NOTES TO FINANCIAL STATEMENTS

31 December, 2005

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September, 2000. On approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the main board on 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Room 4109, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of biopharmaceutical products for the medical treatment of ophthalmic diseases and a series of modernised Chinese medicines and chemical medicines for the treatment of hepatitis; and the investment in sino-foreign equity joint ventures, whose principal activities are the manufacture, distribution and sale of pharmaceutical products.

In September 2005, the Group disposed of its wholly-owned subsidiary, Sino Concept Technology Limited and its subsidiaries, hence the Group's manufacture, distribution and sale of biopharmaceutical medicine products activities were ceased upon the disposal.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for periodic remeasurement of buildings as further explained in note 15. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December, 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 27, 33, 36, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January, 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January, 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In the prior years, land and buildings held for own use were stated at valuation.

Upon the adoption of HKAS 17, the Group's leasehold interests in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

Under the new accounting policy adopted by the Group, prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. This change in the Group's accounting policy is retrospectively applied and the comparative amounts for the year ended 31 December, 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land to prepaid land lease premium. The effect on the Group's financial statements is summarised in note 2.4.

(b) HKAS 31 – Interest in Joint Ventures

Under HKAS 31, the Group's interests in a jointly-controlled entity can be stated in the consolidated balance sheet by using the proportionate consolidation method for the Group's share of assets, liabilities, income and expenses of a jointly-controlled entity on a line by line basis in the financial statements of the Group. The Group can also adopt equity accounting method for its share of profit and net assets in the jointly-controlled entity, as adopted in the prior years.

With the adoption from 1 January, 2005 by the Group for the proportionate consolidation method as allowed by HKAS 31 "Interest in Joint Ventures", the presentation of the comparative amount as at 31 December, 2004 in the financial statements have been restated. The impact on adoption of the proportionate consolidation method on the Group's financial statements is summarised in note 2.4.

(c) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In the prior years, the Group classified its investments in equity securities, which were held for non-trading purposes, as long term investments, and were stated at cost less any impairment losses.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(c) HKAS 32 and HKAS 39 – Financial Instruments (Cont'd)

(i) Equity securities (Cont'd)

Upon the adoption of HKAS 32 and HKAS 39, these securities are classified as available-for-sale investment. After initial recognition, available-for-sale investment is measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit or loss account. When the fair value of unlisted equity securities cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment, or (ii) the probabilities of the various estimated within the range cannot be reasonably assessed and used in estimating the fair value, such securities are stated at cost.

There is no impact on the Group's overall financial statements as investments in equity security have continued to be stated at cost less impairment losses. See note 2.4 for the impact on the Group's financial statements.

(ii) Convertible bonds

In the prior years, convertible bonds were stated at amortised cost. Upon the adoption of HKAS 39, convertible bonds are bifurcated into a debt component and an embedded derivative component. The effects of the above changes are summarised in note 2.4 to the financial statements.

(d) HKFRS 2 – Share-based Payment

In the prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November, 2002; and (ii) options granted to employees after 7 November, 2002 but which had vested before 1 January, 2005.

As disclosed in note 31, the Group did not have any share options which were granted during the period from 7 November, 2002 to 31 December, 2004 but had not yet vested as at 1 January, 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December, 2003 and at 31 December, 2004.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(d) HKFRS 2 – Share-based Payment (Cont'd)

Due to the adoption of the above transitional provisions and the full exercise of share options during the year, there is no impact on the Group's income statement for the current year nor retained profits as at 31 December, 2005.

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In the prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January, 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January, 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January, 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained profits remains eliminated against the retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(f) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

The Group has applied HKFRS 5 prospectively in accordance with the transitional provisions of HKFRS 5, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Under the previous SSAP 33 "Discontinuing Operations", the Group would recognise a discontinued operation at the earlier of:

- the date the Group entered into a binding sale agreement; and
- the date the board of directors had approved and announced a formal disposal plan.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(f) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations (Cont'd)

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The principal impact of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than it would be under SSAP 33 due to the stricter criteria in HKFRS 5.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January, 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	The Fair Value Option
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January, 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January, 2005

Effect of new policies (Increase/(decrease))	Effect of adopting: HKAS 17# Prepaid land lease payments	Effect of adopting: HKAS 31# Proportionate consolidation of a jointly-controlled entity	Effect of adopting: HKASs 32# and 39* Change in classification of available-for-sale equity investments	Effect of adopting: HKAS 39* Convertible bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment	(29,036)	38,937	–	–	9,901
Prepaid land lease payments	24,717	–	–	–	24,717
Goodwill	–	39,889	–	–	39,889
Interests in a jointly-controlled entity	–	(124,164)	–	–	(124,164)
Inventories	–	2,045	–	–	2,045
Trade receivables	–	8,266	–	–	8,266
Available-for-sale equity investments	–	–	29,820	–	29,820
Long term investments	–	–	(29,820)	–	(29,820)
Prepayments, deposits and other receivables	1,059	1,398	–	–	2,457
Due from a related company	–	871	–	–	871
Cash and cash equivalents	–	68,270	–	–	68,270
					32,252
Liabilities/equity					
Trade payables	–	199	–	–	199
Other payables and accruals	–	30,838	–	–	30,838
Tax payable	–	4,462	–	–	4,462
Deferred tax liabilities	(489)	–	–	–	(489)
Due to a related company	–	13	–	–	13
Debt component of convertible bonds	–	–	–	(3,380)	(3,380)
Embedded derivative component of convertible bonds	–	–	–	53,065	53,065
Asset revaluation reserve	(1,523)	–	–	–	(1,523)
Retained profits	–	–	–	(49,685)	(49,685)
Minority interests	(1,248)	–	–	–	(1,248)
					32,252

* Adjustments taken effect prospectively from 1 January, 2005

\# Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(a) Effect on the consolidated balance sheet (Cont'd)

At 31 December, 2005

	Effect of adopting					
Effect of new policies (Increase/(decrease))	HKAS 17# Prepaid land lease payments HK$'000	HKAS 31# Proportionate consolidation of a jointly-controlled entity HK$'000	HKASs 32# and 39* Change in classification of available-for-sale equity investments HK$'000	HKAS 39* Convertible bonds HK$'000	HKFRS 3* Discon-tinuation of amortisation of goodwill HK$'000	Total HK$'000
Assets						
Property, plant and equipment	(10,952)	44,889	–	–	–	33,937
Prepaid land lease payments	7,438	–	–	–	–	7,438
Goodwill	–	35,427	–	–	5,388	40,815
Interests in a jointly-controlled entity	–	(124,273)	–	–	–	(124,273)
Due from holding company	–	961	–	–	–	961
Inventories	–	4,138	–	–	–	4,138
Trade receivables	–	9,103	–	–	–	9,103
Available-for-sale equity investments	–	–	29,820	–	–	29,820
Long term investments	–	–	(29,820)	–	–	(29,820)
Prepayments, deposits and other receivables	254	1,617	–	–	–	1,871
Due from a related company	–	1,094	–	–	–	1,094
Cash and cash equivalents	–	72,886	–	–	–	72,886
						47,970
Liabilities/equity						
Trade payables	–	261	–	–	–	261
Other payables and accruals	–	43,131	–	–	–	43,131
Tax payable	–	2,450	–	–	–	2,450
Deferred tax liabilities	(489)	–	–	–	–	(489)
Share premium account	–	–	–	116,322	–	116,322
Asset revaluation reserve	(1,523)	–	–	–	–	(1,523)
Retained profits	–	–	–	(116,322)	5,388	(110,934)
Minority interests	(1,248)	–	–	–	–	(1,248)
						47,970

* Adjustments taken effect prospectively from 1 January, 2005

Adjustments/presentation taken effect retrospectively

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(b) Effect on the balances of equity at 1 January, 2004 and at 1 January, 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payments	Effect of adopting HKAS 31 Proportionate consolidation of a jointly-controlled entity	Effect of adopting HKAS 39 Convertible bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1 January, 2004				
Asset revaluation reserve	(1,446)	–	–	(1,446)
Minority interests	(1,174)	–	–	(1,174)
	(2,620)	–	–	(2,620)
1 January, 2005				
Asset revaluation reserve	**(1,523)**	**–**	**–**	**(1,523)**
Reserve funds	**–**	**342**	**–**	**342**
Exchange fluctuation reserve	**–**	**130**	**–**	**130**
Retained profits	**–**	**(472)**	**(49,685)**	**(50,157)**
Minority interests	**(1,248)**	**–**	**–**	**(1,248)**
	(2,771)	**–**	**(49,685)**	**(52,456)**

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(c) Effect on the consolidated income statement for the years ended 31 December, 2005 and 2004

