Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the company and its subsidiaries (together referred to as the "group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment property (see note 1(f)); and
– financial instruments classified as available-for-sale securities (see note 1(e)).

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

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

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(v)).

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

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

(c) Subsidiaries and controlled entities

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(c) Subsidiaries and controlled entities *(cont'd)*

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

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

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

In the company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(v)).

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(d) Goodwill

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

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

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

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

(e) Other investments in debt and equity securities

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

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

Dated debt securities that the group and/or the company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 1(j)).

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(e) Other investments in debt and equity securities *(cont'd)*

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(j)).

Other investments in securities are classified as available-for-sale securities and are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses (see note 1(j)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

(f) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(h)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(ii).

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(f) Investment property *(cont'd)*

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(h)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(h).

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

(g) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 1(h)); and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Notes to the Financial Statements

31 December 2005

1. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

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

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

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

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

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

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

(h) Leased assets

(i) Classification of assets leased to the group

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

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(f)); and

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(h) Leased assets *(cont'd)*

(i) Classification of assets leased to the group (cont'd)

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

(ii) Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the company or group will obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(h) Leased assets *(cont'd)*

(iii) Operating lease charges

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

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

(i) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 1(j)). Expenditure on internally generated goodwill and bands is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(i) Intangible assets (other than goodwill) *(cont'd)*

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

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

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

(j) Impairment of assets

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

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

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(j) Impairment of assets *(cont'd)*

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

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

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

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

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

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(j) Impairment of assets *(cont'd)*

(ii) Impairment of other assets

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

– property, plant and equipment (other than properties carried at revalued amounts);
– pre-paid interests in leasehold land classified as being held under an operating lease;
– intangible assets;
– investments in subsidiaries (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(v)); and
– goodwill

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

– Calculation of recoverable amount

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

Notes to the Financial Statements

31 December 2005

1. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(j) Impairment of assets *(cont'd)*

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(k) Inventories

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

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

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

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

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(j)).

(m) Interest-bearing borrowings

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

Notes to the Financial Statements

31 December 2005

1. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(n) Trade and other payables

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

(o) Cash and cash equivalents

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

(p) Employee benefits

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

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

(ii) Share based payments

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(p) Employee benefits *(cont'd)*

(ii) Share based payments (cont'd)

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

(iii) Termination benefits

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

(q) Income tax

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

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

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(q) Income tax *(cont'd)*

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

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

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

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(q) Income tax *(cont'd)*

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

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

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

  – the same taxable entity; or

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

(r) Provisions and contingent liabilities

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(r) Provisions and contingent liabilities *(cont'd)*

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

(s) Revenue recognition

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

(i) Sales of goods

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

(ii) Rental income from operating leases

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

(iii) Dividends

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

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(s) Revenue recognition *(cont'd)*

(iv) Interest income

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

(v) Government grants

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

(t) Translation of foreign currencies

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

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(t) Translation of foreign currencies *(cont'd)*

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

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

(u) Borrowing costs

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

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(v) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the group and the company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

Notes to the Financial Statements

31 December 2005

1. **SIGNIFICANT ACCOUNTING POLICIES** *(cont'd)*

(w) Related parties

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

(x) Segment reporting

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

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

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

Notes to the Financial Statements

31 December 2005

1. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

(x) Segment reporting *(cont'd)*

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

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

2. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the group and/or company after the adoption of these new and revised HKFRSs have been summarized in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting year.

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004. The effects of the changes in accounting policies on the balances at 1 January 2004 and 2005 are disclosed in note 30.

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(a) Restatement of prior periods and opening balances *(cont'd)*

(i) Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 December 2004

	2004 (as previously reported)	Effect of new policy (increase/ (decrease) in profit for the year) HKAS 1	HKAS 17	Sub-total	2004 (as restated)
		(note 2(e))	*(note 2(f))*		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	624,894	–	–	–	624,894
Cost of sales	(393,684)	–	–	–	(393,684)
Gross profit	231,210	–	–	–	231,210
Selling and distribution costs	(44,164)	–	–	–	(44,164)
General and administrative expenses	(79,934)	–	–	–	(79,934)
Other income and expenses	15,700	–	–	–	15,700
Profit from operations	122,812	–	–	–	122,812
Finance costs	(7,663)	–	–	–	(7,663)
Profits on disposal of investment in securities	35,942	–	–	–	35,942
Profit before taxation	151,091	–	–	–	151,091
Income tax	(38,883)	–	–	–	(38,883)
	112,208	–	–	–	112,208
Minority interest	(7,112)	7,112	–	7,112	–
Profit for the year	105,096	7,112	–	7,112	112,208
Attributable to:					
Equity shareholders of the company	105,096	–	–	–	105,096
Minority interests	–	7,112	–	7,112	7,112
Profit for the year	105,096	7,112	–	7,112	112,208
Dividends payable to equity shareholders of the company attributable to the year	(18,567)	–	–	–	(18,567)
Earning per share					
Basic	HK$0.1201	–	–	–	HK$0.1201
Diluted	HK$0.1167	–	–	–	HK$0.1167
Other significant disclosure items:					
Depreciation	(43,081)	–	231	231	(42,850)
Amortisation of land lease premium	–	–	(231)	(231)	(231)

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(a) Restatement of prior periods and opening balances *(cont'd)*

(i) Effect on the consolidated financial statements (cont'd)

Consolidated balance sheet at 31 December 2004

	2004 previously reported)	Effect of new policy (increase / (decrease) in net assets for the year) HKAS 1 *(note 2(e))*	HKAS 17 *(note 2(f))*	HKAS 40 *(note 2(h))*	Sub-total	2004 (as restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets						
Investment property	16,000	–	–	–	–	16,000
Other property, plant and equipment	326,483	–	(26,393)	–	(26,393)	300,090
Interests in leasehold land held for own use under operating leases	–	–	9,610	–	9,610	9,610
Deferred tax assets	2,151	–	2,648	–	2,648	4,799
Other non-current assets	229,092	–	–	–	–	229,092
	573,726	–	(14,135)	–	(14,135)	559,591
Current assets	985,992	–	–	–	–	985,992
Current liabilities	(165,530)	–	–	–	–	(165,530)
Net current assets	820,462	–	–	–	–	820,462
Total assets less current liabilities	1,394,188	–	(14,135)	–	(14,135)	1,380,053
Non-current liabilities	(176,250)	–	–	–	–	(176,250)
Minority interests	(7,806)	7,806	–	–	7,806	–
Net assets	1,210,132	7,806	(14,135)	–	(6,329)	1,203,803
Capital and reserve						
Share capital	90,508	–	–	–	–	90,508
Revaluation reserves						
– Land and buildings	15,009	–	(15,009)	–	(15,009)	–
– Investment property	116	–	–	(116)	(116)	–
Exchange fluctuation reserve	212	–	874	–	874	1,086
Other reserves	675,937	–	–	–	–	675,937
Retained profits	428,350	–	–	116	116	428,466
	1,210,132	–	(14,135)	–	(14,135)	1,195,997
Attributable to minority interests	–	7,806	–	–	7,806	7,806
	1,210,132	7,806	(14,135)	–	(6,329)	1,203,803

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(a) Restatement of prior periods and opening balances *(cont'd)*

(ii) There was no effect on the company's balance sheet at 31 December 2004.

