1. GENERAL INFORMATION

China Assets (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is principally engaged in the investment holding in Hong Kong and the Mainland China.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated accounts of China Assets (Holdings) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

The adoption of new/revised HKFRS/HKAS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS/HKAS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS/HKAS *(Continued)*

HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation — Special Purpose Entities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 7, 8, 10, 21, 24, 27, 28, 33 and 36 and HKAS-Int 12, did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of share of net after-tax results of associates and other disclosures.
— HKASs 7, 8, 10, 27, 28, 33 and 36 and HKAS-Int 12 had no material effect on the Group's policies.
— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity accounts.
— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. In prior years, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st January 2005, the Group expenses the cost of share options in the profit and loss account.

The adoption of HKFRS 3 has resulted in a change in the accounting policy for negative goodwill. Until 31st December 2004, negative goodwill arising on acquisition, prior to the adoption of Statement of Standard Accounting Practice ("SSAP") No. 30 "Business combinations" in 2001, was credited to the capital reserve in the year of acquisition. In accordance with the transitional provisions of HKFRS 3, the carrying amount of negative goodwill retained in the capital reserve is derecognised as at 1st January 2005, with a corresponding adjustment to the opening balance of retained earnings.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS/HKAS *(Continued)*

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations;
— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.
— HKFRS 2 — only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and
— HKFRS 3 — prospectively after 1st January 2005.

The adoption of HKAS 39 has resulted in an increase in opening reserve of the Company's balance sheet at 1st January 2005 by US$10,025,095, but has no impact on the opening consolidated reserves at 1st January 2005. Details of the adjustments to the balance sheet at 31st December 2005 are as follows:

	Group 2005 US$	Company 2005 US$
Increase in available-for-sale financial assets	**19,619,298**	**19,619,298**
Decrease in non-current investments	**(19,619,298)**	**(9,594,203)**
Increase in investment revaluation reserve	**—**	**10,025,095**
Increase in financial assets at fair value through profit or loss	**30,538,646**	**439,521**
Decrease in other investments	**(30,538,646)**	**(439,521)**

There was no impact on basic and diluted earnings per share from the adoption of HKAS 39.

There was no impact on opening retained earnings at 1st January 2004 from the adoption of HKFRS 2. As a transitional provision, cost of share options granted after 7th November 2002 and vested before 1st January 2005 was not expensed retrospectively in the profit and loss account because the Group has taken advantage of the transitional provision set out in HKFRS 2.

The adoption of HKFRS 3 has resulted in a decrease in opening capital reserve by US$8,700,342 and an increase in opening retained earnings by the same amount at 1st January 2005.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of new/revised HKFRS/HKAS *(Continued)*

The opening adjustments relating to the adoption of new HKFRS/HKAS by an associate, First Shanghai Investments Limited ("FSIL"), have resulted in an increase in investments in associates and capital reserve at 1st January 2005 by US$189,429 and US$882,178, respectively and a decrease in retained earnings at 1st January 2005 by US$692,749.

Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these accounts, the Group has not early adopted the following new standards or interpretations or amendments which have been issued but are not yet effective. The adoption of these new HKFRS/HKAS is not expected to result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 and HKFRS 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instrument: Disclosures
HKFRS-Int 4	Determining whether an Arrangement Contains A Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HKFRS (IFRIC) — Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HKFRS (IFRIC) — Int 7	Financial Reporting in Hyperinflationary economies

(b) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st December.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Consolidation *(Continued)*

(ii) Associates (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

(c) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of available-for-sale financial assets/investments, financial assets at fair value through profit or loss/other investments, receivables and operating cash. Segment liabilities comprise operating liabilities.

In respect of geographical segment reporting, turnover is based on the country in which the income is received or receivable. Total assets and capital expenditure are where the assets are located.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in United States dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(ii) Transactions and balances *(Continued)*

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit and loss account, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale are included in the investment revaluation reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Financial assets

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries and associates, as non-current investments and other investments.

(i) Non-current investments

Investments are stated at cost less provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of these investments will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

From 1st January 2005 onwards:

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "loan receivables" and "other receivables and prepayments" in the balance sheet *(Note 2(h))*.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial assets *(Continued)*

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising, from changes in the fair value of the "financial assets at fair value through profit or loss" category including interest and dividend income, are presented in the profit and loss account within "other gains-net" in the period in which they arise. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the profit and loss account as "gains and losses from investment securities". Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The fair value of quoted investments is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on equity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account — is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Employee benefit

(i) Pension obligations

The Group operates a defined contribution plan which is generally funded through payments to an insurance company. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to privately administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Loan receivables/other receivables

Loan receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loan receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(j) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(k) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Deferred income tax *(Continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Provisions

Provisions are recognised when the Group and the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expenses.