	Effect of adopting			
Effect of new policies (Increase/(decrease))	**HKAS 31 Proportionate consolidation of a jointly-controlled entity** *HK$'000*	**HKAS 39 Convertible bonds** *HK$'000*	**HKFRS 3 Discon-tinuation of amortisation of goodwill** *HK$'000*	**Total** *HK$'000*
Year ended 31 December, 2005				
Increase in sales	**112,742**	**–**	**–**	**112,742**
Increase in cost of sales	**(12,021)**	**–**	**–**	**(12,021)**
Increase in other income and gains	**1,182**	**–**	**–**	**1,182**
Increase in selling and distribution costs	**(27,298)**	**–**	**–**	**(27,298)**
Increase in administrative expenses	**(12,529)**	**–**	**(5,388)**	**(17,917)**
Increase in other expenses	**(1,876)**	**–**	**–**	**(1,876)**
Increase in finance costs	**(1,788)**	**(322)**	**–**	**(2,110)**
Increase in fair value adjustment	**–**	**(66,315)**	**–**	**(66,315)**
Decrease in share of profits of a jointly-controlled entity	**(58,412)**	**–**	**–**	**(58,412)**
Total increase/(decrease) in profit	**–**	**(66,637)**	**(5,388)**	**(72,025)**
Increase/(decrease) in basic earnings per share	**–**	**HK(3) cents**	**HK(0.27) cents**	**–**
Increase/(decrease) in diluted earnings per share	**–**	**–**	**–**	**–**
Year ended 31 December, 2004				
Increase in sales	98,074	–	–	98,074
Increase in cost of sales	(8,439)	–	–	(8,439)
Increase in other income and gains	890	–	–	890
Increase in selling and distribution costs	(22,549)	–	–	(22,549)
Increase in administrative expenses	(9,675)	–	–	(9,675)
Increase in other expenses	(1,731)	–	–	(1,731)
Increase in finance costs	(1,585)	–	–	(1,585)
Decrease in share of profits of a jointly-controlled entity	(54,985)	–	–	(54,985)
Total increase in profit	–	–	–	–
Increase/(decrease) in basic earnings per share	–	–	–	–
Increase/(decrease) in diluted earnings per share	–	–	–	–

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January, 2005
Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets (Cont'd)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in the prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4% – 5%
Leasehold improvements	5% – 20%
Plant and machinery	5% – 9%
Motor vehicles	9% – 18%
Furniture and fixtures	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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31 December, 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Applicable to the year ended 31 December, 2004:

The Group classified its equity investments, other than subsidiaries and jointly-controlled entities, as long term investments.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis.

Unlisted securities are stated at cost less any impairment losses, on an individual basis. An impairment loss is recognised only if the carrying amount exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments and other financial assets

Applicable to the year ended 31 December, 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of financial assets (applicable to the year ended 31 December, 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition of financial assets (applicable to the year ended 31 December, 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Convertible bonds

Convertible bonds are bifurcated into a debt component and an embedded derivative component.

The debt component is initially recognised at fair value, determined by discounting the future contractual cash flows at the prevailing market interest rate for a similar non-convertible borrowing. The debt component is subsequently measured at amortised cost using the effective interest rate method until extinguished on conversion or redemption.

The embedded derivative is initially recognised at fair value determined with reference to the net proceeds from the issuance of the convertible bonds and the fair value of debt component at initial recognition. The embedded derivative is subsequently measured at fair value with reference to the market value of the share price of the Company, after taking into account the fair value of the debt component. Changes in fair value of the embedded derivative component in the convertible bonds are charged/credited to the income statement, net of income tax effects, for the period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition of financial liabilities (applicable to the year ended 31 December, 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits (Cont'd)

Share-based payment transactions (Cont'd)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November, 2002 that had not vested on 1 January, 2005 and to those granted on or after 1 January, 2005.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20-23% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding share options.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs (Cont'd)

All other borrowing costs are recognised as expenses when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries in which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries level. The Group considers that the deferred tax assets are recognised to the extent that it is probable that subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary differences. The carrying amount of deferred tax assets at 31 December, 2005 was HK$3,647,000 (2004: HK$7,964,000). More details are given in note 29.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December, 2005 was HK$41,948,000 (2004: HK$41,900,000). More details are given in note 17.

Presentation of convertible bonds

Convertible bonds of the Group are presented into the debt component and the embedded derivative component of the convertible bonds upon the adoption of HKAS 39 in the current year. This requires an initial recognition of the debt component and the embedded derivative at fair value.

The debt component at fair value is determined by discounting the future contractual cash flows at the prevailing market interest rate for a similar non-convertible borrowing. The debt component is subsequently measured at amortised cost using the effective interest rate method until the extinguished on conversion or redemption. The embedded derivative initially recognised at fair value is determined with reference to the net proceeds from the issuance of the convertible bonds and the fair value of debt component at initial recognition. The embedded derivative is subsequently measured at fair value with reference to the market value of the share price of the Company, after taking into account the fair value of the debt component. The carrying amount of convertible bonds at 31 December, 2005 was nil (2004: HK$42,900,000). More details are given in note 28.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's customers and operations are based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. During the year, the directors reviewed the segment information disclosures, and information on biopharmaceutical, modernised Chinese and chemical medicines were further analysed.

Summary details of the business segments are as follows:

(a) the biopharmaceutical medicines segment comprises the manufacture, sale and distribution of the biopharmaceutical medicine products;

(b) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of the modernised Chinese medicine products; and chemical medicine products; and

(c) the investment segment is engaged in long term investment.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

4. SEGMENT INFORMATION (Cont'd)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December, 2005 and 2004.

Year ended 31 December, 2005	Continuing operations: Modernised Chinese medicines and chemical medicines HK$'000	Continuing operations: Investment HK$'000	Continuing operations: Others HK$'000	Continuing operations: Eliminations HK$'000	Continuing operations: Total HK$'000	Discontinued operation: Biopharma-ceutical medicines HK$'000	Consolidated HK$'000
Segment revenue:							
Sales to external customers	744,378	–	4,175	–	748,553	479,838	1,228,391
Dividend income	–	7,520	–	–	7,520	–	7,520
Total	744,378	7,520	4,175	–	756,073	479,838	1,235,911
Segment results	190,963	7,686	(896)	–	197,753	173,650	371,403
Interest and unallocated gains					28,599	4,431	33,030
Unallocated expenses					(44,797)	–	(44,797)
Fair value adjustment to embedded derivative of convertible bonds					(66,315)	–	(66,315)
Finance costs					(2,729)	(732)	(3,461)
Profit before tax					112,511	177,349	289,860
Tax					(18,311)	(25,136)	(43,447)
Profit for the year					94,200	152,213	246,413
Assets and liabilities							
Segment assets	551,947	1,579,514	5,114	–	2,136,575	–	2,136,575
Other unallocated assets					3,647	–	3,647
Total assets					2,140,222	–	2,140,222
Segment liabilities	145,981	8,398	1,049	–	155,428	–	155,428
Other unallocated liabilities					9,550	–	9,550
Total liabilities					164,978	–	164,978
Other segment information:							
Depreciation and amortisation	19,011	1,185	672	–	20,868	10,838	31,706
Capital expenditure	34,439	322	1,385	–	36,146	41,160	77,306
Other non-cash expenses	2,166	2	–	–	2,168	145	2,313

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

4. SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Year ended 31 December, 2004	Continuing operations					Discontinued operation	
	Modernised Chinese medicines and chemical medicines	Investment	Others	Eliminations	Total	Biopharma-ceutical medicines	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:							
Sales to external customers	653,569	–	–	–	653,569	484,161	1,137,730
Dividend income	–	10,727	–	–	10,727	–	10,727
Total	653,569	10,727	–	–	664,296	484,161	1,148,457
Segment results	172,524	4,030	–	–	176,554	162,786	339,340
Interest and unallocated gains					7,063	4,174	11,237
Unallocated expenses					(34,078)	–	(34,078)
Finance costs					(1,050)	(298)	(1,348)
Profit before tax					148,489	166,662	315,151
Tax					(15,407)	(14,533)	(29,940)
Profit for the year					133,082	152,129	285,211
Assets and liabilities							
Segment assets	478,794	137,914	2,595	–	619,303	328,742	948,045
Other unallocated assets					2,490	–	2,490
Elimination					4,987	(4,987)	–
Total assets					626,780	323,755	950,535
Segment liabilities	116,106	55,547	1,177	–	172,830	99,256	272,086
Other unallocated liabilities					10,659	–	10,659
Total liabilities					183,489	99,256	282,745
Other segment information:							
Depreciation and amortisation	18,926	1,142	280	–	20,348	12,735	33,083
Capital expenditure	47,524	1,231	227	–	48,982	55,218	104,200
Other non-cash expenses	1,754	–	–	–	1,754	456	2,210

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and dividend income from an unlisted investment.

