1. GENERAL

The Company is a public limited company incorporated in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company and immediate holding company is Ming Yuan Holdings Limited and Ming Yuan Investments Group Limited, respectively, which are incorporated in the British Virgin Islands with limited liability. The address of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the annual report.

The financial statement are presented in Hong Kong dollars, which is same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries at 31st December, 2005 are set out in note 41.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of these new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting periods are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1st January, 2005. For those goodwill arising from business combination prior to 31st December, 2004 and the related principal effects of the transitional provision in HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. By applying the relevant transitional provisions in HKFRS 3, with respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$7,777,000 with a corresponding decrease in the cost of goodwill (see Note 18). Furthermore, the Group has discontinued amortising goodwill from 1st January, 2005 onwards and such goodwill is to be tested for impairment at least annually. As a result of this change in accounting policy, no amortisation of goodwill was charged in the current year. Comparative figures for 2004 has not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions after 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January, 2005 in the amount of HK$661,000 that was previously presented as a reduction from assets. A corresponding adjustment to the Group's accumulated profits of HK$661,000 has been made.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 have no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects on the Group as a result of implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Prior to 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its equity securities in accordance with the transitional provisions of HKAS 39. Other investments classified under current assets with a carrying amount of HK$14,630,000 as at 31st December, 2004 were reclassified to investment in securities held for trading on 1st January, 2005 (see Note 3 for financial impact).

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 *Investment Property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The amount held in the investment properties revaluation reserve at 1st January, 2005 has been transferred to the Group's accumulated profits (see Note 3 for financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 *Income Taxes - Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. The application of HK(SIC) Interpretation 21 *Income Taxes - Recovery of Revalued Non-Depreciable Assets* has no significant impact to the Group.

Share-based Payments

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January 2005. Since the Group did not grant any share options before 31st December, 2004 and therefore, the application of HKFRS 2 has no significant impact to the Group in prior years. (see Note 3 for the financial impact in the current year).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in Note 2 on the results for the current and prior years are as follows:

(i) On results

	2005	2004
	HK$'000	HK$'000
Non-amortisation of goodwill	**(5,490)**	–
Decrease in release of negative goodwill to income	**426**	–
Recognition of share-based payments as expenses	**9,965**	–
Increase in effective interest expense on the liability components of convertible bonds	**9,499**	–
Decrease in profit for the year	**14,400**	–

(ii) On income statement line items

	2005	2004
	HK$'000	HK$'000
Increase in administrative expenses	**4,901**	–
Increase in finance costs	**9,499**	–
	14,400	–

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The cumulative effect of the new HKFRSs, as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) HK$'000	Adjustment HK$'000	As at 31st December, 2004 (Restated) HK$'000	Adjustments HK$'000	**As at 1st January, 2005 (Restated) HK$'000**
(iii) Balance sheet items					
Impact of HKFRS 3					
Negative goodwill	(661)	–	(661)	661	**–**
Impact of HKAS 39					
Investments in securities	14,630	–	14,630	(14,630)	**–**
Investments in security held for trading	–	–	–	14,630	**14,630**
Total effects on assets	13,969	–	13,969	661	**14,630**
Investment property revaluation reserve	(750)	–	(750)	750	**–**
Accumulated profits	(82,710)	–	(82,710)	(1,411)	**(84,121)**
Minority interest	–	8,982	8,982	–	**8,982**
Total effects on equity	(83,460)	–	(74,478)	(661)	**(75,139)**
Minority interest	8,982	(8,982)	–	–	**–**

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated HK$'000	**Adjustments** HK$'000	**As restated** HK$'000
Share capital and other reserves	291,548	–	291,548
Minority interest	–	9,481	9,481
Total effect on equity	291,548	9,481	301,029
Minority interests	9,841	(9,841)	–

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the application of these standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	The effects of change in foreign exchange rates-net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economics[4]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention except for the investment properties and financial instruments which are measured at fair values, as explained in the accounting policies below. The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Turnover represents the net amounts received and receivable for goods sold by the Group less discount allowances, and goods returned.

Sales of goods are recognised when the goods are delivered and title has passed.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the period of the respective leases.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment (other than properties under development) are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year and is measured at the amount expected to be paid or recovered from the taxation authorities using tax rates that have been enacted or substantially enacted by the balance sheet date. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates they have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all cots of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents 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.

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. For intangible assets with indefinite useful lives and intangible assets not yet available for use, they are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as expense as they fall due.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's major financial assets are trade and other receivables, deposits and prepayments, loans and interest receivable and investments in securities which fall within the category of loans and receivables and financial assets at fair value through profit or loss respectively and the accounting policies adopted are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, trade and other receivables, deposits and loans and interest receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group's major financial liabilities are other financial liabilities and the accounting policies adopted are set out below.