(m) Revenue recognition

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(n) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the accountant under the guidance approved by the Board of Directors. The Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides guidance for overall risk management, covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, and investment of excess liquidity.

(i) Market risk

(1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(2) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that money lending transactions are made to borrowers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any borrower.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Financial risk factors *(Continued)*

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping sufficient cash and marketable securities.

(iv) Cash flow and fair value interest rate risk

Except for the loan receivables which carry floating interest rate, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, non-floating shares in PRC investment) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for non-floating shares in PRC investment with reference to the shares compensation proposal of the investee's equity reform scheme.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of financial instruments

Fair value of financial instruments that are not traded in an active market is determined by using valuation techniques as detailed in note 3(b). The Group uses its judgement to select from a variety of methods and make assumptions that are mainly based on market conditions existing at balance sheet date.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Estimated impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 when determining whether a significant or prolonged decline in the fair value of an investment classified as available-for-sale financial assets is an indicator of impairment other than temporary. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of this investment is less than its cost; and the expected time span the Group will hold this investment. In addition, the Group assesses the annual and semi-annual operating results of the investment. Based on the Group's estimation, no impairment provision has been made on available-for-sale financial assets. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss account and carrying value of investment revaluation reserve in the period in which such determination is made.

(c) Estimated impairment of loan receivables

Provision for impairment of loan receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. In determining whether any of the loan receivables is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered. Based on the Group's estimation, no impairment provision has been made on loan receivables. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss account and carrying value of loan receivables in the period in which such determination is made.

5. INVESTMENT MANAGEMENT FEE

Pursuant to a Management Agreement dated 28th March 1991 and subsequently amended on 8th April 1992, China Assets Investment Management Limited ("CAIML") *(Note 24(a)(i))* is entitled to receive from the Company a management fee calculated at the following rates:

(i) 2.75% per annum on the aggregate cost to the Company of the investments (less any provisions in respect thereof) held by it from time to time; and

(ii) 1% per annum on the value of uninvested net assets, representing net asset value of the Company less the aggregate cost of investments made by the Company.

Management fee paid to CAIML for the year ended 31st December 2005 amounted to US$1,264,301 (2004: US$1,026,795).

CAIML is also entitled to receive a performance bonus based on a specified formula as defined in the Management Agreement. No performance bonus had been paid for the year ended 31st December 2005 (2004: nil).

5. INVESTMENT MANAGEMENT FEE *(Continued)*

On 11th October 2004, the Company entered into a supplemental agreement ("Supplemental Agreement") with CAIML to fix the terms of the Management Agreement so that the Management Agreement, together with the Supplemental Agreement ("Amended Management Agreement") will continue until 31st December 2006, and shall be renewed for further terms of 2 years each provided that the requirements of the Listing Rules are complied with before renewal.

6. TURNOVER AND SEGMENT INFORMATION

The principal activity of the Company is investment holding in Hong Kong and the Mainland China. Revenues recognised during the year are as follows:

	2005	2004
	US$	*US$*
Turnover		
Bank interest income	**318,883**	471,468
Other interest income	**150,438**	—
Dividend income from listed investments	**787**	—
Dividend income from unlisted investments	**—**	463,226
	470,108	934,694

Primary reporting format — business segments

The principal activity of the Company is investment holding carried out in Hong Kong and the Mainland China with its associates/investee companies operating in three main business segments during the year:

- Investments holding;
- Manufacturing and distribution of pharmaceutical products; and
- Property holding.

There are no sales or other transactions between the business segments.

Secondary reporting format — geographical segments

The Group's three business segments mainly operate in two main geographical areas:

- Hong Kong — investment holding; and
- Mainland China — manufacturing and distribution of pharmaceutical products and property holding.

There are no sales between the geographical segments.