An analysis of revenue, other income and gains is as follows:

	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
Revenue			
Sale of goods		**1,228,391**	1,137,730
Dividend income		**7,520**	10,727
		1,235,911	1,148,457
Attributable to continuing operations reported in the consolidated income statement		**756,073**	664,296
Attributable to a discontinued operation	*12*	**479,838**	484,161
		1,235,911	1,148,457
Other income			
Bank interest income		**21,358**	4,789
Government grants		**6,671**	1,226
Sale of scrap materials		**1,930**	1,078
Others		**2,867**	2,627
		32,826	9,720
Attributable to continuing operations		**28,395**	7,063
Attributable to a discontinued operation		**4,431**	2,657
		32,826	9,720
Gains			
Gain on disposal of property, plant and equipment		**204**	–
Gain on disposal of a subsidiary	*33*	**–**	805
Reversal of a revaluation deficit		**–**	712
		204	1,517
Attributable to continuing operations		**204**	–
Attributable to a discontinued operation		**–**	1,517
		204	1,517
Total other income and gains			
Attributable to continuing operations reported in the consolidated income statement		**28,599**	7,063
Attributable to a discontinued operation		**4,431**	4,174
		33,030	11,237

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging /(crediting):

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Attributable to continuing operations reported in the consolidated income statement:			
Cost of sales		**139,418**	133,613
Depreciation	*15 & 16*	**20,153**	14,649
Amortisation of intangible assets*	*18*	**715**	311
Research and development costs		**46,661**	30,896
		206,947	179,469
Goodwill:	*17*		
Amortisation for the year		**–**	5,388
		–	5,388
Minimum lease payments under operating leases:			
Land and buildings		**2,931**	5,111
		2,931	5,111
Auditors' remuneration		**937**	600
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**136,942**	87,349
Pension scheme contributions **		**17,370**	6,706
		154,312	94,055
Provision for bad and doubtful debts		**1,134**	732
Foreign exchange differences, net		**(1,164)**	(690)

6. PROFIT BEFORE TAX (Cont'd)

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Attributable to a discontinued operation:			
Cost of sales		**80,126**	61,589
Depreciation	*15 & 16*	**9,958**	11,723
Amortisation of intangible assets*	*18*	**880**	1,012
Research and development costs		**5,668**	6,392
		96,632	80,716
Minimum lease payments under operating leases:			
Land and buildings		**4,583**	5,997
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**41,396**	59,198
Pension scheme contributions **		**11,447**	7,402
		52,843	66,600
Provision for bad and doubtful debts		**–**	400
Foreign exchange differences, net		**(119)**	(188)

Notes:

* The amortisation of patents and licences and deferred development costs for the year are included in "Cost of sales" and "Other expenses" on the face of the consolidated income statement.

** During the year, certain of the subsidiaries in Mainland China were members of a pension contribution scheme managed by the respective local governments. Contributions made during the year were based on 20% – 23% (2004: 20% – 23%) of the employees' salaries and were charged to the consolidated income statement as they became payable.

For Hong Kong employees eligible for the MPF Scheme, the Group contributed 5% of the employees' salaries for the year ended 31 December, 2005 (2004: 5%).

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

7. a) FINANCE COSTS

		Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Interest on bank loans wholly repaid during the year		**2,996**	604
Interest on the debt component of convertible bonds	*28*	**465**	744
Total interest		**3,461**	1,348
Attributable to continuing operations reported in the consolidated income statement		**2,729**	1,050
Attributable to a discontinued operation	*12*	**732**	298
		3,461	1,348

b) FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT

This solely represented the changes in the fair value to the embedded derivative component of the convertible bonds, which is charged to the consolidated income statement for the current year as a result of the first year adoption of HKAS 39. As the adoption of HKAS 39 is applied prospectively from 1 January, 2005, the fair value of the embedded derivative component was determined by reference to the respective market value of the Company's share price as at 1 January, 2005 and the date of conversion of the convertible bonds on 13 April, 2005. The fair value adjustment to the embedded derivative of convertible bonds was one-off and non-cash in nature and the Company's convertible bonds were fully converted into the Company's shares by April 2005.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees	**288**	173
Other emoluments:		
Salaries, allowances and benefits in kind	**7,013**	3,138
Employee share option benefits	**–**	–
Pension scheme contributions	**74**	33
Discretionary bonuses	**10,897**	2,866
	17,984	6,037
	18,272	6,210

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005	2004
	HK$'000	*HK$'000*
Ms. Zheng Qun, Grace	**110**	108
Mr. Lu Zhengfei	**16**	–
Mr. Li Dakui	**65**	17
Ms. Li Jun	**97**	–
Mr. Hu Ximing	**–**	48
	288	173

Mr. Hu Ximing resigned as an independent non-executive director on 13 January, 2005.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. DIRECTORS' REMUNERATION (Cont'd)

(b) Executive directors and a non-executive director

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005						
Executive directors:						
Mr. Tse Ping	**–**	**3,000**	**5,000**	**–**	**12**	**8,012**
Mr. Tao Huiqi	**–**	**384**	**534**	**–**	**10**	**928**
Mr. Wang Jinyu	**–**	**276**	**–**	**–**	**12**	**288**
Mr. He Huiyu	**–**	**108**	**–**	**–**	**–**	**108**
Ms. Cheng Cheung Ling	**–**	**900**	**425**	**–**	**12**	**1,337**
Ms. Zhao Yanping	**–**	**600**	**4,300**	**–**	**16**	**4,916**
Mr. Tse Hsin	**–**	**845**	**638**	**–**	**12**	**1,495**
	–	**7,013**	**10,897**	**–**	**74**	**17,984**
Non-executive director:						
Ms. Josephine Price	**–**	**–**	**–**	**–**	**–**	**–**
	–	**7,013**	**10,897**	**–**	**74**	**17,984**
2004						
Executive directors:						
Mr. Tse Ping	–	2,520	2,300	–	12	4,832
Mr. Tao Huiqi	–	354	566	–	9	929
Mr. Wang Jinyu	–	264	–	–	12	276
	–	3,138	2,866	–	33	6,037
Non-executive director:						
Ms. Josephine Price	–	–	–	–	–	–
	–	3,138	2,866	–	33	6,037

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No share options were granted to the directors for the current and prior years in respect of their services to the Group.

During the year, all share options were exercised by the directors. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the Report of the Directors and note 31 to the financial statements.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2004: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four non-director, highest paid employees for the prior year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**–**	1,692
Employee share option benefits	**–**	–
Pension scheme contributions	**–**	42
Discretionary bonuses	**–**	3,022
	–	4,756

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
Nil to HK$1,500,000	**–**	4

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current – Mainland China income tax	**11,708**	10,464
Deferred tax *(note 29)*	**(1,152)**	(2,495)
	10,556	7,969
Tax attributable to a jointly-controlled entity	**7,755**	7,438
Total tax charge for the year	**18,311**	15,407

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10. TAX (Cont'd)

Pursuant to the Income Tax Law of Mainland China concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory corporate income tax rate of 33% (comprising 30% state income tax plus 3% local income tax) unless the enterprise is qualified as a "High and New Technology Enterprise" for which more favourable effective corporate income tax rates apply. The Group's principal operating subsidiaries qualify as "High and New Technology Enterprises" for which a preferential corporate income tax rate of 15% applies.

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), one of the Group's principal operating subsidiaries, is exempt from corporate income tax for the two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% exemption from the full corporate income tax rate for the succeeding three years (the "Tax Exemption"). The Tax Exemption expired on 31 December, 2002. As JCTT qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, JCTT is subject to a corporate income tax rate of 10% in 2005.

Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF"), another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. The Tax Exemption expired on 31 December, 2001. As CTF qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of the reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, CTF was subject to a corporate income tax rate of 10% since 2002. The preferential tax rate for "Advanced Technology Enterprise" expired on 31 December, 2004 and CTF is subject to a corporate income tax rate of 15% in 2005.

Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP"), another operating subsidiary of the Group is also entitled to the Tax Exemption. CTFP is entitled to the 50% exemption for its corporate income tax rate and therefore, CTFP's corporate income tax rate was 7.5% for the year ended 31 December, 2005. The Tax Exemption will expire on 31 December, 2006.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. NJCTT is entitled to the preferential corporate income tax rate of 15% as it is located in the Nanjing technology development area.

Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide"), a jointly-controlled entity of the Group, is also entitled to the Tax Exemption. Beijing Tide's statutory corporate income tax rate is 24%. As Beijing Tide is also entitled to 50% reduction for its corporate income tax, its corporate income tax rate was 12% for the year ended 31 December, 2004. The Tax Exemption expired on 31 December, 2004. As Beijing Tide qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, Beijing Tide is subject to a corporate income tax rate of 12% from 2005 to 2007.