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(b) Estimated effect of changes in accounting policies on the current period *(cont'd)*

(i) Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31 December 2005:

	Estimated effect of new policy (increase / (decrease) in profit for the year)				
	HKFRS 2	HKAS 17	HKAS 32 & 39	HKAS 40	Total
	(note 2(c))	*(note 2(f))*	*(note 2(g))*	*(note 2(h))*	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost of sales	–	(2,629)	–	–	(2,629)
Other revenue and net income	–	–	92,440	2,038	94,478
General and administrative expenses	(17,086)	(54)	–	–	(17,140)
Profit before taxation	(17,086)	(2,683)	92,440	2,038	74,709
Income tax	–	–	–	(306)	(306)
Profit for the year	(17,086)	(2,683)	92,440	1,732	74,403
Attributable to:					
Equity shareholders of the company	(17,086)	(1,923)	92,440	1,732	75,163
Minority interests	–	(760)	–	–	(760)
Profit for the year	(17,086)	(2,683)	92,440	1,732	74,403
Earnings per share					
Basic	(HK$0.0185)	(HK$0.0021)	HK$0.0999	HK$0.0019	HK$0.0812
Diluted	(HK$0.0184)	(HK$0.0021)	HK$0.0996	HK$0.0019	HK$0.0810
Other significant disclosure items:					
Valuation gain investment property	–	–	–	2,038	2,038
Transfer from equity on disposal of available-for-sale securities	–	–	92,440	–	92,440
Staff costs	(3,747)	–	–	–	(3,747)
Depreciation	–	2,683	–	–	2,683
Amortisation of land lease premium	–	(2,683)	–	–	(2,683)

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(b) Estimated effect of changes in accounting policies on the current period *(cont'd)*

(i) Effect on the consolidated financial statements (cont'd)

Estimated effect on the consolidated balance sheet at 31 December 2005:

	Estimated effect of new policy (increase / (decrease) in profit for the year)				
	HKFRS 2	HKAS 17	HKAS 32 & 39	HKAS 40	Total
	(note 2(c))	*(note 2(f))*	*(note 2(g))*	*(note 2(h))*	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets					
Other property, plant and equipment	–	(26,393)	–	–	(26,393)
Interests in leasehold land held for own use under operating leases	–	9,610	–	–	9,610
Deferred tax assets	–	2,648	–	–	2,648
Net assets	–	(14,135)	–	–	(14,135)
Capital and reserves					
Effect attributable to equity shareholders of the company					
Revaluation reserves					
– Land and buildings	–	(15,009)	–	–	(15,009)
– Investment property	–	–	–	(2,180)	(2,180)
Share-based compensation reserve	17,086	–	–	–	17,086
Fair value reserve	–	–	(92,440)	–	(92,440)
Exchange fluctuation reserve	–	874	–	–	874
Retained profits	(17,086)	–	92,440	2,180	77,534
	–	(14,135)	–	–	(14,135)
Effect attributable to minority interests	–	–	–	–	–
	–	(14,135)	–	–	(14,135)

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(b) Estimated effect of changes in accounting policies on the current period *(cont'd)*

(i) Effect on the consolidated financial statements (cont'd)

Estimated effect on net income recognised directly in consolidated equity for the year ended 31 December 2005:

	Effect of new policy (increase/(decrease) in equity)		
	HKAS 17	**HKAS 40**	**Total**
	(note 2(f))	*(note 2(h))*	
	HK$'000	HK$'000	HK$'000
For the year ended 31 December 2005			
Attributable to equity shareholders of the company	–	(1,732)	(1,732)
Minority interests	–	–	–
Total equity	–	(1,732)	(1,732)

Estimated effect on amounts recognised as capital transactions with owners of the group for the year ended 31 December 2005:

	Effect of new policy (increase/(decrease))		
	HKFRS 2	**HKAS 39**	**Total**
	(note 2(c))	*(note 2(g))*	
	HK$'000	HK$'000	HK$'000
Attributable to equity shareholders of the company	17,086	–	17,086
Minority interests	–	–	–
Total equity	17,086	–	17,086

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(b) Estimated effect of changes in accounting policies on the current period *(cont'd)*

(ii) There was no estimated effect on the company's balance sheet at 31 December 2005. There was also no estimated effect on net income recognised directly in the company's equity and no estimated effect on amounts recognised as capital transactions with owners of the company for the year ended 31 December 2005.

(c) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the group has adopted a new policy for employee share options. Under the new policy, the group recognises the fair value of such share options as an expense with a corresponding increase recognised in a share-based compensation reserve within equity. Further details of the new policy are set out in note 1(p)(ii).

The group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

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

As the Group's options were granted to employees after 7 November 2002 but which had vested before 1 January 2005, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the prior year. This has decreased the Group's profit for the year ended 31 December 2005 by HK$17,086,000.

Details of the employee share option scheme are set out in note 28.

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(d) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

(i) Amortisation of goodwill

In prior periods:

– positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the group has changed its accounting policies relating to goodwill. Under the new policy, the group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in note 1(d).

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(d) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets) *(cont'd)*

(i) Amortisation of goodwill (cont'd)

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of impairment loss as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the year ended 31 December 2005.

The change in policy relating to negative goodwill had no effect on the financial statements as there was no negative goodwill deferred as at 31 December 2004.

(e) Changes in presentation of minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the company).

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(e) Changes in presentation of minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements) *(cont'd)*

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the company. Further details of the new policy are set out in note 1(c). These change in presentation retrospectively with comparatives restated as shown in note 2(a).

(f) Leasehold land and buildings (HKAS 17, Leases)

(i) *Leasehold land and buildings held for own use*

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated deprecation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from 1 January 2005, in order to comply with HKAS 17, the group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 1(g) and (h). Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 January 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(f) Leasehold land and buildings (HKAS 17, Leases) *(cont'd)*

(ii) Description of transitional provisions and effect of adjustments

The above new accounting policy has been adopted retrospectively, With comparative information adjusted for the amounts relating to prior periods.

(g) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

(i) Investments in equity securities

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision. Other investments in securities (including those held for trading and for non-trading purposes) were stated at fair value with changes in fair value recognised in profit or loss.

With effect from 1 January 2005, and in accordance with HKAS 39, all investments, with the exception of securities held for trading purposes and certain unquoted equity investments, are classified as available-for-sale securities and carried at fair value. Changes in the fair value of available-for-sale securities are recognised in equity, unless there is objective evidence that an individual investment has been impaired. There are no material adjustments arising from the adoption of the new policies for securities held for trading purposes and unquoted equity investments not carried at fair value. Further details of the new policies are set out in note 1(e).

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(g) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement) *(cont'd)*

(ii) Description of transitional provisions and effect of adjustments

The changes in accounting policies relating to accounting for investments in equity securities were adopted by way of opening balance adjustments to certain reserves as at 1 January 2005. The adjustments included re-designation of investment securities with a carrying value of HK$25,444,000 at 31 December 2004 as available-for-sale securities at 1 January 2005. As at that date, these investment securities were restated to their fair value of HK$122,640,000, by way of an opening balance adjustment to retained earnings. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each financial statement line item affected for the year ended 31 December 2005 are set out in note 2(b).

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(h) Investment property (HKAS 40, Investment property and HKAS Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

(i) Timing of recognition of movements in fair value in the income statement

In prior years movements in the fair value of the group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

Upon adoption of HKAS 40 as from 1 January 2005, the group has adopted a new policy for investment property. Under this new policy, all changes in the fair value of investment property are recognised directly in the income statement ("profit or loss") in accordance with the fair value model in HKAS 40. Further details of the new policy for investment property are set out in note 1(f).

Notes to the Financial Statements

31 December 2005

2. CHANGE IN ACCOUNTING POLICIES *(cont'd)*

(h) Investment property (HKAS 40, Investment property and HKAS Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets) *(cont'd)*

(ii) *Measurement of deferred tax on movements in fair value*

In prior years the group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 January 2005, in accordance with HKAS Interpretation 21, the group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the group has no intention to sell it and the property would have been depreciable had the group not adopted the fair value model. Further details of the policy for deferred tax are set out in note 1(q). The adoption of this new accounting policy has no impact on the Group's net assets and results for the current and prior years.

