

# Notes to the Financial Statements

31 December 2000

(Amounts expressed in Renminbi Yuan (“RMB”) unless otherwise stated)

## 1. ORGANISATION AND PRINCIPAL ACTIVITIES

Heshun Holdings Company Limited (the “Company”) was incorporated in Bermuda on 28 June 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited since 15 November 2000.

On 25 September 2000, the Company became the holding company of the other companies comprising the group (collectively referred to as the “Group”) pursuant to a group reorganisation (the “Reorganisation”) as set out in Appendix VI of the prospectus of the Company dated 31 October 2000 (the “Prospectus”). The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31 December 2000, rather than from the date on which the Reorganisation was completed. The comparative figures for the year ended 31 December 1999 are presented on the same basis.

No balance sheet of the Company as at 31 December 1999 is presented as it was incorporated subsequent to that date.

The Company is an investing holding company. Its subsidiaries are principally engaged in the production and distribution of differential chemical fibre products and in the provision of engineering and installation services for chemical fibre projects and the design and installation of chemical fibre production machinery and equipment.

The Directors of the Company consider Process Logistics Limited, a company incorporated in British Virgin Islands, to be the ultimate holding company.

## 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared in accordance with Hong Kong Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance, and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summaries below:

### (a) Basis of measurement

The financial statements have been prepared under the historical cost convention.

### (b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Turnover

Turnover represents proceeds from sales of polyester filaments, processing fees for producing polyester filaments under subcontracting arrangement and undertaking the textile machinery construction contracts which are usually long-term contracts, net of sales and business taxes.

### (d) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to individual companies of the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following basis:

- (i) Revenue on sales of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to customers.
- (ii) Revenue on subcontracting work services is recognised when the subcontracting work services are rendered.
- (iii) Revenue from a fixed price contract is recognised using the percentage of completion method measured by reference to the proportion that completed contract work bear to estimated total contract work.
- (iv) Operating lease income is recognised when the right to receive is established.
- (v) Interest income is recognised on a time proportion basis on the principal outstanding and at the applicable rate.

### (e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed assets.

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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful lives, after deducting the estimated residual value. The annual rates of depreciation are as follows:

Land	1.9%
Buildings	4.75%
Machinery	4.75%
Motor vehicles	19%
Other equipment	19%

Assets held under finance leases are depreciated over their expected useful lives, after deducting the estimated residual value, on the same basis as owned assets.

When assets are sold or retired, their cost and accumulated depreciation and amortisation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the determination of profit and loss.

### (f) Construction-in-progress

Construction-in-progress represents facilities under construction and plant and machinery pending installation, and is stated at cost. This includes the costs of construction, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing.

No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and put into operational use.

### (g) Subsidiaries

A company is a subsidiary company if more than 50% of the issued voting capital is held long-term, directly or indirectly in the Company's financial statements. Investments in subsidiaries are carried at cost less provision for impairment in value where considered necessary by the directors while the results of the subsidiaries are included in the income statement to the extent of dividends declared by the subsidiaries.

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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (h) Associate

An associate is a company in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associate is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associate, distributions received from the associate and other necessary alterations in the Group's proportionate interest in the associate arising from changes in the equity of the associate that have not been included in the income statement.

### (i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, 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 calculated based on the estimated normal selling prices in the ordinary course of business less further costs expected to be incurred to completion and related selling and distribution expenses.

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 recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (j) Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing difference between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (k) Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement of the individual companies.

The Group prepares the consolidated financial statements in Renminbi (“RMB”). For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than RMB are translated into RMB at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into RMB at the average applicable rates during the year. Exchange differences arising from such translation are dealt with as movements in reserves.

### (l) Leases

#### (i) Finance leases

Leases that transfer to the company substantially all the rewards and risks of ownership of the assets, other than legal title, are accounted for as finance leases.

Fixed assets held under financial leases are initially recorded at the present value of the minimum lease payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or non-current liabilities.