10. TAX (Cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the country in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates is as follows:

Group

	2005
	HK$'000
Profit before tax (including profit from a discontinued operation)	**1,696,051**
Tax at the statutory tax rate of 33%	**559,697**
Less: Preferential tax rate reduction	**(305,289)**
Income not subject to tax	**(212,057)**
Expenses not deductible for tax	**32,481**
Tax losses of subsidiaries	**786**
Tax exemptions/deductions	**(32,171)**
Tax charge at the Group's effective rate	**43,447**
Tax charge attributable to a discontinued operation *(note 12)*	**(25,136)**
Tax charge attributable to continuing operations reported in the consolidated income statement	**18,311**

Group

	2004
	HK$'000
	(Restated)
Profit before tax (including profit from a discontinued operation)	315,151
Tax at the statutory tax rate of 33%	104,000
Less: Preferential tax rate reduction by 18%	(56,727)
Income not subject to tax	(1,609)
Expenses not deductible for tax	7,247
Tax losses of subsidiaries	6,441
Tax exemptions/deductions	(29,412)
Tax charge at the Group's effective rate	29,940
Tax charge attributable to a discontinued operation *(note 12)*	(14,533)
Tax charge attributable to continuing operations reported in the consolidated income statement	15,407

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December, 2005 dealt with in the financial statements of the Company, was HK$1,614,149,000 (after the fair value adjustment to embedded derivative of convertible bonds of HK$66,315,000 (note 7 (b)) (2004: HK$74,897,000) (note 32(b)).

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12. DISCONTINUED OPERATION

	2005	2004
	HK$'000	*HK$'000*
Profit of the year from a discontinued operation	**152,213**	152,129
Gain on disposal of subsidiaries	**1,406,191**	–
	1,558,404	152,129

On 2 July, 2005, the Company entered into the Sale and Purchase Agreement with Bausch & Lomb Incorporated ("Bausch & Lomb") in relation to the disposal of the Company's entire equity interests in Sino Concept Technology Limited ("Sino Concept"), the sole assets of which are the 55% equity interests in the registered capital of each of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP") (hereinafter referred to as the "Sino Concept group" or the "disposed subsidiaries") at a consideration of US$ 200,000,000 (equivalent to approximately HK$1,560 million). The Sino Concept group was principally engaged in the research, development, production and sale in Mainland China of a series of biopharmaceutical products for the medical treatment of ophthalmic conditions and osteoarthritis and for external use to treat skin diseases and is a separate business segment that is part of the Mainland China operation of the Group.

The directors considered that the disposal represents a good opportunity for the Company to realise its investment in Sino Concept group at a satisfactory price and are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the shareholders as a whole. The Group has decided to cease its manufacture, distribution and sales business although it is profit-making because the Group expects to explore appropriate investment opportunities in the future and additional general working capital for the Group and, if the directors so determine, finance the payment of any special dividend which may be declared. The disposal of the Sino Concept group was completed on 26 September, 2005. Details of the disposed subsidiaries were set out in the Company's announcement and circular dated on 6 July, 2005 and 26 July, 2005, respectively.

The results of the Sino Concept group is presented below:

	For the nine months ended 26 September 2005	For the year ended 31 December 2004
	HK$'000	*HK$'000*
Revenue	**479,838**	484,161
Expenses	**(301,757)**	(317,201)
Finance costs	**(732)**	(298)
Profit of the discontinued operation	**177,349**	166,662
Profit before tax from a discontinued operation	**177,349**	166,662
Tax related to pre-tax profit	**(25,136)**	(14,533)
Profit for the year from a discontinued operation	**152,213**	152,129

12. DISCONTINUED OPERATION (Cont'd)

Net assets of the disposed subsidiaries on the completion date were as follows:

	Notes	**2005** *HK$'000*
Net assets disposed of:		
Property, plant and equipment	*15*	**136,161**
Prepaid land lease payments	*16*	**18,124**
Other intangible assets	*18*	**17,329**
Deferred tax assets	*29*	**5,469**
Cash and cash equivalents		**45,090**
Inventories		**30,925**
Trade receivables		**94,528**
Due from a related party		**134**
Prepayments, deposits and other receivables		**38,175**
Trade payables		**(8,563)**
Other payables and accruals		**(129,763)**
Tax payable		**(5,948)**
Due to a related party		**(1,662)**
Deferred tax liabilities	29	**(255)**
Minority interests		**(106,226)**
		133,518
Expenses in relation to the disposal		**20,291**
Gain on disposal of subsidiaries		**1,406,191**
		1,560,000
Satisfied by:		
Cash consideration		**1,560,000**

An analysis of the net inflow of cash and cash equivalents in respect of the disposed subsidiaries is as follows:

	2005 *HK$'000*
Cash consideration	**1,560,000**
Cash and bank balances disposed of	**(45,090)**
Net inflow of cash and cash equivalents in respect of the disposed subsidiaries	**1,514,910**

12. DISCONTINUED OPERATION (Cont'd)

The net cash flows incurred by the disposed subsidiaries are as follows:

	2005	2004
	HK$'000	*HK$'000*
Operating activities	**119,933**	142,922
Investing activities	**(40,269)**	(53,705)
Financing activities	**(145,519)**	(68,544)
Net cash outflow/(inflow)	**(65,855)**	20,673
Earnings per share:		
Basic, from the discontinued operation	**HK67.46 cents**	HK4.17 cents
Diluted, from the discontinued operation	**HK67.46 cents**	HK3.83 cents

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2005	2004
		(Restated)
Net profit attributable to ordinary equity holders of the parent from the discontinued operation	**HK$1,490,285,000**	HK$83,442,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,209,126,245**	1,999,669,184
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,209,126,245**	2,178,364,926

13. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim – HK$0.05 (HK$0.0433 after consideration of bonus share issue) (2004: HK$0.04 (HK$0.0267 after consideration of bonus share issue)) per ordinary share		
– paid out from profit after tax	**73,207**	54,102
– paid out from contributed surplus	**30,186**	–
Special dividend – HK$0.05 (2004: nil) per ordinary share	**113,199**	–
Proposed final – HK$0.015 (2004: HK$0.04 (HK$0.0267 after consideration of bonus share issue)) per ordinary share	**33,959**	55,084
	250,551	109,186

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent for the year of HK$1,532,929,000 (2004: HK$168,485,000), and the weighted average number of 2,209,126,245 (2004: 1,999,669,184 as restated) ordinary shares in issue during the year, as adjusted to reflect the exercises of share options, bonus issues and conversion of convertible bonds during the year. Had the fair value adjustment of HK$66,315,000 to the embedded derivative of the convertible bonds been excluded from the net profit for the year attributable to ordinary equity holders of the parent, the basic earnings per share for the current year would have been HK72.39 cents.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, as applicable in 2004 (see below). The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the prior year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. Had the fair value adjustment of HK$66,315,000 to the embedded derivative of the convertible bonds been excluded from the net profit for the year attributable to ordinary equity holders of the parent, the diluted earnings per share for the current year would have been HK72.39 cents.

The calculations of basic and diluted earnings per share (after the fair value adjustment to embedded derivative of convertible bonds) are based on:

	2005 ***HK$'000***	2004 *HK$'000* (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation: (after the fair value adjustment to embedded derivative of convertible bonds as set out in note 7(b))		
From continuing operations (after fair value adjustment to embedded derivative of convertible bonds)	**42,644**	85,043
From a discontinued operation	**1,490,285**	83,442
	1,532,929	168,485
Interest on convertible bonds used in the diluted earnings per share calculation	**–**	354
Net profit attributable to ordinary equity holders of the parent after interest on convertible bonds	**1,532,929**	168,839
Attributable to:		
Continuing operations	**42,644**	85,397
Discontinued operation	**1,490,285**	83,442
	1,532,929	168,839

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Cont'd)

	Number of shares	
	2005	2004 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,209,126,245**	1,999,669,184
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	88,379,953
Convertible bonds	**–**	90,315,789
	2,209,126,245	2,178,364,926