(iii) *Description of transitional provisions and effect of adjustments*

All above changes in accounting policies relating to investment property have been adopted retrospectively. The adjustments for each financial statement line affected for 31 December 2005 are set out in note 2(b).

(i) Definition of related parties (HKAS 24, related party disclosures)

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties as disclosed in note 1(w) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant sharehlders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures made in the current period, as compared to those that would have been reported had Statement of Standard Accounting Practice 20, related party disclosures, still been in effect.

Notes to the Financial Statements

31 December 2005

3. TURNOVER

The principal activities of the group are manufacturing and sale of home and personal care products, industrial products, cosmetics and skincare products and biotechnology products with medical and cosmetic applications.

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

4. OTHER REVENUE AND NET INCOME

	2005	2004
	HK$'000	HK$'000
Royalty income	**1,784**	2,755
Advertising and promotional income	**–**	2,000
Dividend income from listed equity securities	**–**	2,901
Government grants	**240**	–
Interest income from banks	**6,147**	4,087
Other interest income	**942**	1,513
Rentals receivable from operating leases	**2,289**	1,680
Profit on disposal of fixed assets	**55**	82
Write-back of provision for inventory	**2,204**	–
Valuation gain on investment property	**2,038**	–
Transfer from equity on disposal of available-for-sale securities	**92,440**	–
Net exchange gain	**28,948**	–
Others	**528**	682
	137,615	15,700

Notes to the Financial Statements

31 December 2005

5. PROFIT BEFORE TAXATION

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

		2005 HK$'000	2004 (restated) HK$'000
(a)	**Finance costs**		
	Interest on bank advances and other borrowings wholly repayable within five years	**7,507**	3,598
	Finance charges on obligations under finance leases	**31**	180
	Other borrowing costs	**–**	3,885
	Total borrowing costs	**7,538**	7,663
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	**538**	541
	Equity-settled share-based payment expenses	**3,747**	–
	Unutilised annual leave	**103**	224
	Salaries, wages and other benefits	**26,182**	23,471
		30,570	24,236
(c)	**Other items**		
	Amortisation of land lease premium	**2,683**	231
	Amortisation of intangible assets	**11,791**	11,334
	Depreciation		
	– assets held under finance leases	**215**	203
	– other assets	**38,914**	42,647
	Impairment losses		
	– trade and other receivables	**14,305**	–
	– positive goodwill	**–**	987
	– club debenture	**130**	–
	Bad debts written off	**1,061**	154
	Provision/(write-back of provision) for slow-moving inventories	**3,097**	(669)
	Net foreign exchange (gain)/loss	**(28,948)**	413
	Net realised and unrealised (gains)/losses on trading securities	**(35)**	796
	Auditors' remuneration	**2,000**	1,200
	Research and development costs	**714**	21,114
	Operating lease charges: minimum lease payments		
	– property rentals	**6,636**	11,861
	Cost of inventories	**410,082**	331,790

Notes to the Financial Statements

31 December 2005

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2005 HK$'000	2004 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	**156**	158
Current tax – Overseas		
Provision for the year	**20,947**	39,056
	21,103	39,214
Deferred tax		
Origination and reversal of temporary differences	**(309)**	(331)
	20,794	38,883

The provision for Hong Kong Profits Tax for 2005 is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Notes to the Financial Statements

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

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

	2005	2004
	HK$'000	HK$'000
Profit before tax	**270,146**	151,091
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**92,223**	44,309
Tax effect of non-deductible expenses	**4,575**	2,062
Tax effect of non-taxable income	**(27,012)**	(601)
Tax effect of unused tax losses not recognised	**5,317**	11,024
Preferential tax treatment *(note)*	**(57,755)**	(18,032)
Others	**3,446**	121
Actual tax expense	**20,794**	38,883

Note: Overseas tax provision is required to be made in respect of Dongguan Proamine Chemicals Co., Ltd. ("Dongguan Proamine"), Dongguan Gao Bao Chemicals Co., Ltd. ("Gao Bao Chemicals"), Global Cosmetics (China) Co., Ltd. ("Global Cosmetics"), and Dongguan Poly-gene Biotech Co., Ltd., all of them are subsidiaries of the Company established in the Mainland China. In accordance with the relevant income tax rules and regulations, the enacted income tax rate is 33%.

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

Notes to the Financial Statements

31 December 2005

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

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

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

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

7. DIRECTORS' REMUNERATION

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

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

Notes to the Financial Statements

31 December 2005

7. DIRECTORS' REMUNERATION *(cont'd)*

	Directors' fees HK$'000	Salaries allowances and benefits in kind HK$'000	Share-based payments HK$'000	Retirement scheme contributions HK$'000	2004 Total HK$'000
Executive directors					
Lau Jin Wei, Jim	–	2,340	–	12	2,352
Wong Wai Kwan, Connie	–	720	–	12	732
Wong Ying Yin	–	–	–	–	–
Choi Woon Man	–	1,007	–	9	1,016
Li Kwong Mo, Peter	–	921	–	12	933
Non-executive directors					
Yip Wai Leung, Jerry	20	–	–	–	20
Ouyang Fan	20	–	–	–	20
Independent non-executive directors					
Ou Ying Ji	40	–	–	–	40
Lin Jian	–	–	–	–	–
Lee Pak Chung	–	–	–	–	–
	80	4,988	–	45	5,113

The above emoluments for the year ended 31 December 2005 include the value of share options granted to certain directors under the company's share option scheme as estimated at the date of grant. The details of these benefits in kind are disclosed note 28.

Notes to the Financial Statements

31 December 2005

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2004: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2004: one) individuals are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other emoluments	**2,262**	960
Share-based payments	**786**	–
Retirement scheme contributions	**36**	12
	3,084	972

The emoluments of the three (2004: one) individuals with the highest emoluments are within the following bands:

	2005	2004
	Number of individuals	Number of individuals
HK$Nil – HK$1,000,000	**2**	1
HK$1,501,001 – HK$2,000,000	**1**	–

Notes to the Financial Statements

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9. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the company includes a loss of HK$25,953,000 (2004: HK$11,860,000) which has been dealt with in the financial statements of the company.

Reconciliation of the above amount to the company's profit for the year:

	2005 **HK$'000**	2004 HK$'000
Amount of consolidated loss attributable to equity shareholders dealt with in the company's financial statements	**(25,953)**	(11,860)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**111,650**	23,129
Company's profit for the year *(note 30(b))*	**85,697**	11,269

10. DIVIDENDS

(a) Dividends payable to equity shareholders of the company attributable to the year

	2005 **HK$'000**	2004 HK$'000
Final dividend proposed after the balance sheet date of HK$0.02 per ordinary share (2004: HK$0.02) per ordinary share)	**19,257**	18,567

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

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

Notes to the Financial Statements

31 December 2005

10. DIVIDENDS *(cont'd)*

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

	2005	2004
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.02 per share (2004: HK$0.02 per share)	**18,692**	16,722

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of HK$223,305,000 (2004: HK$105,096,000) and the weighted average of 924,931,000 (2004: 874,889,000) ordinary shares in issue during the year.