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Primary reporting format — business segments

An analysis of the Group's revenue and results for the year by business segments is as follows:

	2005					
	Investment holding *US$*	Manufacturing and distribution of pharmaceutical products *US$*	Manufacturing and distribution of steel products *US$*	Property holding *US$*	Others *US$*	Total *US$*
Segment revenue	470,108	—	—	—	—	470,108
Segment results	470,108	—	—	—	—	470,108
Unallocated income						254,833
Unallocated expenses*						(2,042,268)
Gain on disposal of investment in an associate	28,580	—	—	—	—	28,580
Gain on disposal of financial assets at fair value through profit or loss	3,032,826	—	—	—	—	3,032,826
Unrealised fair value gain of financial assets at fair value through profit or loss	6,410,446	—	—	—	—	6,410,446
Operating profit						8,154,525
Share of profits of associates	1,084,906	—	—	4,777,433	—	5,862,339
Income tax expenses	(144,293)	—	—	—	—	(144,293)
Profit attributable to equity holders						13,872,571
Segment assets	57,697,008	15,931,833	—	—	—	73,628,841
Investments in associates	30,747,464	—	—	18,673,250	(304,564)	49,116,150
Total assets						122,744,991
Segment liabilities	314,113	—	—	—	—	314,113
Unallocated liabilities						104,747
Total liabilities						418,860

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Primary reporting format — business segments *(Continued)*

	2004					
	Investment holding US$ (Restated)	Manufacturing and distribution of pharmaceutical products US$	Manufacturing and distribution of steel products US$	Property holding US$	Others US$	Total US$ (Restated)
Segment revenue	934,694	—	—	—	—	934,694
Segment results	934,694	—	—	—	—	934,694
Unallocated income						71,773
Unallocated expenses*						(1,804,195)
Gain on disposal of listed other investments	3,250,241	—	—	—	—	3,250,241
Unrealised gain on listed other investments	29,083,151	—	—	—	—	29,083,151
Impairment loss of an unlisted investment	(9,774,112)	—	—	—	—	(9,774,112)
Operating profit						21,761,552
Share of profits/(losses) of associates	643,535	—	(293,393)	—	—	350,142
Income tax expenses	(52,669)	—	—	—	—	(52,669)
Profit attributable to equity holders						22,059,025
Segment assets	64,634,105	19,619,298	—	—	—	84,253,403
Investments in associates	29,171,375	—	199,405	—	(304,899)	29,065,881
Total assets						113,319,284
Segment liabilities	149,368	—	—	—	—	149,368
Unallocated liabilities						94,639
Total liabilities						244,007

There is no capital expenditure for the year (2004: nil).

* Included in this balance is the management fee of US$1,264,301 (2004: US$1,026,795) paid to a related company *(Note 5)*.

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments

		2005	
	Turnover	Segment results	Total assets
	US$	*US$*	*US$*
Hong Kong	157,926	157,926	10,880,621
Mainland China	312,182	312,182	62,748,220
	470,108	470,108	73,628,841
Unallocated income		254,833	
Unallocated expenses*		(2,042,268)	
Gain on disposal of investment in an associate		28,580	
Gain on disposal of financial assets at fair value through profit or loss		3,032,826	
Unrealised fair value gain on financial assets at fair value through profit or loss		6,410,446	
Operating profit		8,154,525	
Share of profits of associates		5,862,339	
Income tax expenses		(144,293)	
Profit attributable to equity holders		13,872,571	
Investments in associates			49,116,150
Total assets			122,744,991

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Secondary reporting format — geographical segments *(Continued)*

	2004		
	Turnover *US$* (Restated)	Segment results *US$* (Restated)	Total assets *US$*
Hong Kong	155,574	155,574	15,012,804
Mainland China	779,120	779,120	69,240,599
	934,694	934,694	84,253,403
Unallocated income		71,773	
Unallocated expenses*		(1,804,195)	
Gain on disposal of listed other investments		3,250,241	
Unrealised gain on listed other investments		29,083,151	
Impairment loss of an unlisted investment		(9,774,112)	
Operating profit		21,761,552	
Share of profits of associates		350,142	
Income tax expenses		(52,669)	
Profit attributable to equity holders		22,059,025	
Investments in associates			29,065,881
Total assets			113,319,284

There is no capital expenditure for the year (2004: nil).

* Included in this balance is the management fee of US$1,264,301 (2004: US$1,026,795) paid to a related company *(Note 5)*.

7. OTHER GAINS — NET

	2005 US$	2004 US$ (Restated)
Gain on disposal of investment in an associate	**28,580**	—
Gain on disposal of financial assets at fair value through profit or loss #	**3,032,826**	—
Gain on disposal of listed other investments #	**—**	3,250,241
Unrealised fair value gain on financial assets at fair value through profit or loss #	**6,410,446**	—
Unrealised gain on listed other investments #	**—**	29,083,151
Net exchange gain	**254,756**	63,281
Impairment loss of an unlisted investment	**—**	(9,774,112)
Others	**77**	8,492
	9,726,685	22,631,053

At 1st January 2005, "Other investments" were designated as "Financial assets at fair value through profit or loss" upon adoption of HKAS 39. Accordingly, "Gain on disposal of listed other investments" and "Unrealised gain on listed other investments" in 2004 was classified as "Gain on disposal of financial assets at fair value through profit or loss" and "Unrealised fair value gain on financial assets at fair value through profit or loss", respectively.