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *HK$'000*	Land use rights *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Motor vehicles *HK$'000*	Furniture and fixtures *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December, 2005								
Cost or valuation:								
As previously reported	73,193	24,797	23,574	114,930	20,198	28,652	77,470	362,814
Adoption of HKAS 17	–	(29,036)	–	–	–	–	–	(29,036)
Adoption of HKAS 31	1,465	4,239	–	–	1,012	5,651	31,619	43,986
Restated at beginning of year	74,658	–	23,574	114,930	21,210	34,303	109,089	377,764
Additions	3,063	–	47	11,149	2,504	6,272	47,462	70,497
Surplus on revaluation	2,532	–	–	–	–	–	–	2,532
Disposal of a discontinued operation *(note 12)*	(45,466)	–	(12,950)	(92,236)	(6,351)	(11,801)	(14,530)	(183,334)
Disposals	(2,598)	–	–	(3,959)	(513)	(583)	–	(7,653)
Transfers	50,451	–	–	76,126	135	2,867	(129,579)	–
Exchange realignment	1,862	–	334	2,449	387	702	2,296	8,030
At 31 December, 2005	84,502	–	11,005	108,459	17,372	31,760	14,738	267,836
Analysis of cost or valuation:								
At cost	–	–	11,005	108,459	17,372	31,760	14,738	183,334
At valuation	84,502	–	–	–	–	–	–	84,502
	84,502	–	11,005	108,459	17,372	31,760	14,738	267,836
Accumulated depreciation:								
As previously reported	–	–	12,971	50,305	9,369	12,820	–	85,465
Adoption of HKAS 17	–	–	–	–	–	–	–	–
Adoption of HKAS 31	202	–	–	–	390	4,457	–	5,049
Restated at beginning of year	202	–	12,971	50,305	9,759	17,277	–	90,514
Provided during the year								
– Attributable to continuing operations	3,825	–	62	9,218	2,831	3,947	–	19,883
– Attributable to a discontinued operation	1,135	–	2,641	5,021	551	153	–	9,501
Written back on revaluation	(1,685)	–	–	–	–	–	–	(1,685)
Disposal of a discontinued operation *(note 12)*	(2,894)	–	(8,567)	(26,223)	(4,319)	(5,170)	–	(47,173)
Disposals	(1,092)	–	–	(2,563)	(252)	(445)	–	(4,352)
Exchange realignment	509	–	191	1,173	208	405	–	2,486
At 31 December, 2005	–	–	7,298	36,931	8,778	16,167	–	69,174
Net book value:								
At 31 December, 2005	84,502	–	3,707	71,528	8,594	15,593	14,738	198,662
At 31 December, 2004	74,456	–	10,603	64,625	11,451	17,026	109,089	287,250

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15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Group

	Buildings	Land use rights	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December, 2004								
Cost or valuation:								
As previously reported	60,050	6,100	23,009	106,074	17,368	24,176	29,686	266,463
Adoption of HKAS 17	–	(10,410)	–	–	–	–	–	(10,410)
Adoption of HKAS 31	1,462	4,310	–	–	729	5,402	3,961	15,864
Restated at beginning of year	61,512	–	23,009	106,074	18,097	29,578	33,647	271,917
Additions	541	–	540	7,033	3,316	7,221	94,568	113,219
Surplus on revaluation	2,429	–	–	–	–	–	–	2,429
Disposal of a subsidiary *(note 33)*	–	–	–	–	–	(302)	–	(302)
Disposals	(2,625)	–	–	(4,774)	(269)	(2,288)	–	(9,956)
Transfers	12,681	–	–	6,409	56	35	(19,181)	–
Exchange realignment	120	–	25	188	10	59	55	457
At 31 December, 2004	74,658	–	23,574	114,930	21,210	34,303	109,089	377,764
Analysis of cost or valuation:								
At cost	1,465	–	23,574	114,930	21,210	34,303	109,089	304,571
At valuation	73,193	–	–	–	–	–	–	73,193
	74,658	–	23,574	114,930	21,210	34,303	109,089	377,764
Accumulated depreciation:								
As previously reported	–	–	10,103	40,945	6,412	11,052	–	68,512
Adoption of HKAS 17	–	–	–	–	–	–	–	–
Adoption of HKAS 31	135	–	–	–	236	4,244	–	4,615
At beginning of year	135	–	10,103	40,945	6,648	15,296	–	73,127
Provided during the year								
– Attributable to continuing operations	2,697	–	52	5,952	2,577	3,089	–	14,367
– Attributable to a discontinued operation	618	–	2,810	6,562	722	1,011	–	11,723
Written back on revaluation	(1,156)	–	–	–	–	–	–	(1,156)
Disposal of a subsidiary *(note 33)*	–	–	–	–	–	(122)	–	(122)
Disposals	(2,119)	–	–	(3,218)	(194)	(2,016)	–	(7,547)
Exchange realignment	27	–	6	64	6	19	–	122
At 31 December, 2004	202	–	12,971	50,305	9,759	17,277	–	90,514
Net book value:								
At 31 December, 2004	74,456	–	10,603	64,625	11,451	17,026	109,089	287,250
At 31 December, 2003	61,377	–	12,906	65,129	11,449	14,282	33,647	198,790

15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company

	Motor vehicles *HK$'000*	Furniture and fixtures *HK$'000*	Total *HK$'000*
31 December, 2005			
Cost:			
At beginning of year	3,408	1,609	5,017
Additions	–	321	321
Disposal	–	(4)	(4)
Exchange realignment	6	3	9
At 31 December, 2005	3,414	1,929	5,343
Accumulated depreciation:			
At beginning of year	1,250	501	1,751
Provided during the year	802	383	1,185
Disposal	–	(2)	(2)
Exchange realignment	3	1	4
At 31 December, 2005	2,055	883	2,938
Net book value:			
At 31 December, 2005	1,359	1,046	2,405
At 31 December, 2004	2,158	1,108	3,266

The Group's buildings are all situated in Mainland China and are held under long term leases.

The Group's buildings of all subsidiaries as at 31 December, 2005 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK$84,502,000 (2004: HK$73,194,000) based on their existing use. The Group's share in the jointly-controlled entity's buildings amounted to HK$11,414,000 (2004: HK$1,262,000) were revalued as at the balance sheet date. The revaluation resulted in a surplus of HK$7,281,000 (2004: HK$4,033,000) and a deficit of HK$3,064,000 (2004: HK$448,000). The Group has credited HK$2,576,000 (2004: HK$1,755,000) to the revaluation reserve and charged HK$122,000 (2004: a credit of HK$712,000) to the income statement, respectively, in the current year.

Had the buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$68,422,000 (2004: HK$67,391,000).

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16. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.2(a))*	**29,036**	10,410
Effect of adopting HKAS 17 *(note 2.2(a))*	**(3,260)**	(2,620)
As restated	**25,776**	7,790
Additions during the year	**233**	18,253
Recognised during the year		
– Attributable to continuing operations	**(270)**	(282)
– Attributable to a discontinued operation	**(457)**	–
Disposal of a discontinued operation *(note 12)*	**(18,124)**	–
Exchange realignment	**534**	15
Carrying amount at 31 December	**7,692**	25,776
Current portion included in prepayments, deposits and other receivables	**(254)**	(1,059)
Non-current portion	**7,438**	24,717

The prepaid land lease payments for land use rights are held under a long term lease and are situated in Mainland China.

17. GOODWILL

Group

	2005
	HK$'000
31 December, 2005	
At 1 January, 2005:	
Cost as previously reported	8,245
Effect of adopting HKAS 31 *(note 2.2(b))*	44,618
Effect of adopting HKFRS 3 *(note 2.2(e))*	(10,963)
Cost as restated	41,900
Accumulated amortisation as previously reported	(6,234)
Effect of adopting HKAS 31 *(note 2.2(b))*	(4,729)
Effect of adopting HKFRS 3 *(note 2.2(e))*	10,963
Accumulated amortisation as restated	–
Net carrying amount	41,900
Cost at 1 January, 2005	41,900
Attributable to a discontinued operation	–
Impairment during the year	–
Exchange realignment	48
Cost and carrying amount at 31 December, 2005	41,948
At 31 December, 2005	
Cost	41,948
Accumulated impairment	–
Net carrying amount	41,948

17. GOODWILL (Cont'd)

Group

	2004 HK$'000 (Restated)
31 December, 2004	
At 1 January, 2004:	
Cost as previously reported	8,245
Effect on adopting HKAS 31 *(note 2.2 (b))*	44,618
Cost as restated	52,863
Accumulated amortisation as previously reported	(5,308)
Effect on adopting HKAS 31 *(note 2.2 (b))*	(267)
Amortisation provided during the year	(5,388)
Impairment during the year	–
Exchange realignment	–
Accumulated amortisation as restated	(10,963)
Net carrying amount	41,900
At 31 December, 2004:	
Cost	52,863
Accumulated amortisation	(10,963)
Net carrying amount	41,900

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over the estimated useful lives of 8 and 10 years.

Impairment testing of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of Beijing Tide is determined from a value in use calculation using cash flow forecasts based on financial budgets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to Beijing Tide. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2006 and extrapolates cash flows for the following nine years based on an estimated average industry growth rate. The rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows from Beijing Tide is based on the prevailing bank's borrowing rate offered by major financial institutions in Mainland China.

Based on the above, the directors consider that there is no impairment loss for goodwill.

18. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December, 2005:			
Cost			
At beginning of the year	**10,503**	**7,281**	**17,784**
Additions	**3,843**	**2,733**	**6,576**
Exchange realignment	**258**	**145**	**403**
Disposal of a discontinued operation *(note 12)*	**(9,750)**	**(10,159)**	**(19,909)**
At 31 December, 2005	**4,854**	**–**	**4,854**
Accumulated amortisation			
At beginning of the year	**1,971**	**–**	**1,971**
Provided during the year			
– Attributable to continuing operations	**715**	**–**	**715**
– Attributable to a discontinued operation	**880**	**–**	**880**
Exchange realignment	**66**	**–**	**66**
Disposal of a discontinued operation *(note 12)*	**(2,580)**	**–**	**(2,580)**
At 31 December, 2005	**1,052**	**–**	**1,052**
Net carrying amount	**3,802**	**–**	**3,802**
31 December, 2004			
Cost			
At beginning of the year	4,432	11,024	15,456
Additions	1,371	940	2,311
Transfer	4,700	(4,700)	–
Exchange realignment	–	17	17
At 31 December, 2004	10,503	7,281	17,784
Accumulated amortisation			
At beginning of the year	648	–	648
Provided during the year			
– Attributable to continuing operations	311	–	311
– Attributable to a discontinued operation	1,012	–	1,012
At 31 December, 2004	1,971	–	1,971
Net carrying amount	8,532	7,281	15,813

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19. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**101,513**	131,300
Due from subsidiaries	**84,406**	82,606
Due to subsidiaries	**(8,337)**	(18,551)
	177,582	195,355
Impairment during the year	**–**	–
	177,582	195,355

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amount of these amounts due from/(to) approximates to the fair values.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd.	Mainland China	US$1,000,000	–	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands/ Mainland China	US$2 Ordinary	100	–	Investment holding
Chia Tai Healthcare (Holdings) Limited	British Virgin Islands/ Mainland China	US$50,000 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited	British Virgin Islands/ Mainland China	US$3 Ordinary	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK$100 Ordinary	–	51	Research and development of pharmaceutical products

19. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries are as follows (continued):

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT")	Mainland China	RMB99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited ("Magnificent")	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	60	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	Mainland China	US$5,050,000	–	51	Manufacture and sale of pharmaceutical products
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US$50,000 Ordinary	100	–	Investment holding
Talent Forward Limited	British Virgin Islands/ Mainland China	US$50,000 Ordinary	100	–	Investment holding

On 2 July, 2005, the Company entered into an agreement with Bausch & Lomb to dispose of its entire equity interests in Sino Concept, which in turn owned 55% equity interests in each of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. (the "Sino Concept group"), for a total cash consideration of US$200 million (equivalent to approximately HK$1,560 million). The disposal and transfer of ownership of interests in the Sino Concept group were completed in September 2005. Further details of the disposal are in note 12 to the financial statements.

In January 2005, the Company disposed and transferred its entire equity interests in its wholly-owned subsidiary, Ace Elite Investments Limited ("ACE"), to a director based on the net asset value of ACE for a nil consideration which gave rise to a net gain on the disposal of HK$6,000 as ACE had net liabilities of HK$6,000 on the disposal date. The disposal and transfer of ownership interests in ACE was completed during 2005.

In December 2005, the Company disposed and transferred its entire equity interests in its wholly-owned subsidiary, Magnificent, to JCTT, based on the net value for nil consideration as Magnificent had net liabilities of HK$16,000. With the completion of transfer of the ownership interest from the Company to JCTT, Magnificent becomes a wholly-owned subsidiary of JCTT and an indirect subsidiary of the Company.

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20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2005	2004
	HK$'000	*HK$'000*
As previously reported		
Share of net assets	**–**	84,275
Goodwill on acquisition	**–**	39,889
Effect of adopting HKAS 31 *(note 2.2(b))*	**–**	(124,164)
As restated	**–**	–

The interest in a jointly-controlled entity, Beijing Tide is indirectly held by the Company, in which the Group holds 35% equity interests therein. In the prior years, the Group had equity accounted for its share of profit and net assets in Beijing Tide. With the adoption of HKAS 31 which effect from 1 January, 2005, proportionate consolidation was adopted and accordingly, 2004 amounts were restated.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2005	2004
	HK$'000	*HK$'000*
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**89,798**	80,838
Non-current assets	**46,852**	39,825
Current liabilities	**(29,443)**	(36,388)
Non-current liabilities	**–**	–
Net assets	**107,207**	84,275
Share of the jointly-controlled entity's results:		
Turnover	**112,742**	98,074
Other revenue	**–**	–
Total revenue	**112,742**	98,074
Total expenses	**(54,330)**	(43,089)
Tax	**(7,755)**	(7,438)
Profit after tax	**50,657**	47,547

21. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	**29,820**	29,820
Provision for impairment	**–**	–
	29,820	29,820

The amount represented:

(i) the Group's 5% equity investments in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily from natural herbal ingredients in Mainland China; and

(ii) the Group's 15% equity investments in Jiangsu Qingjiang Pharmaceutical Co. Ltd., which was newly acquired in December 2005.

The unlisted equity investments are stated at cost less any impairment losses, rather than at fair value. The directors considered that the fair value of unlisted equity investments cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value. Accordingly, such equity investments are stated at cost less any impairment losses.

22. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Raw materials	**13,043**	21,039
Work in progress	**10,056**	11,687
Finished goods	**20,993**	27,707
Spare parts and consumables	**247**	624
	44,339	61,057

23. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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23. TRADE RECEIVABLES (Cont'd)

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Current to 90 days	**94,947**	90,001
91 days to 180 days	**5,266**	14,216
Over 180 days	**1,800**	1,976
	102,013	106,193

Trade receivables approximate to their fair values due to their relatively short maturity term.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Prepayments	**1,565**	19,190	**175**	–
Other receivables	**8,646**	9,169	**1,683**	1,769
Prepaid expenses	**981**	1,048	**625**	294
Current portion of prepaid land lease payments	**254**	1,059	**–**	–
	11,446	30,466	**2,483**	2,063

Prepayments, other receivables and prepaid expenses approximate to their fair values due to their relatively short maturity terms.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Cash and bank balances	**223,532**	198,491	**131,816**	2,028
Time deposits	**1,472,481**	145,993	**1,370,446**	60,195
Cash and cash equivalents	**1,696,013**	344,484	**1,502,262**	62,223

25. CASH AND CASH EQUIVALENTS (Cont'd)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$299,005,000 (2004: HK$260,269,000 as restated). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

26. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Current to 90 days	**18,944**	16,217
91 days to 180 days	**790**	349
Over 180 days	**825**	670
	20,559	17,236

Trade payables are non-interest-bearing and are normally settled on 90-day terms. The trade payables approximate to their fair values due to their relatively short maturity term.

27. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Advances from customers	**1,285**	13,099	**–**	–
Accrued payroll and bonuses	**28,821**	27,686	**2,959**	782
Other payables	**60,005**	55,283	**196**	960
Accrued expenses	**21,696**	48,839	**1,167**	3,204
Housing fund	**372**	702	**–**	–
Staff welfare and bonus fund	**10,088**	40,121	**11**	11
Tax payable other than profit tax	**11,421**	15,523	**51**	–
	133,688	201,253	**4,384**	4,957

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27. OTHER PAYABLES AND ACCRUALS (Cont'd)

Other payables are non-interest-bearing and have an average term of three months. Other payables and accruals approximate to their fair values due to their relatively short maturity term.

28. CONVERTIBLE BONDS

On 14 August, 2002, the Company entered into subscription agreements (the "Subscription Agreements") with Jian Kang Ltd. ("Jian Kang") and Super Demand Investments Limited ("Super Demand"), respectively. Pursuant to the Subscription Agreements, the Company agreed to issue to Jian Kang (the "2002 Convertible Bond") and Super Demand (the "2003 Convertible Bond") convertible bonds for principal amount of US$6,000,000 (equivalent to approximately HK$46,800,000) and US$4,000,000 (equivalent to approximately HK$31,200,000), respectively.

The 2002 Convertible Bond was issued for gross cash proceeds of approximately HK$46,800,000 on 22 October, 2002 and bears interest at 1% per annum which is payable every three months in arrears. The 2002 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2002 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2002 Convertible Bonds (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 16,421,053 new shares would be issued upon the full conversion of the 2002 Convertible Bonds.

On 30 December, 2002, the Company and Super Demand agreed to defer the issuance of the 2003 Convertible Bond to 31 March, 2003 or such other date as both parties agree in writing. The 2003 Convertible Bond was issued for gross cash proceeds of approximately HK$31,200,000 on 31 March, 2003, and bears interest at 1% per annum which is payable every three months in arrears. The 2003 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2003 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2003 Convertible Bonds (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 10,947,368 new shares would be issued upon the full conversion of the 2003 Convertible Bonds.

Pursuant to the shareholders' approval on 27 April, 2004 for the subdivision of each issued and un-issued shares of HK$0.10 each of the Company into four subdivided shares of HK$0.025 each, the conversion price of the 2002 Convertible Bond and the 2003 Convertible Bond issued by the Company has been adjusted from HK$2.85 per share to HK$0.7125 per subdivided share accordingly.