Finance charges, which represent the difference between the minimum lease payments at the inception of the leases and the fair value of the assets, are allocated to accounting periods over the period of the relevant leases so as to produce a constant period rate of charge on the outstanding balances.

#### (ii) Operating leases

Lease where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. Assets subject to operating leases income in their balance sheets are presented according to the nature of the assets.

# Notes to the Financial Statements

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## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (m) Borrowing costs

Borrowing costs are expensed as incurred, except for interest directly attributable to long-term construction projects, which are capitalised as part of the cost of those projects. Interest is capitalised up to the date when the project is completed and ready for its intended use. The capitalised interest rate represents the cost of fund from raising the related borrowings externally.

### (n) Staff retirement benefit

Costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

### (o) Research and development costs

Research and development costs represent all costs directly attributable to the development of polyester filament products. Both research and development costs are expensed off as incurred.

### (p) Goodwill

Negative goodwill arising on acquisition of subsidiaries is credited directly to reserves upon acquisition.

## 3. TURNOVER AND REVENUE

	Group	
	2000	1999
	RMB'000	RMB'000
Sales of goods	480,106	283,445
Processing fees	135,475	208,067
Fees from construction contracts	18,404	—
Total turnover	633,985	491,512
Operating lease income	174	—
Interest income	164	170
Total revenue	634,323	491,682

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## 4. FINANCE COSTS, NET

	Group	
	2000	1999
	RMB'000	RMB'000
Interest income		
Bank deposits	(164)	(170)
Interest expenses		
Bank loans	23,674	24,675
Finance lease	28	—
Less: Interest capitalisation	—	—
	<u>23,538</u>	<u>24,505</u>

## 5. PROFIT BEFORE TAXATION

(a) Profit before taxation was determined after crediting and charging the following:

	Group	
	2000	1999
	RMB'000	RMB'000
After crediting:		
Exchange gain	<u>373</u>	<u>—</u>
After charging:		
Depreciation on		
— owned assets	33,721	33,489
— leased assets	76	—
Exchange loss	—	501
Staff cost including retirement scheme pension	10,599	7,351
Cost of inventories	381,811	300,207
Auditors' remuneration	1,245	430
Operating lease on office premises	258	—
Research and development expenses	<u>11,962</u>	<u>5,385</u>

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## 5. PROFIT BEFORE TAXATION (continued)

(b) The analysis of profit before taxation by operating activity is as follows:

	Group	
	2000	1999
	RMB'000	RMB'000
Sales of products	112,279	47,394
Rendering of processing service	84,129	97,057
Services rendered for construction contracts	6,050	—
	<u>202,458</u>	<u>144,451</u>

All the sales and services were rendered to customers in Mainland China.

## 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(i) Details of directors' emoluments were as follows:

	2000	1999
	RMB'000	RMB'000
Fees for executive and non-executive directors	—	—
Other emoluments for executive directors		
— contribution to provident fund	2	—
— basic salaries and allowance	1,754	276
Other emoluments for non-executive directors		
— basic salaries and allowances	—	—
	<u>1,756</u>	<u>276</u>

None of the directors waived any emoluments during the year. No incentive payment nor compensation for loss of office was paid or payable to any directors during the year.

(ii) The emoluments of the directors analysed by the number of directors and emolument ranges were as follows:

	2000	1999
Executive directors		
Nil — RMB1,060,700 (equivalent to Nil — HK\$1,000,000)	4	5
RMB1,060,700 — RMB1,591,050 (equivalent to HK\$1,000,000 — HK\$1,500,000)	1	—
	<u>5</u>	<u>5</u>
Non-executive directors		
Nil — RMB1,060,700 (equivalent to Nil — HK\$1,000,000)	3	—
	<u>3</u>	<u>—</u>



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## 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

- (iii) Details of the emoluments paid to the five highest-paid individuals (all senior executives including directors) were:

	2000 <u>RMB'000</u>	1999 <u>RMB'000</u>
Contribution to provident fund	3	—
Basic salaries and allowances	<u>1,779</u>	<u>312</u>
	<u><u>1,782</u></u>	<u><u>312</u></u>
Number of directors	4	4
Number of employees	<u>1</u>	<u>1</u>
	<u><u>5</u></u>	<u><u>5</u></u>