8. ADMINISTRATIVE EXPENSES

Expenses included in administrative expenses are analysed as follows:

	2005 US$	2004 US$ (Restated)
Write-off of receivable	**—**	400,000
Employee benefit expenses (including directors' remuneration) *(Note 9)*	**125,078**	89,130
Auditors' remuneration	**109,418**	99,820

9. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' REMUNERATION)

	2005	2004
	US$	*US$*
		(Restated)
Wages and salaries	**124,194**	88,504
Pension costs — defined contribution plan	**884**	626
	125,078	89,130

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2005 and 2004 is set out below:

	2005	2004
	HK$	*HK$*
Directors' fees:		
Executive directors		
Lao Yuan Yi	**60,000**	27,000
Wang Jun Yan	**60,000**	27,000
Lao Yuan Yuan	**60,000**	—
Non-executive directors		
Jiang Wei	**60,000**	27,000
Yeung Wai Kin	**101,000**	68,000
Zhao Yu Qiao	**60,000**	27,000
Independent non-executive directors		
Peter Duncan Neil Robertson	**147,000**	147,000
Fan Jia Yan	**147,000**	147,000
Wu Ming Yu	**121,000**	121,000
	816,000	591,000
Equivalent to US$	**105,221**	75,990

9. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' REMUNERATION) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: nil) individual during the year are as follows:

	2005	2004
	US$	*US$*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**18,973**	—
Pension costs — defined contribution plan	**884**	—
	19,857	—

The emoluments payable to the remaining employee in 2005 fell within the band of HK$nil to HK$1,000,000.

10. INCOME TAX EXPENSES

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2005	2004
	US$	*US$*
		(Restated)
Current taxation:		
— Hong Kong profits tax	**119,863**	10,535
— Overseas taxation	**32,670**	43,837
	152,533	54,372
Prior year overprovision		
— Hong Kong profits tax	**(8,240)**	(1,703)
Income tax expenses	**144,293**	52,669

10. INCOME TAX EXPENSES *(Continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2005	2004
	US$	*US$*
		(Restated)
Profit before taxation	**14,016,864**	22,111,694
Less: share of profits of associates	**(5,862,339)**	(350,142)
	8,154,525	21,761,552
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**1,427,042**	3,808,272
Effect of different taxation rates in other countries	**5,446**	(40,084)
Over-provision in prior year	**(8,240)**	(1,703)
Income not subject to taxation	**(1,732,755)**	(5,822,861)
Expenses not deductible	**452,800**	2,109,045
Income tax expenses	**144,293**	52,669

There was no material unprovided deferred taxation for the year (2004: nil).

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders is dealt with in the accounts of the Company to the extent of US$10,406,906 (2004: US$2,671,615).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of US$13,872,571 (2004: US$22,059,025) and the weighted average number of 74,391,667 (2004: 74,383,160) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders for the year of US$13,872,571 (2004: US$22,059,025). The weighted average number of 75,735,546 (2004: 74,551,714) ordinary shares used in the calculation is the sum of weighted average number of 74,391,667 (2004: 74,383,160) ordinary shares in issue during the year as used in the basic earning per share calculation and the weighted average number of 1,343,879 (2004: 168,554) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	US$	*US$*
Unlisted shares, at cost *(Note (b))*	**140,111**	140,071
Amounts due from subsidiaries *(Note (a))*	**33,806,497**	21,194,731
Less: provision for doubtful debts	**(623,962)**	(623,962)
	33,182,535	20,570,769
	33,322,646	20,710,840

(a) The amounts due from subsidiaries are unsecured, interest-free have no fixed repayment terms.

(b) The following is a list of subsidiaries held directly by the Company at 31st December 2005:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held	
				2005	2004
Ablewell Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	—
Balance Target Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Capital Structure Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Direct Investment Enterprises Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Essential Choice Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Global Lead Technology Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%

13. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(b) *(Continued)*

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held 2005	Interest held 2004
Happy Care Investment Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	—
Ruby Power Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Sino Manufacturing Limited	British Virgin Islands	Dormant	1 share of US$1 each	**100%**	100%
Truly Partner Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	—
Winner Strength Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	—
Wonderful Effort Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Scientific China Investments Limited	Hong Kong	Dormant	2 shares of HK$1 each	**100%**	100%
Zhong Guan Business Consultancy (Shanghai) Co. Ltd.	People's Republic of China	Dormant	Registered capital of US$140,000	**100%**	100%

Note: The subsidiaries operate principally in their places of incorporation.

14. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	US$	*US$*	***US$***	*US$*
Share of net assets other than goodwill	**49,420,714**	29,370,780	**—**	—
Shares listed in Hong Kong, at cost	**—**	—	**13,802,288**	13,802,288
Unlisted investments, at cost	**—**	—	**627**	627
Convertible loan stock	**—**	—	**735,000**	735,000
	49,420,714	29,370,780	**14,537,915**	14,537,915
Provision for impairment losses	**—**	—	**(735,627)**	(735,627)
	49,420,714	29,370,780	**13,802,288**	13,802,288
Amounts due from associates	**508,338**	508,338	**508,338**	508,338
Amount due to associates	**(304,564)**	(304,899)	**(304,564)**	(304,899)
	203,774	203,439	**203,774**	203,439
Provision for doubtful debts	**(508,338)**	(508,338)	**(508,338)**	(508,338)
	(304,564)	(304,899)	**(304,564)**	(304,899)
	49,116,150	29,065,881	**13,497,724**	13,497,389
Investments at cost:				
Shares listed in Hong Kong	**13,802,288**	13,802,288		
Unlisted investments	**16,702,877**	4,885,675		
Convertible loan stock	**735,000**	735,000		
	31,240,165	19,422,963		
Provision for impairment losses	**(3,937,627)**	(5,161,589)		
	27,302,538	14,261,374		
Market value of listed shares in Hong Kong	**17,926,217**	23,620,599	**17,926,217**	23,620,599

14. INVESTMENTS IN ASSOCIATES *(Continued)*

(a) The following is a list of associates held directly/indirectly by the Company at 31st December 2005:

Name	Place of incorporation	Principal activities	Interest held 2005	Interest held 2004
FSIL *(see Note (i) below)*	Hong Kong	Investment holding	**21.00%**	21.15%
CITIC Capital China Property Investment Fund, L.P. *(see Note (ii) below)*	Cayman Islands	Investment holding	**30.00% ***	—
CITIC Capital China Property Partners, Ltd. *(see Note (ii) below)*	Cayman Islands	Provision for management services	**25.00% ***	—
Dezhou Zhenhua Glass Co., Ltd. *(see Note (iii) below)*	People's Republic of China	Production and sale of glass products	**30.00% ***	30.00% *
Hong Kong Strong Profit Limited *(See Note (iv) below)*	Hong Kong	Investment in a joint venture for the production of man-made fabrics	**49.00%**	49.00%

* Held indirectly by the Company

Notes:

(i) FSIL is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK$236,405,961 (2004: HK$234,738,341).

(ii) On 13th January 2005, the Company signed a letter with CITIC Capital China Property Partners, Ltd., the general partner of the CITIC Capital China Property Investment Fund, L.P. (the "Fund") in respect of its proposed capital commitment up to US$13.5 million in the Fund as a limited partner. The objective of the Fund is to achieve long term capital appreciation by developing a portfolio primarily of investments in real estate and related investments in the People's Republic of China. On 17th February 2005, the Company entered into the subscription agreement with CITIC Capital China Property Partners, Ltd. for and on behalf of the Fund, pursuant to which the Company agreed, to contribute up to US$13.5 million in the Fund as a limited partner.

(iii) Dezhou Zhenhua Glass Co., Ltd. is a joint venture between a Company's subsidiary and Shandong Dezhou Zhenhua Glass Factory. The joint venture is for a period of 30 years from May 1994. The registered and paid-up capital of the joint venture is US$10,673,300, of which the Group contributed US$3,202,000 for its 30% share. Full provision for impairment losses was made against this investment in prior years.

14. INVESTMENTS IN ASSOCIATES *(Continued)*

(a) *(Continued)*

(iv) Hong Kong Strong Profit Limited ("HKSP") is in the negotiation of a proposed liquidation. Full provision for impairment losses was made against the investment in HKSP in prior years.

All the above investments are regarded by the directors as associates as the Group can exercise significant influence over these investments.