Other financial liabilities

Other financial liabilities include trade and other payables, bills payable, amount due to a minority shareholder, amounts due to related companies, amount due to ultimate holding company and bank borrowings which fall within the category of other financial liabilities. These financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Convertible bonds

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible bonds equity reserve).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds (continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Equity instrument

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are unexercised at the expiry date, the amount previously recognised in equity (share option reserve) will be transferred to accumulated profits.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 4, management has made the following judgment that have most significantly effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31st December, 2005, management of the Group determined that there were no impairment on goodwill. Details of the impairment testing on goodwill are disclosed in Note 18.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include, trade and other receivables, deposits, amounts due to related companies, bank borrowings and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 is the carrying amount of trade and other receivables as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. Also, certain trade receivables, trade payables, bank balances and bank borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

7. SEGMENT INFORMATION

Business segments

For management purposes, the Group is organised into the following three major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions are as follows:

Protein chips division	–	Manufacturing and trading of protein chips and related equipments
Information technology ("IT") products and services division	–	Trading of computer products and related accessories
Property investment division	–	Leasing of properties, properties holding and property trading

An analysis of the Group's turnover and contribution to operating results and segmental assets and liabilities by business segments is as follows:

	Protein chips division HK$'000	IT products and services division HK$'000	Property investment division HK$'000	Consolidated HK$'000
For the year ended 31st December, 2005				
Turnover				
External sales	126,985	144,322	10,828	282,135
Results				
Segment results	86,954	65	439	87,458
Unallocated expenses				(22,282)
Interest income				4,899
Gain on disposal of property, plant and equipment	16,401	–	–	16,401
Finance costs				(15,765)
Profit before taxation				70,711
Taxation				(676)
Profit for the year				70,035
Assets and liabilities at 31st December, 2005				
Assets				
Segment assets	601,076	23,971	1,801	626,848
Goodwill	47,115	–	–	47,115
Unallocated assets				107,218
Consolidated total assets				781,181
Liabilities				
Segment liabilities	9,457	2,885	371	12,713
Unallocated liabilities				267,298
Consolidated total liabilities				280,011

7. SEGMENT INFORMATION (continued)

	Protein chips division HK$'000	IT products and services division HK$'000	Property investment division HK$'000	Unallocated HK$'000	Consolidated HK$'000
Other information for the year ended 31st December, 2005					
Capital expenditure	**102,362**	**519**	**–**	**32**	**102,913**
Depreciation on property, plant and equipment	**5,015**	**674**	**–**	**567**	**6,256**
Share based payment	**–**	**–**	**–**	**9,655**	**9,655**
Amortisation of prepaid lease payment	**797**	**–**	**–**	**–**	**797**

	Protein chips division HK$'000	IT products and services division HK$'000	Property investment division HK$'000	Consolidated HK$'000
For the year ended 31st December, 2004				
Turnover				
External sales	78,798	429,696	15,074	523,568
Results				
Segment results	48,278	6,641	7,523	62,442
Unallocated expenses				(4,530)
Interest income				583
Gain on disposal of property, plant and equipment	6,708	–	–	6,708
Profit on disposal of subsidiaries			9,673	9,673
Finance costs				(2,853)
Profit before taxation				72,023
Taxation				(4,771)
Profit for the year				67,252
Assets and liabilities at 31st December, 2004				
Assets				
Segment assets	**116,830**	**83,591**	**14,518**	**214,939**
Goodwill	**47,115**	**–**	**–**	**47,115**
Unallocated expenses				**210,745**
Consolidated total assets				**472,799**
Liabilities				
Segment liabilities	**5,016**	**1,905**	**444**	**44,426**
Unallocated liabilities				**35,523**
Consolidated total liabilities				**79,949**

7. SEGMENT INFORMATION (continued)

	Protein chips division HK$'000	IT products and services division HK$'000	Property investment division HK$'000	Unallocated HK$'000	Consolidated HK$'000
Other information for the year ended 31st December, 2004					
Capital expenditure	2,997	24	–	654	3,675
Depreciation on property, plant and equipment	5,843	495	–	939	7,277
Amortisation of goodwill	5,490	–	–	–	5,490
Release of negative goodwill	26	50	154	–	230

Geographical Segments

The following table provides an analysis of the Group's turnover by geographic markets, irrespective of the origin of the goods and services:

	2005 HK$'000	2004 HK$'000
Hong Kong	**20,355**	296,734
PRC	**261,520**	220,920
Canada	**260**	5,914
	282,135	523,568

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions of property, plant and equipment**	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Hong Kong	**5,124**	202,357	**546**	654
PRC	**728,942**	222,749	**102,367**	3,021
Canada	**–**	578	**–**	–
	734,066	425,684	**102,913**	3,675

8. OTHER OPERATING INCOME

	2005 HK$'000	2004 HK$'000
Interest income	**4,899**	583
Unrealised gain on investments in securities	**–**	6,710
Gain on disposal of property, plant and equipment	**16,401**	6,708
Gain on disposal of investment properties	**779**	–
Others	**2,834**	1,263
	24,913	15,264

9. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank borrowings wholly repayable within five years	**4,293**	2,853
Interest expenses on convertible bonds	**11,472**	–
	15,765	2,853