On 24 November, 2004, Jian Kang exercised the conversion rights attached to the 2002 Convertible Bond in accordance with the terms and conditions contained in the instrument in the amount of US$4,500,000 (equivalent to approximately HK$35,100,000) of the principal amount outstanding, and was converted into 49,109,684 shares of the Company at a conversion price of HK$0.7125 per share, representing an increase in share capital of HK$1,228,000 and share premium of HK$33,763,000.

28. CONVERTIBLE BONDS (Cont'd)

On 28 December, 2004, Super Demand transferred its entire bonds of US$4,000,000 (equivalent to approximately HK$31,200,000) to Jian Kang and on 13 April, 2005, Jian Kang had exercised all its convertible bonds (2002 Convertible Bond and 2003 Convertible Bond) of US$5,500,000 (equivalent to approximately HK$42,900,000) at a conversion price of HK$0.7125 per share, representing an increase in share capital of HK$1,505,700 and share premium of HK$157,711,000.

Upon adoption of HKAS 39, the convertible bonds shall be classified as a debt component and the conversion option as an embedded derivative component, both as liabilities at the balance sheet dates. The effective annual interest rates of the debt component of 2002 Convertible Bonds and 2003 Convertible Bonds are 2.95% and 3.61%, respectively. Interest expenses on the bonds were calculated using the effective interest method by applying the effective annual interest rate of 2.95% and 3.61% to the debt component, which are the market fair value interest rates.

HKAS 39 is applied prospectively, resulting in opening adjustments on 1 January, 2005. The accumulated impact on the consolidated financial statements is presented in note 2.4 (a) and (b).

The movements of the debt component and the embedded derivative component of the convertible bonds upon the adoption of HKAS 39 are as follows:

	Company			
	2005		2004	
	Debt component *HK$'000*	**Embedded derivative component** *HK$'000*	Debt component *HK$'000*	Embedded derivative component *HK$'000*
At 1 January				
As previously reported	**42,900**	**–**	78,000	–
Opening adjustments	**(3,380)**	**53,065**	–	–
As restated	**39,520**	**53,065**	78,000	–
Conversion into ordinary shares	**(39,843)**	**(119,380)**	(35,100)	–
Interest accrued	**465**	**–**	744	–
Payment of interest	**(142)**	**–**	(744)	–
Fair value adjustment on embedded derivative component	**–**	**66,315**	–	–
At 31 December	**–**	**–**	42,900	–

29. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	2005 Revaluation of properties *HK$'000*
At 1 January, 2005:	
As previously reported	2,527
Effect of adopting HKAS 17 (note 2.2(a))	(489)
As restated	2,038
Charged to the income statement *(note 10)*	–
Reversal upon discontinued operation *(note 12)*	(255)
Credited to equity	621
Gross deferred tax liabilities At 31 December, 2005	2,404

Deferred tax assets

Group 2005

	Accruals *HK$'000*	Provision for other receivables *HK$'000*	Provision for trade receivables *HK$'000*	Fixed assets depreciation *HK$'000*	Total *HK$'000*
At 1 January, 2005	5,971	–	539	1,454	7,964
Credited to the income statement *(note 10)*	835	99	218	–	1,152
Reversal upon discontinued operation *(note 12)*	(3,993)	–	(22)	(1,454)	(5,469)
Gross deferred tax assets At 31 December, 2005	2,813	99	735	–	3,647

29. DEFERRED TAX (Cont'd)

Deferred tax liabilities

Group

	2004 Revaluation of properties *HK$'000*
At 1 January, 2004	–
Credited to equity	
Attributable to continuing operations	1,779
Attributable to a discontinued operation	259
Gross deferred tax liabilities	
At 31 December, 2004	2,038

Deferred tax assets

Group 2004

	Accruals *HK$'000*	Provision for other receivables *HK$'000*	Provision for trade receivables *HK$'000*	Fixed assets depreciation *HK$'000*	Total *HK$'000*
At 1 January, 2004	–	–	–	–	–
Credited to the income statement					
Attributable to continuing operations *(note 10)*	1,978	–	517	–	2,495
Attributable to a discontinued operation	3,993	–	22	1,454	5,469
Gross deferred tax assets					
At 31 December, 2004	5,971	–	539	1,454	7,964

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30. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
4,000,000,000 ordinary shares of HK$0.025 each (2004: 4,000,000,000 ordinary shares of HK$0.025 each)	**100,000**	100,000
Issued and fully paid:		
2,263,968,736 ordinary shares of HK$0.025 each (2004: 1,377,109,684 ordinary shares of HK$0.025 each)	**56,599**	34,428

During the year, the movements in share capital were as follows:

(a) On 11 April, 2005, 71,760,000 ordinary shares of HK$0.025 each were issued on the exercise of the share options. On 29 April, 2005, 240,000 ordinary shares of HK$0.025 each were issued on the exercise of the remaining balance of the share options.

(b) On 13 April, 2005, 60,202,807 ordinary shares of HK$0.025 each were issued on the exercise of the conversion rights of convertible bonds held by Jian Kang.

(c) As a result of the resolution passed by the Company's shareholders' meeting on 13 May, 2005, the issue of a bonus share for every two existing shares of the Company held by members on the register of members on 31 May, 2005 resulted in the issue of 754,656,245 ordinary shares of HK$0.025 each.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 1 January, 2005	1,377,109,684	34,428	131,481	165,909
Share options exercised (a) *(note 31(a))*	72,000,000	1,800	11,520	13,320
Convertible bonds converted (b) *(note 32(a))*	60,202,807	1,505	157,711	159,216
Bonus shares issued (c)	754,656,245	18,866	(18,866)	–
	886,859,052	22,171	150,365	172,536
At 31 December, 2005	2,263,968,736	56,599	281,846	338,445

30. SHARE CAPITAL (Cont'd)

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEME

(a) The Existing Scheme

The Company operates a share option scheme (the "Existing Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Existing Scheme became effective on 19 September, 2000. On 26 April, 2002, the Existing Scheme was terminated and replaced by a new share option scheme, as detailed below under the heading "The New Scheme". Upon the termination of the Existing Scheme, no further share options will be granted pursuant to the Existing Scheme, however the Existing Scheme will, in all other respects, remain in force to the extent necessary to give effect to the exercise of the outstanding share options previously granted pursuant thereto. The outstanding share options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Eligible participants of the Existing Scheme included employees or executive directors of the Company or any of its subsidiaries. The directors of the Company are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares of the Company (the "Shares"). Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing on 19 September, 2000.

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the Shares in issue for a period of 10 consecutive years. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 10% of the Shares in issue at any time. No option may be granted to any eligible participants which, if exercised in full, would result in such eligible participants becoming entitled to subscribe for such number of Shares as, and when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and are issuable under the Existing Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, which may commence from the date immediately following the date of grant and ending on such date as the directors of the Company may determine but in any event not exceeding 10 years from the date of grant of such share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options as stated in the daily quotation sheet of the Stock Exchange; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer as stated in the daily quotation sheets of the Stock Exchange.

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31 December, 2005

31. SHARE OPTION SCHEME (Cont'd)

(a) The Existing Scheme (Cont'd)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 9.6 of the Rules of the Existing Scheme, if there is any alteration in the capital structure of the Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issued, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party) or otherwise, such corresponding alterations (if any) shall be made in:

(a) the number of Shares (without fractional entitlements) subject to the Option so far as unexercised; and/or

(b) the Subscription Price; and/or

(c) the method of exercise of the Option.

31. SHARE OPTION SCHEME (Cont'd)

(a) The Existing Scheme (Cont'd)

The following share options were outstanding under the Scheme during the year:

	Number of share options									Price of the Company's shares***			
Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Adjusted exercise price of share options** HK$	At grant date of options HK$	Immediately before the exercise date HK$	At exercise date of options HK$	Benefit from share option HK$'000
Directors													
Mr. Tse Ping	18,000,000	–	(18,000,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9	48,870
Mr. Wang Jinyu	2,400,000	–	(2,400,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9	6,516
Mr. Tao Huiqi	2,400,000	–	(2,400,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9	6,516
Mr. Tse Hsin	13,440,000	–	(13,440,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9	36,490
	36,240,000	–	(36,240,000)	–	–	–							98,392
Other employees													
In aggregate	35,760,000	–	(35,760,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9/2.75	
	72,000,000	–	(72,000,000)	–	–	–							

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Pursuant to the Rules of the Existing Scheme, the exercise price per share option has been altered subsequent to the approved subdivision of shares by shareholders.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

As disclosed in note 2.2(d), the benefit from the exercise of employee share options during the year has no impact on the Group's income statement for the current year nor retained profits as at 31 December, 2005.

The 72,000,000 share options exercised during the year resulted in the issue of 72,000,000 ordinary shares of the Group and new share capital of HK$1,800,000 and share premium of HK$11,520,000, as further detailed in note 30 to the financial statements.