Weighted average number of ordinary shares:

	2005	2004
	'000	'000
Issued ordinary shares at 1 January	**905,077**	836,077
Effect of shares repurchased	**(6,031)**	(3,441)
Effect of conversion of convertible bonds	**–**	26,579
Effect of share options exercised	**25,885**	15,674
Weighted average number of ordinary shares at 31 December	**924,931**	874,889

Notes to the Financial Statements

31 December 2005

11. EARNINGS PER SHARE *(cont'd)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the company of HK$223,305,000 (2004: HK$105,096,000) and the weighted average number of ordinary shares of 928,025,000 shares (2004: 900,800,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted):

	2005	2004
	'000	'000
Weighted average number of ordinary shares at 31 December	**924,931**	874,889
Effect of conversion of convertible bonds	**–**	2,717
Effect of deemed issue of shares under the company's share option scheme for nil consideration	**3,094**	23,194
Weighted average number of ordinary shares (diluted) at 31 December	**928,025**	900,800

Notes to the Financial Statements

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12. SEGMENT REPORTING

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

Business segments

The group comprises the following main business segments:

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

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

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

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

(e) Others – sale of gift and premium.

Notes to the Financial Statements

31 December 2005

12. SEGMENT REPORTING *(cont'd)*

Primary reporting format – business segments

	Home and personal care products 2005	Home and personal care products 2004 (restated)	Industrial products 2005	Industrial products 2004 (restated)	Cosmetics and skincare products 2005	Cosmetics and skincare products 2004 (restated)	Bio-technology products 2005	Bio-technology products 2004 (restated)	Others 2005	Others 2004 (restated)	Consolidated 2005	Consolidated 2004 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from external customers	**167,052**	210,908	**224,206**	204,623	**351,965**	183,494	**18,150**	25,869	**8,501**	–	**769,874**	624,894
Segment results	**21,410**	24,626	**(2,977)**	(2,569)	**139,448**	90,175	**(2,045)**	10,297	**226**	(2,891)	**156,062**	119,638
Unallocated operating income and expenses											**121,622**	3,174
Profit from operations											**277,684**	122,812
Finance costs											**(7,538)**	(7,663)
Profit on disposal of investment securities											**-**	35,942
Profit before taxation											**270,146**	151,091
Taxation											**(20,794)**	(38,883)
Profit after taxation											**249,352**	112,208
Segment assets	**235,146**	224,629	**315,489**	217,950	**494,771**	195,018	**71,883**	84,920	**9,866**	–	**1,127,155**	722,517
Investment properties											**18,500**	16,000
Payment for purchase of land											**-**	111,120
Investments in securities											**42,273**	62,226
Cash and cash equivalents											**514,066**	630,909
Other unallocated assets											**54,063**	2,811
Total assets											**1,756,057**	1,545,583
Segment liabilities	**18,835**	28,982	**25,279**	28,118	**39,685**	25,215	**1,807**	4,549	**-**	–	**85,606**	86,864
Unallocated liabilities											**197,147**	254,916
Total liabilities											**282,753**	341,780
Capital expenditure	**105,399**	39,463	**141,439**	38,298	**222,067**	34,378	**11,463**	4,799	**5,343**	–	**485,711**	116,938
Depreciation	**8,490**	14,462	**11,396**	14,031	**17,889**	12,582	**922**	1,775	**432**	–	**39,129**	42,850
Amortisation charge	**582**	78	**781**	76	**1,227**	68	**11,854**	11,343	**30**	–	**14,474**	11,565

Notes to the Financial Statements

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12. SEGMENT REPORTING *(cont'd)*

Geographical segments

The group operates in two main geographical areas:

Mainland China – manufacturing and trading of home and personal care products, industrial products, cosmetics and skincare products and biotechnology products with medical and cosmetic applications.

Hong Kong – trading of home and personal care products, industrial products and cosmetics and skincare products.

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

	Hong Kong		**Mainland China**	
	2005	2004	**2005**	2004 (restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue from external customers	**31,723**	30,370	**738,151**	594,524
Segment results	**(12,401)**	(15,614)	**168,463**	135,252
Segment assets	**319,209**	270,112	**1,392,451**	1,205,940
Capital expenditure incurred during the year	**165,989**	2,561	**319,722**	114,377

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13. FIXED ASSETS

(a) The Group

	Buildings held for own use carried at fair value HK$'000	Plant, machinery and other fixed assets HK$'000	Construction in progress HK$'000	Sub-total HK$'000	Investment property HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total fixed assets HK$'000
Cost or valuation							
At 1 January 2004 (restated)	31,172	231,819	14,544	277,535	16,000	11,535	305,070
Exchange adjustments	–	–	–	–	–	–	–
Transfer	–	3,982	(3,982)	–	–	–	–
Acquisition of a subsidiary	–	703	–	703	–	–	703
Additions	–	109,781	6,139	115,920	–	–	115,920
Disposals	–	(480)	–	(480)	–	–	(480)
At 31 December 2004 (restated)	31,172	345,805	16,701	393,678	16,000	11,535	421,213
Representing:							
Cost (restated)	31,172	345,805	16,701	393,678	–	11,535	405,213
Valuation – 2004 (restated)	–	–	–	–	16,000	–	16,000
	31,172	345,805	16,701	393,678	16,000	11,535	421,213
At 1 January 2005 (restated)	31,172	345,805	16,701	393,678	16,000	11,535	421,213
Exchange adjustments	899	9,834	482	11,215	462	333	12,010
Transfer	8,922	10,310	(19,232)	–	–	–	–
Additions	–	28,010	111,084	139,094	–	121,638	260,732
Disposals	–	(718)	–	(718)	–	–	(718)
Fair value adjustment	–	–	–	–	2,038	–	2,038
At 31 December 2005	40,993	393,241	109,035	543,269	18,500	133,506	695,275
Representing:							
Cost	40,993	393,241	109,035	543,269	–	133,506	676,775
Valuation -2005	–	–	–	–	18,500	–	18,500
	40,993	393,241	109,035	543,269	18,500	133,506	695,275

Notes to the Financial Statements

31 December 2005

13. FIXED ASSETS *(cont'd)*

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

	Buildings held for own use carried at fair value	Plant, machinery and other fixed assets	Construction in progress	Sub-total	Investment property	Interests in leasehold land held for own use under operating leases	Total fixed assets
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Accumulated amortisation and depreciation:							
At 1 January 2004 (restated)	2,642	48,131	–	50,773	–	1,694	52,467
Acquisition of a subsidiary	–	317	–	317	–	–	317
Charge for the year	923	41,927	–	42,850	–	231	43,081
Written back on disposals	–	(352)	–	(352)	–	–	(352)
At 31 December 2004 (restated)	3,565	90,023	–	93,588	–	1,925	95,513
At 1 January 2005 (restated)	3,565	90,023	–	93,588	–	1,925	95,513
Exchange adjustments	102	2,364	–	2,466	–	56	2,522
Charge for the year	721	38,408	–	39,129	–	2,683	41,812
Written back on disposals	–	(773)	–	(773)	–	–	(773)
At 31 December 2005	4,388	130,022	–	134,410	–	4,664	139,074
Net book value							
At 31 December 2005	36,605	263,219	109,035	408,859	18,500	128,842	556,201
At 31 December 2004 (restated)	27,607	255,782	16,701	300,090	16,000	9,610	325,700

(b) All investment properties of the group were revalued as at 31 December 2005 on an open market value basis. The valuations were carried out by an independent firm of surveyors, AA Property Services Limited, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

Notes to the Financial Statements

31 December 2005

13. FIXED ASSETS *(cont'd)*

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

	2005	2004
		(restated)
	HK$'000	HK$'000
Outside Hong Kong		
– medium-term leases	**183,947**	53,217
Representing:		
Investment property	**18,500**	16,000
Interest in leasehold land held for own use under operating leases	**128,842**	9,610
Buildings carried at fair value	**36,605**	27,607
	183,947	53,217

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

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

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

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

	2005	2004
	HK$'000	HK$'000
Within 1 year	**588**	840
After 1 year but within 5 years	**1,125**	–
	1,713	840

Notes to the Financial Statements

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14. INTANGIBLE ASSETS

	Licenses HK$'000
Cost	
At 1 January 2004	81,515
Additions	1,018
At 31 December 2004 and at 1 January 2005	82,533
Exchange adjustments	1,782
At 31 December 2005	84,315
Accumulated amortisation	
At 1 January 2004	19,937
Charge for the year	11,334
At 31 December 2004 and at 1 January 2005	31,271
Exchange adjustments	528
Charge for the year	11,791
At 31 December 2005	43,590
Net book value	
At 31 December 2005	40,725
At 31 December 2004	51,262

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

The amortisation charge for the year is included in "general and administrative expenses" in the consolidated income statement.