10. PROFIT BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Profit before taxation has been arrived at after charging:		
Depreciation	**6,256**	7,277
Staff costs		
– directors' remuneration *(note 11(a))*	**6,667**	2,477
– other staff costs	**12,048**	10,926
– share-based payments	**7,064**	–
– retirement benefits scheme contributions, excluding directors	**49**	109
Total staff costs	**25,828**	13,512
Auditors' remuneration	**1,250**	1,000
Loss on disposal of investments in securities held for trading included in other operating expenses	**4,895**	–
Amortisation of goodwill included in other operating expenses	**–**	5,490
Research and development expenses	**–**	1,227
Allowances for bad and doubtful debts	**702**	543
and after crediting:		
Net rental income in respect of premises after outgoings of approximately HK$49,000 (2004: HK$3,000,000)	**69**	7,364
Release of negative goodwill included in administrative expenses	**–**	230

11. DIRECTORS AND EMPLOYEES' REMUNERATION

(a) DIRECTORS' REMUNERATION

		2005 HK$'000	2004 HK$'000
Directors' fees:			
(i)	Executive		
	– Yao Yuan	**1,800**	1,350
	– Chien Hoe Yong, Henry	**300**	–
	– Hu Jun	**–**	–
	– Yu Ti Jun	**120**	60
	– Hu Geng Xi	**1,200**	604
		3,420	2,014
(ii)	Non-executive	**–**	–
(iii)	Independent non-executive		
	– Lam Lee G.	**120**	120
	– Lee Sze Ho, Henry	**120**	31
	– Xiao Chuan Guo	**–**	–
	– Hu Jin Hua	**70**	–
		310	151
	Total directors' fees	**3,730**	2,165

11. DIRECTORS AND EMPLOYEES' REMUNERATION (continued)

(a) DIRECTORS' REMUNERATION (Continued)

	2005 HK$'000	2004 HK$'000
Other emoluments of executive directors:		
(i) Salaries and other benefits		
– Yao Yuan	**–**	297
– Chien Hoe Yong, Henry	**–**	–
– Hu Jun	**–**	–
– Yu Ti Jun	**–**	–
– Hu Geng Xi	**–**	–
	–	297
(ii) Retirement benefits scheme contribution		
– Yao Yuan	**12**	9
– Chien Hoe Yong, Henry	**12**	–
– Hu Jun	**–**	–
– Yu Ti Jun	**–**	–
– Hu Geng Xi	**12**	6
	36	15
(iii) Share-based payments		
– Yao Yuan	**–**	–
– Chien Hoe Yong, Henry	**1,156**	–
– Hu Jun	**436**	–
– Yu Ti Jun	**436**	–
– Hu Geng Xi	**873**	–
	2,901	–
Total other emoluments of executive directors	**2,937**	312
Total	**6,667**	2,477

None of the directors has waived any emoluments during the year.

(b) EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group include two directors of the Company (2004: Nil), details of whose remuneration are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2005 HK$'000	2004 HK$'000
Salaries, allowances and benefits in kind	**2,680**	2,246
Retirement benefits scheme contributions	**36**	40
Share-based payments	**1,327**	–
	4,043	2,286

11. DIRECTORS AND EMPLOYEES' REMUNERATION (continued)

(b) EMPLOYEES' REMUNERATION (Continued)

The number of employees whose remuneration falls within the bands set out below is as follows:

HK$	**2005 Number of employees**	2004 Number of employees
Nil to 1,000,000	**2**	4
1,500,001 to 2,000,000	**1**	–

12. TAXATION

	2005 HK$'000	2004 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**(771)**	(1,103)
Taxation in other jurisdictions		
– Current year	**(2)**	(1,054)
– Overprovision (underprovision) in prior years	**97**	(2,614)
Taxation attributable to the Company and its subsidiaries	**(676)**	(4,771)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The taxation for the year can be reconciled to the profit before taxation as per the consolidated income statement as follows:

	2005 HK$'000	2004 HK$'000
Profit before taxation	**70,711**	72,023
Tax at the domestic income tax rate at 33% (2004: 33%) *(Note a)*	**23,335**	23,767
Tax effect of income not taxable in determining taxable profit	**(1,606)**	(5,384)
Tax effect of expenses not deductible for tax purpose	**8,762**	5,347
Tax effect of tax losses not recognised	**42**	4,468
(Overprovision) underprovision in prior years	**(97)**	2,614
Effect of different tax rates of subsidiaries operating in other jurisdictions	**7,536**	(6,529)
Effect of tax exemptions granted to PRC subsidiaries	**(38,071)**	(20,060)
Others	**775**	548
Taxation for the year	**676**	4,771

Notes:

(a) Being tax rate in PRC where the operation of the Group is substantially based.

(b) As at 31st December, 2005, the Group had unused tax losses of approximately HK$38,214,000 (2004: HK$38,089,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams. Such tax losses can be carried forward indefinitely.