At the balance sheet date, the Company had no share options outstanding under the Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

31. SHARE OPTION SCHEME (Cont'd)

(b) The New Scheme

Following the amendments to Chapter 23 of the GEM Listing Rules which came into effect on 1 October, 2001, no share options may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to eligible participants who may contribute to the success of the Group's operations, a new share option scheme (the "New Scheme") was adopted by the Company on 26 April, 2002 and at the same time the Existing Scheme was terminated. The New Scheme remains in force for ten years commencing from 26 April, 2002. On approval by the Stock Exchange for listing of the Company's shares on the Main Board, the Company adopted a proposed share option scheme (the "Proposed Scheme") and terminated the New Scheme pursuant to an ordinary resolution passed by the shareholders of the Company on 24 November, 2003. No share options were granted under the New Scheme since 26 April, 2002.

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme")

The Proposed Scheme (hereafter to be known as the "2003 Scheme") became effective on 8 December, 2003 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2003 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the 2003 Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the 2003 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding option, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2003 Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, such further grant of options must be approved by the shareholders in a general meeting.

31. SHARE OPTION SCHEME (Cont'd)

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme") (Cont'd)

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2003 Scheme at any time during a period to be determined on the date of offer of grant of share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the 2003 Scheme for the holding of a share option before it can be exercised.

The exercise price of the Shares under the 2003 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2003 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued shares of HK$0.10 each into four shares of HK$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2003 Scheme accordingly.

No share options were granted under the 2003 Scheme during the year.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 53 to 54 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding companies acquired pursuant to the Group reorganisation as stated in the Company's prospectus dated 22 September, 2000, over the nominal value of the Company's shares issued in exchange therefor.

On 13 April, 2005, Jian Kang exercised the conversion rights attached to the 2002 and 2003 convertible bonds in the amount of US$5,500,000 (equivalent to approximately HK$42,900,000) of the principal amount outstanding and were contained in the instrument in the amount converted into 60,202,807 shares of the Company at a conversion price of HK$0.025 per share, representing an increase in share capital of HK$1,505,000 and share premium account of HK$157,711,000 (see note 30).

32. RESERVES (Cont'd)

(a) Group (Cont'd)

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of the Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in the Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, enterprise expansion fund and staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the Mainland China joint ventures.

32. RESERVES (Cont'd)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
Balance at 1 January, 2004		97,718	107,299	(78,979)	126,038
Net profit for the year	11	–	–	74,897	74,897
Interim 2004 dividend		–	–	(54,102)	(54,102)
Issue of shares on exercise of convertible bonds		33,763	–	–	33,763
Proposed final 2004 dividend	13	–	–	(55,084)	(55,084)
At 31 December, 2004		131,481	107,299	(113,268)	125,512
At 31 December, 2004 and 1 January, 2005					
As previously reported		131,481	107,299	(113,268)	125,512
Effect of adopting HKAS 39	2.4(b)	–	–	(49,685)	(49,685)
As restated		131,481	107,299	(162,953)	75,827
Issue of shares on exercise of share options	31	11,520	–	–	11,520
Issue of shares on exercise of convertible bonds	30	157,711	–	–	157,711
Issue of bonus shares	30	(18,866)	–	–	(18,866)
Net profit for the year	11	–	–	1,614,149	1,614,149
Interim 2005 dividend	13	–	(30,186)	(73,207)	(103,393)
Special dividend	13	–	–	(113,199)	(113,199)
Proposed final 2005 dividend	13	–	–	(33,959)	(33,959)
At 31 December, 2005		281,846	77,113	1,230,831	1,589,790

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33. DISPOSAL OF A SUBSIDIARY

	Notes	**2005** **HK$'000**	2004 HK$'000
Net assets disposed of:			
Property, plant and equipment	*15*	**–**	180
Inventories		**–**	40
Prepayments, deposits and other receivables		**–**	16
Trade payables		**–**	(516)
Other payables and accruals		**–**	134
		–	(146)
Gain on disposal of a subsidiary	*5*	**–**	805
		–	659
Satisfied by:			
Cash		**–**	659

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2005 **HK$'000**	2004 HK$'000
Cash consideration	**–**	659
Cash and bank balances disposed of	**–**	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**–**	659

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors factored with recourse	**4,970**	–	**–**	–

35. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and land use right under operating lease arrangements. Leases for office equipment are for terms ranging between two and five years, and for land use right are for terms ranging from one to fifty years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Within one year	**2,221**	2,768	**1,172**	1,605
In the second to fifth years, inclusive	**3,367**	3,087	**806**	342
After five years	**23,182**	23,515	**–**	–
	28,770	29,370	**1,978**	1,947

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Contracted, but not provided for:		
Plant and machinery	**2,614**	19,623
Intangible assets (product technology)	**–**	3,914
	2,614	23,537
Authorised, but not contracted for:		
Plant and machinery	**20,994**	27,263

In addition, the Company's share of the jointly-controlled entity's capital commitments, which are not included in the above, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Plant and machinery	**223**	9,573

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37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the years:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Sales of products to:		
– a Chinese joint venture partner of a subsidiary *(note a)*	**1,341**	290
– a related party with a common shareholder of a subsidiary *(note a)*	**773**	689
Purchases of raw materials from:		
– a related party with a common shareholder of a subsidiary *(note b)*	**17,264**	18,704
Purchases of raw materials from:		
– a Chinese joint venture partner of a subsidiary *(note b)*	**2,178**	1,780
– a company indirectly owned by a director *(note b)*	**5**	40
Service revenue from		
– a company indirectly owned by a director *(note c)*	**869**	–
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner *(note d)*	**3,635**	4,756
– a Chinese joint venture partner of a subsidiary *(note d)*	**565**	561
– a company beneficially owned by a director *(note d)*	**684**	684
Research and development expenses to		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner *(note e)*	**1,439**	941

Notes:

(a) Sales of products to the Chinese joint venture partner of the subsidiary, Chinese joint venture of a jointly-controlled entity and a related party with a common shareholder of a subsidiary were conducted with reference to the market prices.

(b) Purchases of raw materials were conducted with reference to the market prices.

(c) Service revenue were conducted with reference to the market prices.

(d) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.

(e) Research and development expenses were based on the terms of the agreements entered into with the related party.

37. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Other transactions with related parties:

(i) In January 2005, the Company disposed and transferred its entire equity interests in its wholly-owned subsidiary, Ace Elite Investments Limited ("ACE") to a director based on its net liabilities of HK$6,000 on the disposal date for a nil consideration and resulted in a gain on disposal of HK$6,000. With the completion of the transfer of ownership interests to the director in January 2005, ACE ceased to be the subsidiary of the Group.

(c) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had trade payables to its Chinese joint venture partner of HK$1,181,280 (2004: HK$5,151,000 as restated) and trade receivables from its Chinese joint venture partner of HK$1,094,026 (2004: HK$871,000 as restated). These trade payables and receivables are unsecured, interest-free and on normal trade terms for repayment.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise convertible bonds, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, significant concentrations of credit risk, interest rate risk, currency risk, liquidity and funding risk, and net fair value risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties and has a stringent procedure in extending credit terms to customers and in monitoring its credit risk.

The credit policy outlines clearly the guidelines on extending credit terms to customers, including monitoring the credit control process and use of related industry's practices as reference. This includes assessing and valuation of customers' credit reliability and periodic review of their financial status to determine credit limits to be granted. Customers may be required to provide security in terms of cash or immovable assets.

The carrying amount of financial assets recorded in the financial statements, net of any provision for bad and doubtful debts, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

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31 December, 2005

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect a group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

The directors consider credit risk to be low as the major customers are large and medium corporations with good credit track records.

Interest rate risk

Interest rate risk arises from the potential changes in interest rates that may have adverse effects in the Group's results for the current reporting year and in the future years.

The directors consider that the Group is not significantly exposed to interest rate risk and no hedging or other alternatives have been implemented.

Currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and Hong Kong dollars. In the Mainland China, foreign investment enterprises are authorised to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The exchange rate between Hong Kong dollars and US dollars has been pledged under a fixed linked system over a long period of time.

The directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Liquidity and funding risk

The Group's liquidity remained strong as at balance sheet date. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group is not exposed to liquidity and funding risk.

Net fair value

The carrying amounts of cash and bank balances, trade and other receivables and payables, provisions and other liabilities approximate to their respective fair values due to the relatively short maturity terms.

It is not practicable within the constraint of cost to reliably determine the fair value of amounts of receivables and payables to related companies as these balances are on normal trade terms.

39. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 11 April, 2006, the directors of the Company proposed a final dividend of HK$0.015 per share which has been classified as a separate allocation of retained profits within the reserve section of the financial statements (notes 13 and 32).

40. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April, 2006.