Notes to the Financial Statements

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15. DEPOSIT FOR ACQUISITION OF OTHER FIXED ASSETS

At 31 December 2005, the group paid a total sum of approximately HK$342,961,000 (2004: nil) as deposits for the acquisition of certain fixed assets, which comprise of plant and machinery for manufacturing operations as well as for a new business line of recycling waste tyres and plastic products into usable oil, diesel, gasoline and natural gas.

The group's application for a site located at Yuen Long Industrial Estate to pursue its recycling business was approved by Hong Kong Science and Technology Parks Corporation. It is expected that the group will invest about HK$250 million to pursue the recycling business and the company expects that the recycling plant will start commercial production in early 2007.

Capital commitments of the group in respect of the remaining unpaid balances of approximately HK$134,146,000 (2004: nil) for these purchases are disclosed in note 32(a) to the financial statements.

16. DEPOSIT FOR ACQUISITION OF INTANGIBLE ASSETS

At 31 December 2005, the group paid a total sum of approximately HK$12,762,000 (2004: HK$9,106,000) as deposits for the purchase of the licenses rights for the manufacturing of enzymes. The underlying products relating to the licenses acquired will put into commercial production. The deposit and further contract sums will be capitalized as intangible assets upon subsequent completion and transfer of the intangible assets to the group.

Capital commitments of the group in respect of the remaining unpaid balances of approximately HK$161,000 (2004: HK$3,438,000) for these acquisitions are disclosed in note 32(a) to the financial statements.

Notes to the Financial Statements

31 December 2005

17. OTHER DEPOSITS AND CLUB DEBENTURE

	Group	
	2005	2004
	HK$'000	HK$'000
Rental deposits	**360**	360
Club debenture	**460**	460
	820	820
Less: Impairment loss on club debenture	**(290)**	(160)
	530	660

18. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**89,412**	89,402
Amounts due from subsidiaries	**903,928**	621,396
Amounts due to subsidiaries	**(48,851)**	–
	944,489	710,798

Amounts due from/(to) subsidiaries are unsecured, interest free and not expected to be recovered within one year.

Notes to the Financial Statements

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18. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group.

Name of the Company	Place of incorporation/ establishment and operation	Principal activities	Particulars of issued and paid-up share capital	Interest held
Global Success Properties Limited	The British Virgin Islands and Hong Kong	Investment holding	200 ordinary shares of US$1 each	100% [(1)]
Global Bio-Engineering Limited	Hong Kong	Trading of wastewater and sewage treatment equipment	2 ordinary shares of HK$1 each	100% [(1)]
GCC Finance Company Limited	Hong Kong	Money lending	2 ordinary shares of HK$1 each	100% [(1)]
Global Chemicals (China) Company Limited *(Note (i))*	Hong Kong	Trading of home and personal care products, industrial products and cosmetics and skincare products	10,000 ordinary shares of HK$1 each and 1,000,000 non-voting deferred ordinary shares of HK$1 each	100%
Dongguan Proamine Chemicals Co., Ltd.* *(Note (ii))*	Mainland China	Manufacture and sale of home and personal care products, industrial products, cosmetics and skincare products and biotechnology products	Approximately HK$111,319,000	100%
Global Cosmetics (China) Co., Ltd.* *(Note (iii))*	Mainland China	Manufacture and sale of professional and saloon skincare products	HK$50,000,000	70%

Notes to the Financial Statements

31 December 2005

18. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued and paid-up share capital	Interest held
Dongguan Gao Bao Chemicals Co., Ltd.* *(Note (iv))*	Mainland China	Manufacture and sale of home and personal care products, industrial products, cosmetics and skincare products and biotechnology products	RMB7,761,000	100%
Dongguan Poly-gene Biotech Co., Ltd.* *(Note (v))*	Mainland China	Research and development of bio-engineering products	HK$8,000,000	100%
High Billion Investment Limited*	Hong Kong	Holding of licence	10,000 ordinary shares of HK$1 each	100%
Enzymes Technology Limited	Hong Kong	Development of large-scale production process for industrial enzymes	6,153,846 ordinary shares of HK$1 each	65%

* *Not audited by CCIF CPA Limited*

(1) *Shares held directly by the company*

Notes to the Financial Statements

31 December 2005

18. INVESTMENTS IN SUBSIDIARIES *(cont'd)*

Notes:

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

(ii) Dongguan Proamine Chemicals Co., Ltd. ("Dongguan Proamine") is a foreign wholly owned enterprise established by the company in Mainland China for an operating period of 12 years commencing from the date of the issuance of its business licence on 29 August 1995. The registered capital of Dongguan Proamine was HK$112,000,000 of which approximately HK$111,319,000 (2004: HK$111,319,000) was paid up by the group as at 31 December 2005.

(iii) Global Cosmetics (China) Co., Ltd. ("Global Cosmetics") is a foreign wholly owned enterprise established by the company in Mainland China for an operating period of 30 years commencing from the date of the issuance of its business licence on 1 April 2004. The registered capital of Global Cosmetics was increased to HK$60,000,000, by addition of HK$10,000,000 which has not yet been fully paid up by the group as at 31 December 2005.

(iv) Dongguan Gao Bao Chemicals Co., Ltd. ("Gao Bao Chemicals") is a foreign wholly owned enterprise acquired by the company in Mainland China in June 2004 for an operating period of 10 years commencing from the date of the issuance of its business licence on 11 December 1998. The registered capital of Gao Bao Chemicals was increased to RMB7,761,000 (equivalent to approximately HK$7,462,000) which was fully paid up by the group as at 31 December 2005.

(v) Dongguan Poly-gene Biotech Co., Ltd. is a foreign wholly owned enterprise established by the company in Mainland China for an operating period of 30 years commencing from the date of the issuance of its business licence on 18 July 2003. The registered capital of Dongguan Poly-gene Biotech Co., Ltd. was HK$20,000,000 of which approximately HK$8,000,000 (2004: HK$7,000,000) was paid up by the group as at 31 December 2005.