13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the equity holders of the parent is based on the following data:

	2005	2004
	HK$'000	HK$'000
Earnings		
Profit for the year attributable to the equity holders of the parent and earnings for the purpose of basic earnings per share	**70,096**	67,020
Effect of dilutive potential ordinary shares:		
– Interest on convertible bonds	**11,472**	–
Earnings for the purpose of diluted earnings per share	**81,568**	67,020

	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,688,100,846**	2,685,082,531
Effect of dilutive potential ordinary shares:		
– share options	**189,705**	–
– convertible bonds	**214,408,725**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,902,699,276**	2,685,082,531

14. INVESTMENT PROPERTIES

	HK$'000
Valuation	
At 1st January, 2004	114,700
Transfer to properties held for sale	(10,600)
Disposal of subsidiaries	(102,000)
Surplus arising on revaluation	750
At 1st January, 2005	2,850
Disposals	(2,850)
At 31st December, 2005	**–**

The carrying value of the investment properties as at 31st December, 2004 were properties held under medium-term land use rights in the PRC.

All of the Group's investment properties under operating leases as at 31st December, 2004 to earn rentals or for capital appreciation purposes were measured using the fair value model and were classified and accounted for as investment properties.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and equipment	Office equipment	Motor vehicles	Leasehold improvements	Furniture and fixtures	Buildings under development	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost								
At 1st January, 2004	6,540	25,880	1,719	2,764	1,596	576	–	39,075
Additions	50	2,712	191	609	60	53	–	3,675
Disposals	–	(4,669)	–	–	–	–	–	(4,669)
At 31st December, 2004	6,590	23,923	1,910	3,373	1,656	629	–	38,081
Exchange adjustments	190	690	40	45	–	9	–	974
Additions	87	11,438	106	1,097	–	5	90,180	102,913
Disposals	–	(9,065)	(20)	(558)	(19)	–	–	(9,662)
At 31st December, 2005	**6,867**	**26,986**	**2,036**	**3,957**	**1,637**	**643**	**90,180**	**132,306**
Depreciation								
At 1st January, 2004	111	2,203	364	432	642	122	–	3,874
Provided for the year	406	4,776	591	894	419	191	–	7,277
Eliminated on disposals	–	(810)	–	–	–	–	–	(810)
At 31st December, 2004	517	6,169	955	1,326	1,061	313	–	10,341
Exchange adjustments	18	235	21	17	–	5	–	296
Provided for the year	231	3,987	513	1,063	306	156	–	6,256
Eliminated on disposals	–	(2,654)	(11)	(409)	–	–	–	(3,074)
At 31st December, 2005	**766**	**7,737**	**1,478**	**1,997**	**1,367**	**474**	**–**	**13,819**
Net book value								
At 31st December, 2005	**6,101**	**19,249**	**558**	**1,960**	**270**	**169**	**90,180**	**118,487**
At 31st December, 2004	6,073	17,754	955	2,047	595	316	–	27,740

The above items of the property, plant and equipment are depreciated on a straight line method, at the following rates per annum:

Buildings	Over 2% or the term of the lease, if shorter
Plant and equipment	10% – 30%
Office equipment	15% – 50%
Motor vehicles	15% – 33%
Leasehold improvements	10% – 33% or the term of the lease, if shorter
Furniture and fixtures	20% – 33%

The buildings held by the Group at the balance sheet date shown above were held under medium lease terms located in the PRC.

At 31st December, 2005, the Group's buildings with an aggregate net book value of HK$6,101,000 (2004: Nil) were pledged to secure general banking facilities granted to the Group.

16. PREPAID LEASE PAYMENT

	HK$'000
Cost	
At 1st January, 2005	–
Additions	39,791
At 31st December, 2005	**39,791**
Amortisation	
At 1st January, 2005	–
Provided for the year	797
At 31st December, 2005	**797**
Carrying value	
At 31st December, 2005	**38,994**
At 31st December, 2004	–

	2005 **HK$'000**
Analysed for reporting purpose as:	
Current assets	**796**
Non-current asset	**38,198**
	38,994

The Group's prepaid lease payments represent payment for land use right under medium-term lease located in the PRC.

17. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHT

During the year ended 31st December, 2004, 上海数康生物科技有限公司, a wholly-owned subsidiary of the Company, entered into an agreement with 上海松江工业园区 (the "上海松江工业园区 Agreement") to acquire a land use right relating to a piece of land located in the PRC for a consideration of US$4,900,000 (equivalent to approximately HK$37,551,000). Deposits of US$3,000,000 (equivalent to approximately HK$22,991,000) was paid by the Group as at 31st December, 2004. During the year, the上海松江工业园区 Agreement was terminated and the deposit was transferred to acquire another piece of land located in 奉贤现代农业园区 at a consideration RMB41,388,000 (equivalent to approximately HK$39,791,000) pursuant to the agreement entered into between the Group and 上海市奉贤现代农业园区. The remaining balance of HK$16,800,000 was also paid and the total amount of HK$39,791,000 were transferred to prepaid lease payment upon completion during the year.