(b) Additional information in respect of the Group's major associates is given as follows:

FSIL	**2005** ***US$'000***	2004 *US$'000* (Restated)
Profit and loss account		
Turnover	**161,817**	75,585
Profit after taxation	**9,843**	10,409
Group's share of profit after taxation	**1,126**	643
Balance sheet		
Non-current assets	**101,516**	137,827
Current assets	**146,606**	69,081
Current liabilities	**(54,539)**	(28,300)
Non-current liabilities	**(11,321)**	(85)
Minority interest	**(9,321)**	(11,161)
Net assets	**172,941**	167,362
Group's share of net assets	**30,747**	29,171

14. INVESTMENTS IN ASSOCIATES *(Continued)*

(b) *(Continued)*

The Fund	2005
	US$'000
Profit and loss account	
Turnover	5,717
Profit after taxation	15,924
Group's share of profit after taxation	4,777
Balance sheet	
Non-current assets	111,266
Current assets	4,631
Current liabilities	(8,207)
Non-current liabilities	(44,914)
Net assets	62,776
Group's share of net assets	18,673

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENTS

	Group	Company
	2005	2005
	US$	*US$*
Designated from non-current investments on 1st January 2005	19,619,298	9,594,203
Opening adjustment for fair value gain upon adoption of HKAS 39 on 1st January 2005	—	10,025,095
Beginning of the year	19,619,298	19,619,298
Additions	6,085,749	—
Fair value losses transfer to investment revaluation reserve *(Note 21)*	(6,155,079)	(3,687,465)
End of the year	19,549,968	15,931,833

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENTS *(Continued)*

Available-for-sale financial assets include the following:

	Note	Group 2005 *US$*	Company 2005 *US$*
Listed equity securities		**3,618,135**	**—**
Unlisted equity securities	*(a)*	**15,931,833**	**15,931,833**
		19,549,968	**15,931,833**
Market value of listed securities		**3,618,135**	**—**

(a) At 31st December 2005, the carrying amount of interests in the following company exceeded 10% of total assets of the Company and the Group.

Name	**Place of incorporation**	**Principal activities**	**Particulars of issued share capital held**	**Interest held 2005**	**Interest held 2004**
Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")	People's Republic of China	Manufacture and sale of pharmaceutical products	63,658,870 foreign legal person shares	**15.46%**	15.46%

At 1st January 2005, "Investments" classified as non-current assets were designated as "Available-for-sale financial assets" upon adoption of HKAS 39. Details of non-current investments as at 31st December 2004 were disclosed as follows:

	Group 2004 *US$*	Company 2004 *US$*
Unlisted investment, at cost	29,393,410	9,594,203
Provision for impairment loss	(9,774,112)	—
	19,619,298	9,594,203

As at 31st December 2004, the directors considered that there was an impairment in this investment in Lukang as a result of substantial loss incurred by Lukang and the provision of US$9,774,112 was based on the best estimate of the directors, taking into account all available information.

16. LOAN RECEIVABLES

The maturity of loan receivable is as follows:

	Group		Company	
	2005	2004	**2005**	2004
	US$	*US$*	***US$***	*US$*
Within one year	**6,603,481**	—	**2,477,854**	—

	Group		Company	
	2005	2004	**2005**	2004
Effective interest rate on loan receivable	**5.22% - 8.75%**	—	**8.75%**	—

17. OTHER RECEIVABLES AND PREPAYMENTS

Included in other receivables and prepayments as at 31st December 2004 were consideration receivables in respect of disposals of investments in prior years. During 2005, these considerations were fully recovered. At 31st December 2004, these considerations were receivable as follows:

	Group		Company	
	2005	2004	**2005**	2004
	US$	*US$*	***US$***	*US$*
Within one year	**—**	257,516	**—**	—

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	Company
	2005	**2005**
	US$	***US$***
Listed securities:		
— Equity securities — Hong Kong	**192,962**	**192,962**
— Equity securities — US	**27,748,600**	**—**
Market value of listed securities	**27,941,562**	**192,962**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

As at 31st December 2005, the above financial assets are classified as held for trading. Changes in fair values of these financial assets are recorded in "Other gains — net" in the profit and loss account *(Note 7)*.

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement *(Note 22)*.

At 1st January 2005, "Other investments" classified as current assets were designated as "Financial assets at fair value through profit or loss" upon adoption of HKAS 39. Details of other investments as at 31st December 2004 were disclosed as follows:

	Group 2004 *US$*	Company 2004 *US$*
Listed shares at market value		
Hong Kong	439,521	439,521
Overseas	30,099,125	—
	30,538,646	439,521

19. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 **US$**	2004 *US$*	**2005** **US$**	2004 *US$*
Cash at bank and in hand	**3,366,291**	2,071,632	**237,438**	2,046,561
Short-term bank deposits	**12,527,465**	31,423,671	**9,864,110**	12,315,374
	15,893,756	33,495,303	**10,101,548**	14,361,935

Included in the cash and cash equivalents of the Group are Renminbi deposits and cash in Mainland China of US$5,572,933 (2004: US$19,133,368). Renminbi is not a freely convertible currency.