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31 December 2005

19. INVESTMENTS IN SECURITIES

	Group 2005 HK$'000	Group 2004 HK$'000
Available-for-sale equity securities (2004: Investment securities)		
Overseas listed equity securities, at cost	**–**	25,444
Unlisted equity securities, at cost	**31,500**	31,500
	31,500	56,944
Market value of overseas listed equity securities	**–**	122,640

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

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

20. TRADING SECURITIES

	Group 2005 HK$'000	Group 2004 HK$'000
Equity securities listed outside Hong Kong, at market value	**10,773**	5,282

Notes to the Financial Statements

31 December 2005

21. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Raw materials, at cost	**20,985**	31,659
Finished goods, at cost	**21,583**	15,095
	42,568	46,754
Less: Provision	**(8,581)**	(5,331)
	33,987	41,423

22. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**145,926**	258,795	**–**	–
Bills receivable	**5,679**	2,649	**–**	–
	151,605	261,444	**–**	–
Prepayments, deposits and other receivables	**49,564**	39,819	**136**	152
Amounts due from related companies (note 23)	**6,274**	7,115	**–**	–
	207,443	308,378	**136**	152

Notes to the Financial Statements

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22. TRADE AND OTHER RECEIVABLES *(cont'd)*

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 30 years	**77,779**	72,892
31 – 60 days	**33,206**	60,300
61 – 90 days	**6,447**	65,090
Over 90 days	**48,219**	70,142
	165,651	268,424
Less: Impairment losses for bad and doubtful debts	**(14,046)**	(6,980)
	151,605	261,444

The normal credit period granted to the customers of the group is 30 to 180 days (2004: 30 to 180 days).

Notes to the Financial Statements

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23. AMOUNTS DUE FROM RELATED COMPANIES

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

Name	Balance at 1 January		Balance at 31 December		Maximum amount outstanding during the year	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
北京博康健基因科技有限公司 *(note 33(c))*	**3,473**	4,597	**3,410**	3,473	**3,473**	4,597
深圳華生元基因工程發展有限公司 *(note 33(d))*	**2,802**	4,716	**1,184**	2,802	**2,802**	4,716
Golden Idea Bio-Engineering (Dongguan) Co., Ltd. *(note 33(e))*	**840**	840	**1,680**	840	**1,680**	840
	7,115	10,153	**6,274**	7,115		

The above balances are unsecured, non-interest bearing and have no fixed terms of repayment. No provision was made against the balances at 31 December 2005 and 2004.

Details of relationships and transactions with these companies are set out in note 33 to the financial statements.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**514,066**	630,909	**35,528**	165,148

Note: The group's bank balances and cash of approximately HK$399,113,000 (2004: HK$398,927,000) were denominated in Renminbi ("RMB"). The conversion of these balances into other currencies is subject to the rules and regulations of foreign exchange control promulgated by the government of Mainland China.

Notes to the Financial Statements

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25. TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**24,356**	29,815	**–**	–
Bills payable	**20,556**	10,750	**–**	–
	44,912	40,565	**–**	–
Accrued liabilities and other payables	**37,470**	44,727	**2,403**	1,317
Amounts due to related companies*	**333**	1,463	**–**	–
	82,715	86,755	**2,403**	1,317

* Amounts due to related companies are unsecured, non-interest bearing and have no fixed terms of repayment.

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 30 days	**17,258**	25,595
31 – 60 days	**15,522**	6,798
61 – 90 days	**8,572**	3,430
Over 90 days	**3,560**	4,742
	44,912	40,565

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26. LONG-TERM BANK LOANS

At 31 December 2005, the bank loans were unsecured and repayable as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**117,500**	58,750
After 1 year but within 2 years	**58,750**	117,500
After 2 years but within 5 years	**–**	58,750
Total unsecured bank loans	**176,250**	235,000
Less: Current portion of long-term bank loans	**(117,500)**	(58,750)
Non-current portion	**58,750**	176,250

Notes to the Financial Statements

31 December 2005

26. LONG-TERM BANK LOANS*(cont'd)*

Notes:

On 19 January 2004, Global Chemicals entered into a term loan facility agreement (the "Agreement") with certain banks (the "Banks") for financing general corporate funding requirements of the Group.

Maximum available facility under the Agreement is HK$235,000,000, which can be drawn at a maximum number of three loans during the period from 19 January 2004 to 18 July 2004 (the "Availability Period") in accordance with the terms of the Agreement.

Global Chemicals shall repay the loans outstanding at the end of the Availability Period by four successive half-year instalments, the first instalment to be paid on the date falling 18 months after the date of the Agreement (i.e. 18 July 2005) and thereafter on the last day of each successive half-yearly period.

The outstanding loans bear an interest rate at HIBOR plus 1% per annum and the interest payments will be made by the end of each interest period as selected by Global Chemicals at the time when it draws the loans pursuant to the Agreement. Global chemicals may select an interest period of one, two, three or six months or any other period agreed between Global Chemicals and the Banks.

The company has executed an irrevocable and unconditional guarantee in favour of the Banks with respect to this term loan facility offered to Global Chemicals.

During the year ended 31 December 2004, Global Chemicals fully utilised the bank term loan facility of HK$235,000,000 and it selected an interest period of six months as agreed with the Banks. During the year ended 31 December 2005, Global Chemicals repaid the amount of HK$58,750,000 as partial settlement of long-term bank loans.

Notes to the Financial Statements

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27. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2005, the group had obligations under finance leases repayable as follows:

	Group					
	2005			2004		
	Present value of the minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**	Present value of the minimum lease payments	Interest expense relating to future periods	Total minimum lease payments
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Within 1 year as classified under current liabilities	**18**	**4**	**22**	110	10	120
After 1 year but within 2 years	**18**	**4**	**22**	–	–	–
After 2 years but within 5 years	**40**	**9**	**49**	–	–	–
Non-current portion	**58**	**13**	**71**	–	–	–
Total	**76**	**17**	**93**	110	10	120

Notes to the Financial Statements

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28. EQUITY SETTLED SHARE-BASED TRANSACTIONS

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

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

	Number of instruments '000	Vesting conditions	Contractual life of options
Options granted to directors:			
– on 7 June 2004	460	Immediately from the date of grant	3 years
– on 13 June 2005	800	Immediately from the date of grant	3 years
Option granted to employees:			
– on 8 January 2003	498	Immediately from the date of grant	3 years
– on 9 June 2003	892	Immediately from the date of grant	3 years
– on 7 June 2004	15,340	Immediately from the date of grant	3 years
– on 13 June 2005	19,709	Immediately from the date of grant	3 years
Options grant to others:			
– on 22 March 2002	1,200	Immediately from the date of grant	3 years
– on 29 July 2002	10,300	Immediately from the date of grant	3 years
– on 8 January 2003	5,882	Immediately from the date of grant	3 years
– on 9 June 2003	9,486	Immediately from the date of grant	3 years
– on 7 June 2004	32,700	Immediately from the date of grant	3 years
– on 13 June 2005	73,000	Immediately from the date of grant	3 years
Total share options	170,267		

Notes to the Financial Statements

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

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

	2005 Weighted average exercise price	**2005** Number of option '000	2004 Weighted average exercise price	2004 Number of option '000
Outstanding at the beginning of the period	**HK$0.88**	**76,758**	HK$1.30	37,136
Exercised during the period	**HK$0.63**	**(36,320)**	HK$0.69	(46,478)
Granted during the period	**HK$0.80**	**93,509**	HK$0.63	86,100
Lapsed during the year	**HK$1.48**	**(11,500)**	–	–
Outstanding at the end of the period	**HK$0.84**	**122,447**	HK$0.88	76,758

The weighted average share price at the date of exercise for shares options exercised during the year was HK$0.71 (2004: HK$0.76).

The options outstanding at 31 December 2005 had an exercise price of HK$1.23, HK$1.15, HK$0.63 or HK$0.80 (2004: HK$1.33, HK$1.50, HK$1.23, HK$1.15 or HK$0.63) and a weighted average remaining contractual life of 2.05 (2004: 1.89) years.