18. GOODWILL

	HK$'000
Cost	
At 1st January, 2004, and 31st December, 2004	54,892
Elimination of accumulated amortisation upon the application of HKFRS 3	(7,777)
At 31st December, 2005	**47,115**
Amortisation	
At 1st January, 2004	2,287
Provided for the year	5,490
At 31st December, 2004	7,777
Elimination of accumulated amortisation upon the application of HKFRS 3	(7,777)
At 31st December, 2005	**–**
Carrying value	
At 31st December, 2005	**47,115**
At 31st December, 2004	47,115

Prior to 31st December, 2004, goodwill was amortised over its estimated useful life of 10 years.

Particulars regarding impairment testing on goodwill are disclosed below:

The entire goodwill is attributable to the acquisition of HD Global Limited and its subsidiaries ("HD Global Group") which are engaged in the business segment of protein chips as set out in note 7.

During the year ended 31st December, 2005, management of the Group determines that there is no impairment of goodwill of the Group to a cash generating unit.

The basis of the recoverable amounts of this cash generating unit and their major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period with zero growth rate, and discount rate of 6.77%. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of this cash generating unit to exceed the aggregate recoverable amount of this cash generating unit.

19. NEGATIVE GOODWILL

	HK$'000
Cost	
At 1st January, 2004	2,050
Arising on acquisition of additional interest in subsidiaries	260
Released upon disposal of subsidiaries	(1,553)
At 31st December, 2004	757
Released to income	
At 1st January, 2004	86
Released to income	230
Released upon disposal of subsidiaries	(220)
At 31st December, 2004	96
Net book value	
At 31st December, 2004	661
Derecognised upon the application of HKFRS 3	(661)
At 1st January, 2005	–

As explained in Note 3, all negative goodwill arising on acquisitions prior to 1st January, 2005 was derecognised as a result of the application of HKFRS 3.

20. INVENTORIES

	2005	2004
	HK$'000	HK$'000
At cost		
Raw materials	**4,005**	3,758
Work in progress	**3,535**	2,150
Finished goods	**6,431**	6,617
	13,971	12,525

The cost of inventories recognised as expenses during the year was approximately HK$143,143,000 (2004: HK$416,880,000).

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2005	2004
	HK$'000	HK$'000
Trade receivables *(note)*	**53,903**	90,257
Prepayments for purchases	**15**	14,561
Consideration receivable for disposal of subsidiaries	–	75,000
Deposits and other receivables	**19,152**	12,681
	73,070	192,499

The carrying amount of the Group's trade and other receivables, deposits at 31st December, 2005 approximates to the corresponding fair value.

Note:

The Group normally allows a credit period of 30 to 90 days to its trade customers. An aged analysis of the trade receivables at the balance sheet date is as follows:

	2005	2004
	HK$'000	HK$'000
0 – 60 days	**32,026**	56,643
61 – 90 days	**11,301**	5,098
Over 90 days	**13,238**	30,476
	56,565	92,217
Less: Allowances for bad and doubtful debts	**(2,662)**	(1,960)
	53,903	90,257

22. LOANS AND INTEREST RECEIVABLES

The amounts are unsecured, carry interest at fixed rate ranging from 2% to 8% per annum and are repayable within one year. The fair value of the Group's loans and interest receivables as at 31st December, 2005, approximates to the carrying amount of the receivables.

23. INVESTMENTS IN SECURITIES

Other investments as at 31st December, 2004 represented listed equity investments in Hong Kong, which were stated at market value. Upon the application of HKAS 39 on 1st January, 2005, other investments were reclassified to investments in securities held for trading under HKAS 39 *(see Note 3 for details)*.

24. PLEDGED BANK DEPOSITS

The amount represents bank deposits pledged to a bank to secure the corporate credit card facilities granted to the Group and therefore are classified as current asset.

25. TRADE AND OTHER PAYABLES

	2005	2004
	HK$'000	HK$'000
Trade payables	**3,201**	8,891
Accruals and other payables	**10,199**	12,202
	13,400	21,093

An aged analysis of trade payables at the balance sheet date is as follows:

	2005	2004
	HK$'000	HK$'000
0 – 60 days	**2,605**	21
61 – 90 days	**104**	13
Over 90 days	**492**	8,857
	3,201	8,891

The carrying amount of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding fair value.

26. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount was secured, non-interest bearing and repayable on demand. The amount was fully repaid during the year.

27. AMOUNTS DUE TO RELATED COMPANIES

Details of amounts due to related companies are as follows:

	2005	2004
	HK$'000	HK$'000
上海铭源实业集团有限公司(「上海铭源实业」)	**6,728**	2,934
上海铭源数码股份有限公司(「上海铭源数码」)	**–**	1,575
	6,728	4,509

上海铭源实业 and 上海铭源数码 are companies in which Mr. Yao Yuan has a beneficial interest.

The amounts are unsecured, non-interest bearing and are repayable on demand. The carrying amount of the Group's amounts due to related companies at 31st December, 2005 approximates to the corresponding fair value.

28. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount was secured, non-interest bearing and repayable on demand. The amount was fully repaid during the year.