20. SHARE CAPITAL AND SHARE PREMIUM

	Group and Company	
	2005	2004
	US$	*US$*
Authorised:		
160,000,000 shares of US$0.10 each	**16,000,000**	16,000,000

	Number of shares of US$0.10 each	Ordinary shares	Share premium	Total
		US$	*US$* (Note 21)	*US$*
Issued and fully paid:				
At 1st January 2004 and at 31st December 2004	74,383,160	7,438,316	68,445,344	75,883,660
Shares issued under employee share option scheme	15,000	1,500	3,615	5,115
At 31st December 2005	74,398,160	7,439,816	68,448,959	75,888,775

Share options

Share options were granted to certain directors of the company and employees of CAIML as incentives and rewards for their contribution to the Group. Each share option entitles the holder to subscribe for one share in the capital of the Company at an exercise price of HK$2.65 per share, which was higher than the market price of the shares on the date of the grant. The options are exercisable at any time from 25th May 2004 to 23rd May 2014.

During the year, 15,000 (2004: Nil) share options were exercised to subscribe for 15,000 (2004: Nil) shares in the Company at a consideration of HK$2.65 per share, of which US$0.10 per share was credited to share capital and the balance was credited to the share premium account. The related weighted average share price at the time of exercise was HK$4.20 per share. At the balance sheet date, the Company has outstanding options with an aggregate subscription value of HK$10,030,000 (2004: HK$10,070,000). The exercisable in full of the options would, under the present capital structure of the Company, result in the issue of 3,785,000 (2004: 3,800,000) additional shares.

20. SHARE CAPITAL AND SHARE PREMIUM *(Continued)*

Share options *(Continued)*

	2005		2004	
	Average exercise price in HK$ per share	**Options *(thousands)***	Average exercise price in HK$ per share	Options *(thousands)*
At 1st January	**2.65**	**3,800**	—	—
Granted	**—**	**—**	2.65	3,850
Exercised	**2.65**	**(15)**	—	—
Lapsed	**—**	**—**	2.65	(50)
At 31st December	**2.65**	**3,785**	2.65	3,800

On 23rd March 2006, 365,000 share options were exercised to subscribe for 365,000 shares in the Company at a consideration of HK$2.65 per share, of which US$0.10 per share was credited to share capital and the balance was credited to the share premium account.

21. RESERVES

Group

	Share premium US$ (Note 20)	Capital reserve US$ (Note a)	Investment revaluation reserve US$	Retained earnings US$	Total US$
Balance at 1st January 2004	68,445,344	7,849,636	—	7,323,757	83,618,737
Profit attributable to equity holders	—	—	—	22,059,025	22,059,025
Exchange difference arising on translation of associates	—	(41,920)	—	—	(41,920)
Exchange difference arising on translation of a subsidiary	—	1,119	—	—	1,119
Balance at 31st December 2004	68,445,344	7,808,835	—	29,382,782	105,636,961
Company and subsidiaries	68,445,344	8,035,251	—	2,218,522	78,699,117
Associates	—	(226,416)	—	27,164,260	26,937,844
	68,445,344	7,808,835	—	29,382,782	105,636,961

21. RESERVES *(Continued)*

Group *(Continued)*

	Share premium US$ (Note 20)	Capital reserve US$ (Note a)	Investment revaluation reserve US$	Retained earnings US$	Total US$
Balance at 1st January 2005, as previously reported	68,445,344	7,808,835	—	29,382,782	105,636,961
Opening adjustment in respect of changes of accounting policies of an associate *(Note 2(a))*	—	882,178	—	(692,749)	189,429
Derecognised negative goodwill against retained earnings *(Note a)*	—	(8,700,342)	—	8,700,342	—
Balance at 1st January 2005, as restated	68,445,344	(9,329)	—	37,390,375	105,826,390
Shares issued under employee share option scheme	3,615	—	—	—	3,615
Profit attributable to equity holders	—	—	—	13,872,571	13,872,571
Fair value losses of available-for-sale financial assets	—	—	(6,155,079)	—	(6,155,079)
Share of post-acquisition reserves of associates	—	891,197	—	—	891,197
Release of exchange differences upon disposal of investment in an associate to consolidated profit and loss account	—	355,725	—	—	355,725
Exchange difference arising on translation of associates	—	84,365	—	—	84,365
Exchange difference arising on translation of a subsidiary	—	7,531	—	—	7,531
Balance at 31st December 2005	68,448,959	1,329,489	(6,155,079)	51,262,946	114,886,315
Company and subsidiaries	68,448,959	(657,560)	(6,155,079)	18,929,096	80,565,416
Associates	—	1,987,049	—	32,333,850	34,320,899
	68,448,959	1,329,489	(6,155,079)	51,262,946	114,886,315

21. RESERVES *(Continued)*

(a) In prior years, capital reserve includes negative goodwill arising on acquisitions of associates by the Group, exchange differences on translation of the accounts of associates and share of post acquisition reserves of associates. Upon the adoption of HKFRS 3, negative goodwill was derecognised against retained earnings as at 1st January 2005.