Notes to the Financial Statements

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

(c) Fair value of share options and assumptions

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

Fair value of share options and assumptions	**2005**
Fair value at measurement date	HK$0.182
Share price	HK$0.79
Exercise price	HK$0.80
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	45%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	3 years
Expected dividends	3.42%
Risk-free interest rate (based on Exchange Fund Notes)	3.21%

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

Notes to the Financial Statements

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29. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	Group	
	2005	2004
	HK$'000	HK$'000
Provision for the year		
– Hong Kong Profits Tax	**156**	158
– Mainland China Income Tax	**20,947**	39,056
	21,103	39,214
Balance of Profits/Income Tax provision relating to prior years	**20,392**	24,799
	41,495	64,013
Provisional Profits/Income Tax paid	**(20,598)**	(44,098)
	20,897	19,915

Notes to the Financial Statements

31 December 2005

29. INCOME TAX IN THE BALANCE SHEET *(cont'd)*

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Revaluation of investment property	Depreciation in excess of the related depreciation allowances	Provisions	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004 (restated)	(21)	1,802	2,043	644	4,468
(Charged)/credited to profit or loss	–	405	674	(748)	331
At 31 December 2004 (restated)	(21)	2,207	2,717	(104)	4,799
At 1 January 2005 (restated)	(21)	2,207	2,717	(104)	4,799
Exchange adjustment	1	–	–	–	1
(Charged)/credited to profit or loss	(306)	615	–	–	309
At 31 December 2005	(326)	2,822	2,717	(104)	5,109

(c) Deferred tax assets/liabilities not recognised

In accordance with the accounting policy set out in note1(q), the group has not recognised deferred tax assets in respect of cumulative tax losses of HK$132,011,000 (2004: HK$101,089,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

There is no material deferred tax liabilities not recognised.

Notes to the Financial Statements

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30. CAPITAL AND RESERVES

(a) The group

	Note	Share Capital HK$'000	Share Premium HK$'000	Capital Reverse HK$'000	Share-based compensation reserve HK$'000	Revaluation reserves Investment property HK$'000	Land and Buildings HK$'000	Statutory Reserve HK$'000	Exchange Fluctuation Reserve HK$'000	Fair value reserve HK$'000	Retained Profits HK$'000	Total HK$'000	Minority Interests HK$'000	Total Equity HK$'000
At 1 January 2004														
– as previously stated		83,608	630,889	900	–	116	7,228	47,771	212	–	292,711	1,063,435	694	1,064,129
– prior period adjustment in respect of:														
– HKAS 17		–	–	–	–	–	(7,228)		874	–	–	(6,354)		(6,354)
– HKAS 40		–	–	–	–	(116)	–	–	–	–	116	–	–	–
as restated		83,608	630,889	900	–	–	–	47,771	1,086	–	292,827	1,057,081	694	1,057,775
Conversion of convertible bonds		4,264	27,560	–	–	–	–	–	–	–	–	31,824		31,824
Purchase of own shares:														
– par value paid		(2,012)	–	–	–	–	–	–	–	–	–	(2,012)	–	(2,012)
– premium paid		–	(10,774)	–	–	–	–	–	–	–	–	(10,774)	–	(10,774)
Shares issued under share option scheme		4,648	27,362	–	–	–	–	–	–	–	–	32,010	–	32,010
Transfer to statutory reserve		–	–	–	–	–	–	(47,771)	–	–	47,771	–	–	–
2003 final dividend paid	10	–	–	–	–	–	–	–	–	–	(16,722)	(16,722)	–	(16,722)
2003 additional final dividend paid	10	–	–	–	–	–	–	–	–	–	(506)	(506)	–	(506)
Profit for the year		–	–	–	–	–	–	–	–	–	105,096	105,096	7,112	112,208
31 December 2004 (as restated)		90,508	675,037	900	–	–	–	–	1,086	–	428,466	1,195,997	7,806	1,203,803
1 January 2005														
– as previously stated		90,508	675,037	900	–	116	15,009	–	212	–	428,350	1,210,132	7,806	1,217,938
– prior period adjustment in respect of:														
– HKAS 17		–	–	–	–	–	(15,009)	–	874	–	–	(14,135)	–	(14,135)
– HKAS 40		–	–	–	–	(116)	–	–	–	–	116	–	–	–
As restated before opening balance adjustment		90,508	675,037	900	–	–	–	–	1,086	–	428,466	1,195,997	7,806	1,203,803
Opening balance adjustment in respect of HKAS39		–	–	–	–	–	–	–	–	97,196	–	97,196	–	97,196
As restated, after opening balance		90,508	675,037	900	–	–	–	–	1,086	97,196	428,466	1,293,193	7,806	1,300,999
Purchase of own shares:	34(c)(ii)													
– par value paid		(621)	–	–	–	–	–	–	–	–	–	(621)	–	(621)
– premium paid		–	(3,382)	–	–	–	–	–	–	–	–	(3,382)	–	(3,382)
Shares issued under share option scheme	34(c)(iii)	3,632	19,249	–	–	–	–	–	–	–	–	22,881	–	22,881
Transfer to statutory reverse		–	–	–	–	–	–	18,694	–	–	(18,694)	–	–	–
Equity settled share-based transactions		–	–	–	17,086	–	–	–	–	–	–	17,086	–	17,086
2004 final dividend paid	10	–	–	–	–	–	–	–	–	–	(18,692)	(18,692)	–	(18,692)
Exchange differece on translation of financial statements of overseas subsidiaries		–	–	–	–	–	–	–	2,878	–	–	2,878	(1)	2,877
Available-for-sale securities:														
–changes in fair value		–	–	–	–	–	–	–	–	(4,756)	–	(4,756)	–	(4,756)
– transfer to profit or loss on disposal		–	–	–	–	–	–	–	–	(92,440)	–	(92,440)	–	(92,440)
Profit for the year		–	–	–	–	–	–	–	–	–	223,305	223,305	26,047	249,352
At 31 December 2005		93,519	690,904	900	17,086	–	–	18,694	3,964	–	614,385	1,439,452	33,852	1,473,304

Notes to the Financial Statements

31 December 2005

30. CAPITAL AND RESERVES *(cont'd)*

(b) The company

	Note	**Share Capital** HK$'000	**Share Premium** HK$'000	**Capital Reverse** HK$'000	**Share-based compensa-tion reserve** HK$'000	**Retained Profits** HK$'000	**Total** HK$'000
At 1 January 2004		83,608	630,889	89,247	–	25,948	829,692
Purchase of own shares:							
– par value paid		(2,012)	–	–	–	–	(2,012)
– premium paid		–	(10,774)	–	–	–	(10,774)
Conversion of convertible bonds		4,264	27,560	–	–	–	31,824
Shares issued under share option scheme		4,648	27,362	–	–	–	32,010
2003 final dividend paid	10	–	–	–	–	(16,722)	(16,722)
2003 additional final dividend paid	10	–	–	–	–	(506)	(506)
Profit for the year		–	–	–	–	11,269	11,269
At 31 December 2004		90,508	675,037	89,247	–	19,989	874,781
At 1 January 2005		90,508	675,037	89,247	–	19,989	874,781
Purchase of own shares:	34(c)(ii)						
– par value paid		(621)	–	–	–	–	(621)
– premium paid		–	(3,382)	–	–	–	(3,382)
Shares issued under share option scheme	34(c)(iii)	3,632	19,249	–	–	–	22,881
Equity settled share-based transactions	10	–	–	–	17,086	–	17,086
2004 final dividend paid		–	–	–	–	(18,692)	(18,692)
Profit for the year		–	–	–	–	85,697	85,697
At 31 December 2005		93,519	690,904	89,247	17,086	86,994	977,750

Notes to the Financial Statements

31 December 2005

30. CAPITAL AND RESERVES *(cont'd)*

(c) Share capital

(i) Authorised and issued share capital

	2005 No. of shares '000	**2005** HK$'000	2004 No. of shares '000	2004 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**2,000,000**	**200,000**	2,000,000	200,000
Ordinary shares, issued and fully paid:				
At 1 January	**905,077**	**90,508**	836,077	83,608
Share issued under conversion at invertible bonds	**–**	**–**	42,642	4,264
Shares repurchased	**(6,204)**	**(621)**	(20,120)	(2,012)
Shares issued under share option scheme	**36,320**	**3,632**	46,478	4,648
At 31 December	**935,193**	**93,519**	905,077	90,508

(ii) Purchase of own shares

During the year, the company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate price paid** HK$'000
January 2005	6,204,000	0.65	0.62	4,003

The repurchased shares were cancelled and accordingly the issued share capital of the company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$3,382,000 was charged against the share premium account.