29. BANK BORROWINGS

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Bank borrowings repayable:		
– On demand or within one year	**47,962**	31,102
– More than one year but not more than two years	**28,577**	1,195
– More than two years but not more than five years	**–**	840
	76,539	33,137
Less: Amount due within one year under current liabilities	**(47,962)**	(31,102)
Amount due after one year	**28,577**	2,035
Analysed as:		
Secured	**76,539**	3,230
Unsecured	**–**	29,907
	76,539	33,137

During the year, the Group obtained new bank loans in the amount of HK$65,961,000. The loans bear interests at prevailing market rate and will be repayable by instalment over a period of one to two years. The proceeds were used as general working capital of the Group.

The bank borrowings bear interest at prevailing market rates ranging from 4.45% to 6.89% per annum (2004: ranging from 2.45% to 6.37% per annum) and are repayable by instalments within a period of two to three years. The bank borrowings are secured by land and buildings of the Group, corporate guarantee given by a related company and third parties and personal guarantee given by a director of the Company. Details of the personal guarantee given by a director of the Company are set out in note 40.

The Group's bank borrowings that are denominated in currencies other than Hong Kong dollars are set out below:

	Renminbi
As at 31st December, 2005	**38,000,000**
As at 31st December, 2004	32,000,000

The carrying amount of the Group's banking borrowings at 31st December, 2005 approximates to the corresponding fair value.

30. SHARE CAPITAL

	Number of shares	Value HK$'000
Ordinary shares of HK$0.05 each		
Authorised:		
At 1st January, 2004	3,000,000,000	150,000
Increase in authorised share capital	1,000,000,000	50,000
At 31st December, 2004 and 31st December, 2005	4,000,000,000	200,000
Issued and fully paid:		
Ordinary shares of HK$0.05 each		
At 1st January, 2004	2,588,096,230	129,405
Issue of shares	100,000,000	5,000
At 31st December, 2004	2,688,096,230	134,405
Conversion of convertible bonds	10,869	–
At 31st December, 2005	**2,688,107,099**	**134,405**

During the year, HK$10,000 of the convertible bonds was converted into the ordinary shares of the Company.

31. CONVERTIBLE BONDS

On 22nd December, 2004, the Company entered into a placing agreement with Deutsche Bank AG, Hong Kong Branch ("Deutsche Bank"), whereby Deutsche Bank agreed to seek subscribers to subscribe for the Hong Kong dollar denominated 1% convertible bonds due 2010 ("2010 Bonds") issued at par by the Company in an initial aggregate principal amount of HK$200,000,000. The transaction cost of HK$7,976,000 related to the issue of the convertible bonds have been allocated to the liability and equity components in proportion to the allocation of the proceeds.

In additions, the Company has granted to Deutsche Bank an option to require the Company to issue the additional 2010 Bonds with an aggregate principal amount up to HK$100,000,000 at par, exercisable on one or more occasions (provided that such option shall not be exercised more than once on any one day), in whole or in part, at any time on or before 180th day following the date of the issue of 2010 Bonds. The option was not exercised by Deutsche Bank and lapsed during the year.

The issue date of 2010 Bonds was 6th January, 2005.

The 2010 Bonds bear interest from 6th January, 2005 at the rate of 1% per annum of the principal amount of the 2010 Bonds. Interest is payable annually on 6th January in each year commencing on 6th January, 2005. The initial conversion price is HK$0.92 per share, subject to adjustment.

The holders of 2010 Bonds have the right to convert their 2010 Bonds into ordinary shares of HK$0.05 each of the Company at any time on or after 15 days after 6th January, 2005 up to the close of business 15 days prior to 6th January, 2010.

31. CONVERTIBLE BONDS (continued)

The holder of 2010 Bonds will have the right at such holder's option to require the Company to redeem all or some only of the 2010 Bonds of such holders on 7th January, 2007 at 105.09% of their principal amount. On or at any time after 6th January, 2007, and prior to 6th January, 2010, the Company may, having given not less than 30 nor more than 60 days' notice to the holder of 2010 Bonds, redeem all and not some only of the 2010 Bonds at a redemption price equal to the principal amount of 2010 Bonds plus a premium calculated to give the holders of 2010 Bonds a fixed return of 3.5% per annum from 6th January, 2005 to the redemption date of 2010 Bonds, together with the accrued interest to but excluding the redemption date. No such redemption may be made unless (i) the closing price of the shares of the Company for each of the 30 consecutive trading day, the last day of such 30 trading day period falls within five trading days prior to the date upon which notice of such redemption is given was at least 130% of the conversion price or (ii) at least 90% in principal amount of 2010 Bonds has already converted, redeemed or purchased or cancelled.

Unless previously redeemed, purchase and cancelled or converted, the Company will redeem each of 2010 Bonds at 113.41% of its principal amount on 6th January, 2010.

During the year ended 31st December, 2005, HK$10,000 of the 2010 Bonds had been converted into ordinary shares of HK$0.05 each of the Company.

The convertible bonds contain two components, liability and equity elements. Upon the application of HKAS 32 "Financial Instruments: Disclosure and Presentation", the convertible bonds were split between the liability and equity elements. The equity element is presented in equity heading "Convertible bond equity reserve". The effective interest rate of the liability component is 6.77%.

