability at the balance sheet date.

## 36. FINANCIAL INSTRUMENTS

The Group's financial assets include cash and cash equivalents, trade and other receivables and trading securities. The Group's financial liabilities include bank borrowings, trade and other payables.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

### (a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### (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 parent company's board. 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 short and longer term.

## 36. FINANCIAL INSTRUMENTS *(cont'd)*

### (c) Interest rate risk

The Group's exposure to changes in interest rates relates primarily to the group's cash and cash equivalents, bank deposits and bank loans. The Group does not use financial derivatives to hedge against the interest rate risk.

### (d) Foreign currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The Group's transactional currencies are Renminbi and Hong Kong dollars as substantially all the turnover are within Hong Kong and other parts in the PRC. With the natural hedging of the revenue and costs being denominated in Renminbi and Hong Kong dollars, the Group's transactional foreign exchange exposure was insignificant.

### (e) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2005 and 2006.

*(i) Cash and cash equivalents, trade and other receivables, trade and other payables (current portion).*

The carrying values approximate their fair values because of the short maturities of these items.

*(ii) Bank loans*

The carrying amount of bank loans approximates their fair value based on the borrowing rates currently available for bank loan with similar terms and maturities.

*(iii) Amounts due from/to subsidiaries*

It is not practical to estimate the fair values of the amounts due to the related party nature of these instruments.

### (f) Economic risk

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the Government of the People's Republic of China ("PRC Government") has been pursuing economic reform policies for the past years, no assurance can be given that the PRC Government will continue to pursue such policies or that such policies may not be significantly altered.

### (g) Business risk

A substantial portion of the Group's operations is conducted in the PRC. This includes risks associated with, among others, the political, economic and legal environment in the PRC.

# Notes to the Financial Statements



## 37. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into the following non-cash transactions:

(a) The Group executed it right to settle a loan receivable amounting to HK$10,000,000 (2005: HK$Nil) by accepting a transfer 10,000,000 ordinary shares of Uni-Bio Science Group at HK$1.60 per share.

(b) The Group executed the shares swap on 18 December 2006 with intention to dispose the shares in Uni-Bio in the near future and transferred as listed equity securities under trading securities in note 23. Details of the arrangement of the shares swap are described in note 22.

## 38. COMMITMENTS

**(a)** Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Contracted for: | | |
| – Intangible assets | **168** | 161 |
| – Plant and equipment | **128,372** | 134,146 |
| – Construction in progress | **79,620** | 7,341 |
| | **208,160** | 141,648 |

**(b)** At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases in respect of office properties are payable as follows:

| | The Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Within 1 year | **4,131** | 5,115 |
| After 1 year but within 5 years | **400** | 4,865 |
| After 5 years | **–** | 3,773 |
| | **4,531** | 13,753 |

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

## 39. 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 financial statements, the HKICPA has issued a number of amendments, new HKFRSs, HKASs and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in the financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new HKFRSs, HKASs and 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 financial statements:

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures[1] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK (IFRIC) – INT 7 | Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economics[3] |
| HK (IFRIC) – INT 8 | Scope of HKFRS2[4] |
| HK (IFRIC) – INT 9 | Reassessment of Embedded Derivative[5] |
| HK (IFRIC) – INT 10 | Interim Financial Reporting and Impairment[6] |
| HK (IFRIC) – INT 11 | HKFRS2 – Group and Treasury Share Transactions[7] |
| HK (IFRIC) – INT 12 | Service Concession Arrangements[8] |

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 May 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

# Notes to the Financial Statements

For the Year Ended 31 December 2006

## 40. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balance disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) During the year ended 31 December 2005, J. Chan, Yip, So & Partners, an associate of Mr. Yip Wai Leung, Jerry, who resigned as an Independent Non-executive Director of the Company, rendered services to the Group in return for professional fee of approximately HK$ 328,000. During the year, there was no such transaction.

(b) During the year ended 31 December 2003, Dongguan Proamine had purchased certain sewage treatment equipment from Shanghai Jindi Bio-Technology Engineering Co., Ltd. ("Shanghai JD") at a total contract sum of approximately HK$1,757,000. The remaining balance of approximately HK$527,000 was fully repaid during the year ended 31 December 2005. During the year, there was no such purchase or payment. Shanghai JD was a subsidiary of Bio-Treat Technology Limited ("Bio-Treat") in which the Group disposed of all of 4.9% equity interest during the year ended 31 December 2005.

(c) During the year ended 31 December 2005, the group sold biotechnology products totaling approximately HK$6,939,000 to 北京博康健基因科技有限公司 ("北京博康健"), a wholly owned subsidiary of Bio-Tech Pharm Group Limited ("Bio-Tech Pharm"), in which the Group had an equity interest of 4.5%. The trade receivable due from 北京博康健 as at 31 December 2005 was approximately HK$3,410,000. The balance was unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers. There were no such sales during the year and no such trade receivable as at 31 December 2006.

(d) During the year ended 31 December 2005, the Group sold biotechnology products totalling approximately HK$7,489,000 to 深圳華生元基因工程發展有限公司 ("深圳華生元"). 深圳華生元 is another wholly owned subsidiary of Bio-Tech Pharm. The trade receivable due from 深圳華生元 as at 31 December 2005 was approximately HK$1,184,000. The balance was unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers. There were no such sales during the year and no such trade receivables as at 31 December 2006.

(e) On 30 June 2002, the Group entered into a tenancy agreement with Golden Idea Bio-Engineering (Dongguan) Co., Ltd. ("Dongguan GI"), a wholly owned subsidiary of Bio-Treat in which the Group disposed of all of 4.9% equity interest during the year ended 31 December 2005. The Group leases its investment properties located in the PRC to Dongguan GI. Rental income recognised during the year amounted to approximately HK$1,680,000 (2005: HK$1,680,000). At 31 December 2006, the balance due from Dongguan GI was HK$ Nil (2005: HK$1,680,000), unsecured, interest-free and repayable on demand.

## 40. MATERIAL RELATED PARTY TRANSACTIONS *(cont'd)*

(f) On 1 January 2004, the Group entered into an agreement for royalty fee and advertising subsidy with Cristal Marketing Management Limited ("Cristal"), a minority shareholder of the Group. During the year, Cristal paid the Group with a royalty fee of approximately HK$446,000 (2005: HK$1,706,000), being 28% of net income generated from services rendered to the customers and any other income incidental to the sales of cosmetics products or services rendered to the customers in the flagshop stores. On the other hand, the Group sold cosmetics products totalling approximately HK$7,815,000 (2005: HK$8,868,000) to Cristal under normal commercial terms.

## 41. CONTINGENT LIABILITIES

At the balance sheet date, the Company has issued corporate guarantees for banks in respect of banking facilities totalling HK$20,000,000 (2005: HK$235,000,000) granted to its subsidiaries.

## 42. POST BALANCE SHEET EVENTS

After the balance sheet date, one of the Group's subsidiaries entered into an acquisition agreement with Cristal Marketing Management Company Limited. It is an agreement to acquire 17% of the entire issued share capital of Global Cosmetics (HK) Company Limited. As a result, the total shareholding held by the Group increased to 87%. For details of the acquisition, please refer to the Company's announcement dated on 2 January 2007.

## 43. COMPARATIVE FIGURES

Certain comparative figures have been re-classified in conformity to the current year's presentation.