Notes to the Financial Statements

31 December 2005

30. CAPITAL AND RESERVES *(cont'd)*

(c) Share capital *(cont'd)*

(iii) Shares issued under share option scheme

During the year, options were exercised to subscribe for 36,320,000 ordinary shares in the company at a consideration of HK22,881,000 of which HK$3,632,000 was credited to share capital and the balance of HK$19,249,000 was credited to the share premium account.

Subsequent to the balance sheet date, an aggregate of 27,640,000 ordinary shares were issued upon the exercise of the outstanding share options at an average exercise price of HK$0.80 each. Total cash proceeds received thereon before any related expenses was approximately HK$22,112,000.

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

Exercise period	**Exercise price**	**2005 Number '000**	2004 Number '000
22 March 2002 to 21 March 2005	HK$1.33	**–**	1,200
29 July 2002 to 28 July 2005	HK$1.50	**–**	10,300
8 January 2003 to 7 January 2006	HK$1.23	**6,380**	6,380
9 June 2003 to 8 June 2006	HK$1.15	**10,378**	10,378
7 June 2004 to 6 June 2007	HK$0.63	**12,180**	48,500
13 June 2005 to 12 June 2008	HK$0.80	**93,509**	–
		122,447	76,758

Each option entitles the holder to subscribe for one ordinary share in the company. Further details of these options are set out in note 28 to the financial statements.

Notes to the Financial Statements

31 December 2005

30. RESERVES *(cont'd)*

(d) Nature and purpose of reserves

(i) Capital reserve

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

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

(ii) Share-based compensation reserve

The fair value of the actual or estimated number of unexercised in accordance with the accounting policy adopted for share based payments in note 1(p)(ii).

(iii) Statutory reserve

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

Notes to the Financial Statements

31 December 2005

30. RESERVES *(cont'd)*

(d) Nature and purpose of reserves *(cont'd)*

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with the accounting policy set out in note 1(t).

(v) Fair value reserve

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

(e) Distributability of reserves

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

At 31 December 2005, the aggregate amount of reserves available for distribution to equity shareholders of the company was HK$977,750,000 (2004: HK$874,781,000). After the balance sheet date the directors proposed a final dividend of HK$0.02 per ordinary share (2004: HK$0.02 per ordinary share), amounting to HK$19,257,000 (2004: HK$18,567,000), subject to the restrictions stated above. This dividend has not been recognised as a liability at the balance sheet date.

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31. FINANCIAL INSTRUMENTS

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

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

(a) Credit risks

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

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

(b) Liquidity risk

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

(c) Interest rate risk

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

Notes to the Financial Statements

31 December 2005

31. FINANCIAL INSTRUMENTS *(cont'd)*

(d) Foreign currency risk

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

(e) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2004 and 2005.

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

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

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

(iii) Amounts due from/to subsidiaries
It is not practical to estimate the fair values of the amounts due to the related party nature of these instruments.

(f) Economic risk

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

(g) Business risk

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

Notes to the Financial Statements

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32. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted for:		
– Intangible assets	**161**	3,438
– Plant and equipment	**134,146**	–
– Construction in progress	**7,341**	–
	141,648	3,438

(b) At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases in respect of office properties are payable as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 1 year	**5,115**	4,723
After 1 year but within 5 years	**4,865**	4,486
After 5 years	**3,773**	3,751
	13,753	12,960

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

Notes to the Financial Statements

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33. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) J. Chan, Yip, So & Partners, an associate of Mr. Yip Wai Leung, Jerry, who has resigned as an Independent Non-executive Director of the company during the year, rendered services to the group in return for professional fee of approximately HK$ 328,000 (2004: HK$253,000) during the year ended 31 December 2005.

(b) During the year ended 31 December 2003, Dongguan Proamine had purchased certain sewage treatment equipment from Shanghai Jindi Bio-Technology Engineering Co., Ltd. ("Shanghai GI") at a total contract sum of approximately HK$1,757,000. The remaining balance of approximately HK$527,000 has been fully repaid during the year ended 31 December 2005. Shanghai GI is a subsidiary of Bio-Treat Technology Limited ("Bio-Treat") in which the group disposed of all of 4.9% equity interest during the year ended 31 December 2005.

(c) The group sold biotechnology products totalling approximately HK$6,939,000 (2004: 10,945,000) to 北京博康健基因科技有限公司 ("北京博康健"), a wholly owned subsidiary of Bio-Tech Pharm Group Limited (Bio-Tech Pharm"), in which the group has an equity interest of 4.5%. The trade receivables from 北京博康健 as at 31 December 2005 was approximately HK$ 3,410,000 (2004: HK$3,473,000). The balance is unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers.

(d) The group sold biotechnology products totalling approximately HK$7,489,000 (2004: HK$11,058,000) to 深圳華生元基因工程發展有限公司 ("深圳華生元"). 深圳華生元 is another wholly owned subsidiary of Bio-Tech Pharm. The trade receivables from 深圳華生元as at 31 December 2005 was approximately HK$1,184,000 (2004: HK$2,802,000). The balance is unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers.

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33. MATERIAL RELATED PARTY TRANSACTIONS *(cont'd)*

(e) On 30 June 2002, Dongguan Proamine entered into a tenancy agreement with Golden Idea Bio-Engineering (Dongguan) Co., Ltd. ("Dongguan GI"), a wholly owned subsidiary of Bio-Treat. Dongguan Proamine leases its investment properties located in Mainland China to Dongguan GI. Rental income recognised during the year amounted to approximately HK$1,680,000 (2004: HK$1,680,000). At 31 December 2005, the balance due from Dongguan GI was HK$1,680,000 (2004: HK$840,000) and was unsecured and interest-free and repayable on demand.

(f) On 1 January 2004, Global Chemicals entered into an agreement for royalty fee and advertising subsidy with Crystal Marketing Management Limited ("Crystal"), a minority shareholder of the group. For the year ended 31 December 2005, Crystal paid Global Cosmetics, another subsidiary, a royalty fee of approximately HK$1,706,000 (2004: HK$2,755,000), being 28% of net income generated from services rendered to the customers and any other income incidental to the sales of MB products or services rendered to the customers in the flagshop stores. On the other hand, Global Cosmetics sold cosmetics products totaling approximately HK$8,868,000 (2004: HK$13,725,000) to Crystal under normal commercial terms.

34. CONTINGENT LIABILITIES

At 31 December 2005, the company had provided corporate guarantees to banks for banking facilities provided to its subsidiaries. These banking facilities had been utilised to the extent of approximately HK$199,621,000 (2004: HK$245,750,000) as at the balance sheet date.

35. PENDING LITIGATION

During the year ended 31 December 2004, a subsidiary of the company, Global Chemicals (China) Company Limited, has been involved in a litigation arising in the ordinary course of its business. After seeking legal advice, the directors are of the opinion that adequate provision has been made in the financial statements to cover any potential liabilities arising from the litigation.

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36. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 2 to conform with the current year's presentation.