The movement of the liability component of the convertible bonds for the year is set out below:

	HK$'000
Liability component at 1st January, 2005	–
Issue of convertible bonds	171,681
Interest charged	11,472
Interest paid	–
Liability component at 31st December, 2005	**183,153**

The carrying amount of the liability component of the convertible bonds as at 31st December, 2005 approximates to the corresponding fair value.

32. BALANCE SHEET OF THE COMPANY

The Company's balance sheet at the balance sheet date are as follows:

	2005 HK$'000	2004 HK$'000
Non-Current Assets		
Property, plant and equipment	**171**	373
Interests in subsidiaries	**412,958**	160,901
	413,129	161,274
Current Assets		
Amounts due from subsidiaries	**79,238**	119,031
Other receivables, deposits and prepayments	**2,374**	517
Bank balances and cash	**134**	1,280
	81,746	120,828
Current Liabilities		
Other payables and accruals	**3,711**	2,922
Amounts due to subsidiaries	**46,451**	17,696
Amount due to ultimate holding company	**–**	261
Amount due to a related company	**3,703**	–
	53,865	20,879
Net Current Assets	**27,881**	99,949
	441,010	261,223
Capital and Reserves		
Share capital	**134,405**	134,405
Reserves *(Note)*	**123,452**	126,818
	257,857	261,223
Non current liabilities		
Convertible bonds	**183,153**	–
	441,010	261,223

Note:

	Share premium HK$'000	Convertible bonds equity reserve HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2004	100,345	–	–	12,804	(25,506)	87,643
Issue of shares	50,000	–	–	–	–	50,000
Net loss for the year	–	–	–	–	(10,825)	(10,825)
At 31st December, 2004	150,345	–	–	12,804	(36,331)	126,818
Issue of shares	9	–	–	–	–	9
Recognition of equity component of convertible bonds	–	20,343	–	–	–	20,343
Recognition of equity – settled share based payments	–	–	9,965	–	–	9,965
Net loss for the year	–	–	–	–	(33,683)	(33,683)
At 31st December, 2005	**150,354**	**20,343**	**9,965**	**12,804**	**(70,014)**	**123,452**

33. SHARE OPTIONS

Equity-settled share option scheme

On 31st May, 2004 (the "Adoption Date"), the Company adopted a new share option scheme ("the Scheme") for the primary purpose of providing incentives to any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Company and its subsidiaries (the "Group") and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers to the Group ("Participants") who the board of directors considers, in its sole discretion, have contributed or shall have contributed to the Group. The Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. Under the Scheme, the board of directors of the Company may grant options to the Participants, to subscribe for shares in the Company.

As at 31st December, 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 157,000,000 (2004: Nil) representing 5.84% (2004: Nil) of the shares of the Company in share at that date.

The maximum number of shares which may be issued upon exercise of all outstanding options under the Scheme shall not exceed 10% of the shares in issue at the Adoption Date unless the Company obtains a fresh approval from its shareholders.

The maximum number of shares issued and to be issued upon exercise of all options granted and to be granted to a specifically identified single grantee under the Scheme shall not (when aggregated with any shares which are subject of options under any other share option scheme(s) of the Company) in any 12-month period exceed 1% of the shares in issue.

Option granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors may at its discretion determines the specific exercise period. The exercise price is determined by the board of directors of the Company, and will not be less than the higher of (i) the closing price; (ii) the average closing price of the Company's shares of the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

33. SHARE OPTIONS (continued)

The following table discloses the movement of the Company's share options during the year:

					Number of share options			
Directors	Date of grant	Exercise price	Vesting period	Exercisable period	Outstanding at 1.1.2004 and 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
Directors	8.4.2005	HK$0.728	N/A	8.4.2005 – 7.4.2010	–	9,300,000	–	9,300,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	–	9,300,000	–	9,300,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	–	9,300,000	–	9,300,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	–	9,300,000	–	9,300,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	–	9,300,000	–	9,300,000
					–	46,500,000	–	46,500,000
Employees	8.4.2005	HK$0.728	N/A	8.4.2005 – 7.4.2010	–	22,100,000	–	22,100,000
			8.4.2005 – 7.4.2006	8.4.2006 – 7.4.2010	–	22,100,000	–	22,100,000
			8.4.2005 – 7.4.2007	8.4.2007 – 7.4.2010	–	22,100,000	–	22,100,000
			8.4.2005 – 7.4.2008	8.4.2008 – 7.4.2010	–	22,100,000	–	22,100,000
			8.4.2005 – 7.4.2009	8.4.2009 – 7.4.2010	–	22,100,000	–	22,100,000
					-	110,500,000	–	110,500,000
Total					–	157,000,000	–	157,000,000
Exercisable at 31st December, 2005								31,400,000
Weighted average exercise price								HK$0.728

The weighted average fair value of the option granted on 8th April, 2005 was HK$0.113. The fair value were calculated using market value basis. The inputs into the model were as follows:

Weighted average share price	HK$0.728
Exercise price	HK$0.728
Expected share volatility	40%
Expected life	2 - 5 years
Weighted average risk-free rate	3.834%
Expected dividend yield	3%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK$9,965,000 for the year ended 31st December, 2005 in relation to share options granted by the Company.