Company

	Share premium US$ (Note 20)	Investment revaluation reserve US$	Accumulated losses US$	Total US$
Balance at 1st January 2004	68,445,344	—	(20,098,047)	48,347,297
Profit attributable to equity holders	—	—	2,671,615	2,671,615
Balance at 31st December 2004	68,445,344	—	(17,426,432)	51,018,912
Balance at 1st January 2005, as previously reported	68,445,344	—	(17,426,432)	51,018,912
Opening adjustment for fair value gain of available-for-sale financial assets upon adoption of HKAS 39 *(Note 2(a))*	—	10,025,095	—	10,025,095
Balance at 1st January 2005, as restated	68,445,344	10,025,095	(17,426,432)	61,044,007
Shares issued under employee share option scheme	3,615	—	—	3,615
Profit attributable to equity holders	—	—	10,406,906	10,406,906
Fair value loss of available-for-sale financial assets	—	(3,687,465)	—	(3,687,465)
At 31st December 2005	68,448,959	6,337,630	(7,019,526)	67,767,063

22. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005	2004
	US$	*US$*
Operating profit	**8,154,525**	21,761,552
Bank interest income	**(318,883)**	(471,468)
Other interest income	**(150,438)**	—
Dividend income from listed investments	**(787)**	—
Dividend income from unlisted investment	**—**	(463,226)
Gain on disposal of investment in an associate	**(28,580)**	—
Gain on disposal of financial assets at fair value through profit or loss	**(3,032,826)**	—
Gain on disposal of listed other investments	**—**	(3,250,241)
Unrealised fair value gain on financial assets at fair value through profit or loss	**(6,410,446)**	—
Unrealised gain on listed other investments	**—**	(29,083,151)
Write off of receivable	**—**	400,000
Impairment loss of an unlisted investment	**—**	9,774,112
Operating losses before working capital changes	**(1,787,435)**	(1,332,422)
Increase in loan receivables	**(6,603,481)**	—
(Increase)/decrease in other receivables and prepayments	**(3,058,412)**	1,534,877
Decrease in financial assets at fair value through profit or loss	**12,040,356**	—
Increase in net amount due from a related company	**(699)**	—
Decrease in net amount due to related companies	**—**	(206)
Decrease in amounts due from associates	**—**	42,910
Decrease in amount due to associates	**(335)**	—
Increase/(decrease) in accounts payable	**58,595**	(20,110)
Increase in accrued expenses	**10,108**	1,819
Net cash inflow from operation	**658,697**	226,868

23. CAPITAL COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005	2004
	US$	*US$*
Available-for-sale financial assets — contracted but not provided for	**5,575,172**	—

The Group's share of capital commitments of associates not included in the above are as follows:

	2005	2004
	US$	*US$*
Contracted but not provided for	**315,635**	1,288,205
Authorised but not contracted for	**4,675,302**	—

The Company did not have any other material commitments at 31st December 2005 (2004: nil).

24. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of business are as follow:

(a) Management fee paid/payable to:

		2005	2004
	Note	***US$***	*US$*
CAIML	*(i)*	**1,264,301**	1,026,795
CITIC Capital China Property Partners, Ltd.	*(ii)*	**50,625**	—

Notes:

(i) CAIML is an associate of FSIL, an associate of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Wang Jun Yan, an executive director of the Company, and Mr. Yeung Wai Kin, a non-executive director of the Company, are also the directors of CAIML. Mr. Wang and Mr. Yeung are the shareholders (effective from 30th December 2005) of CAIML. Mr. Lao and Mr. Yeung are the directors of FSIL.

(ii) CITIC Capital China Property Partners, Ltd is an associate of the Company.

24. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management compensation

	2005	2004
	US$	*US$*
Salaries and other short-term employee benefits	**124,194**	88,504
Pension costs — defined contribution plan	**884**	626
	125,078	89,130

(c) As at 31st December 2005, management fee paid to CAIML in advance amounted to US$626 (2004: payable of US$73). The balance was unsecured and interest-free.

25. APPROVAL OF ACCOUNTS

These consolidated accounts have been approved for issue by the Board of Directors on 21st April 2006.