34. DISPOSAL OF SUBSIDIARIES

During the year ended 31st December, 2004, the Group disposed of its 100% interest in Gaint Power International Limited, 上海汉中皇国际物业管理有限公司 and Fieldcrown Investments Limited for a total consideration of approximately HK$92,443,000. These disposed subsidiaries were engaged in the business of property investment. Details of the assets and liabilities of the subsidiaries disposed of were as follows:

	2004 HK$'000
Net assets disposed of:	
Investment properties	102,000
Trade and other receivables	9,437
Bank balances and cash	5,783
Trade and other payables	(2,027)
Amount due to a related company	(10)
Taxation payable	(1,542)
Investment property revaluation reserve realised	(29,538)
Negative goodwill realised	(1,333)
	82,770
Gain on disposal of subsidiaries	9,673
Consideration	92,443
Satisfied by:	
Cash	17,443
Other receivables	75,000
	92,443

34. DISPOSAL OF SUBSIDIARIES (continued)

An analysis of the net cash inflow of cash and cash equivalents in connection with the disposal of subsidiaries is as follows:

	2005	2004
	HK$'000	HK$'000
Cash consideration received	–	17,443
Bank balances and cash disposed of	–	(5,783)
Net inflow of cash and cash equivalents in connection with the disposed of subsidiaries	–	11,660

The subsidiaries disposed of during the year ended 31st December, 2004 contributed approximately HK$510,000 to the Group's net operating cash inflow and no significant contribution to the Group's cashflow in respect of investing and financing activities.

35. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2005	2004
	HK$'000	HK$'000
Authorised but not contracted for in respect of an investment project	–	210,600
Contracted for but not provided for in the financial statements in respect of acquisition of property, plant and equipment (2004: land use right)	**44,294**	14,560

36. OPERATING LEASE COMMITMENTS

The Group as lessor

During the year, the Group had property rental income of approximately HK$118,000 (2004: HK$9,166,000). Certain properties of the Group at 31st December, 2004 had committed tenants for the next 1 year.

At 31st December, 2005, the Group had no contracted tenants. At 31st December, 2004, the Group had contracted with tenants for the future minimum lease payments of HK$177,000 fall within one year.

The Group as lessee

During the year, the Group made minimum lease payments under operating leases of approximately HK$2,161,000 (2004: HK$1,484,000) in respect of land and buildings, other equipment and staff quarter.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which would fall due as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**1,171**	1,773
In the second to fifth years inclusive	**106**	4,957
	1,277	6,730

Leases entered into by the Group were negotiated for an average term of two years.

37. CONTINGENT LIABILITIES

As at 31st December, 2005 and 31st December, 2004, the Group did not have any significant contingent liabilities.

38. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme.

38. RETIREMENT BENEFITS SCHEMES (continued)

The employees of the Company's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

39. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to secure general banking and credit facilities granted to the Group:

	2005	2004
	HK$'000	HK$'000
Land and buildings	**6,101**	–
Pledged bank deposit	**190**	–
Properties held for sale	**–**	5,500
	6,291	5,500

40. RELATED PARTY/CONNECTED PARTY TRANSACTIONS

上海铭源实业, a company in which Mr. Yao Yuan has a beneficial interest, has given a corporate guarantee to the extent of RMB28,000,000 (equivalent to approximately HK$26,923,000) (2004: RMB32,000,000, equivalent to approximately HK$29,906,000) to secure banking facility granted to a non-wholly owned subsidiary of the Company.

In addition, Mr. Yao Yuan has a given personal guarantee to the extent of HK$40,000,000 (2004: US$2,500,000 equivalent to approximately HK$19,500,000) to secure banking facility granted to a wholly-owned subsidiary of the Company.

Details of the Group's balances with related parties are set out in notes 27 and 28.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued share/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Fun Area Limited	British Virgin Islands	US$1	–	100%	Investment holding
Premier Asset Investment Limited	British Virgin Islands	US$1	–	100%	Investment holding
Sky Glory Investments Limited	Hong Kong	HK$2	–	100%	Property holding
Trans Ocean Developments Limited	Hong Kong	HK$2	–	100%	Property holding
MY Technology Limited	British Virgin Islands	US$1	–	100%	Trading of computer products and related accessories
上海龙祥电脑有限公司 *(Note b)*	PRC	RMB10,000,000	–	51%	Trading of computer products and related accessories
HD Global Limited	British Virgin Islands	US$2,000,000	–	100%	Investment holding
上海数康生物科技有限公司 *(Note a)*	PRC	RMB40,000,000	–	100%	Research and development activities
湖洲数康生物科技有限公司 *(Note a)*	PRC	RMB10,000,000	–	100%	Manufacturing and trading of protein chips and related equipments
上海铭源数康生物芯片有限公司 *(Note a)*	PRC	US$29,800,000	–	100%	Manufacturing and trading of protein chips and related equipments

Notes:

(a) These companies are registered in the form of wholly-owned foreign investment enterprise.

(b) These companies are registered in the form of an equity joint venture.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.