- (iv) Their emoluments were within the following bands:

	2000	1999
Nil — RMB1,060,700 (equivalent to Nil — HK\$1,000,000)	4	5
RMB1,060,700 — RMB1,591,050 (equivalent to HK\$1,000,000 — HK\$1,500,000)	<u>1</u>	<u>—</u>
	<u><u>5</u></u>	<u><u>5</u></u>

- (v) During the year, no emolument was paid to the five highest-paid individuals (all senior executives including directors) as inducement to join or upon joining the Group or as compensation for loss of office.

## 7. TAXATION

	Group	
	2000 <u>RMB'000</u>	1999 <u>RMB'000</u>
Current taxation		
Mainland China income tax	24,776	23,320
Hong Kong profits tax	<u>—</u>	<u>—</u>
	<u><u>24,776</u></u>	<u><u>23,320</u></u>

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## 7. TAXATION (continued)

No Hong Kong profits tax was provided for as the Group had no assessable profits arising in Hong Kong (1999: Nil). Provision for taxation by subsidiaries operating in Mainland China has been calculated at the rates applicable, based on existing laws, interpretations and practice, during the year.

In accordance with the applicable enterprise income tax law of Mainland China, Heshun (China) Industrial Group Co., Ltd. (“Heshun China”) and Fujian Shunda Polyester Fibre Co., Ltd. (“Fujian Shunda”), as wholly foreign-owned enterprises incorporated in Fuzhou Coastal Economic Open Zone, are exempt from the Enterprise Income Tax (“EIT”) for the first two profitable years of operations after offsetting prior year losses and are entitled to a 50% reduction on the EIT for the following three years. Heshun China and Fujian Shunda began their first profitable year in the year ended 31 December 1997 and were entitled to a 50% reduction on EIT, at an effective tax rate of 12% for the years of 1999 and 2000.

Heshun (Fujian) Spandex Co., Ltd. (“Heshun Spandex”) is an equity joint venture established in Mainland China in 2000. In accordance with the applicable EIT law of Mainland China, Heshun Spandex is exempt from the EIT for the first two profitable years of operations after offsetting prior year losses and is entitled to a 50% reduction on the EIT for the succeeding three years. Heshun Spandex is still at its setup stage and hence has no assessable profit since its establishment.

Dalian Huayang Engineering Co., Ltd. (“Huayang Engineering”) is entitled as a High and New Technology Enterprise by Dalian Economic and Technology Development Zone in 1998. Pursuant to the “Regulations of the preferential tax policy for the High and New Technology Enterprise in Dalian Economic and Technology Development Zone” issued by Dalian Development Zone Management Commission, a company which is identified as High and New Technology Enterprise and with an operation period of more than ten years, is entitled to two years exemption after offsetting prior year losses and six years 50% reduction of EIT starting from the first profit making year. Huayang Engineering was exempt from the EIT for the year of 1998 and 1999, and was subject to 7.5% in year 2000.

During the year, the Group had no significant deferred taxation (1999: Nil).

## 8. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2000 (1999: Nil).

## 9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately RMB4,164,000 dealt with in the financial statements of the Company.

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## 10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2000 is based on the profit attributable to shareholders of approximately RMB182,421,000 and the weighted average of approximately 1,454,700,000 ordinary shares deemed to be in issue during the year, on the basis of presentation relating to the Reorganisation as described in Note 1.

Pro forma earnings per share for the year ended 31 December 1999 had been prepared on the profit attributable to shareholders approximately RMB121,131,000 and on the assumption that the 1,395,000,000 shares (after taking into consideration the capitalisation issue of 1,393,000,000 shares) had been issued immediately preceding the placing and new issue of 465,000,000 shares.

Diluted earnings per share for the years ended 31 December 1999 and 2000 were not presented because there were no dilutive potential ordinary shares in existence during the years.

## 11. FIXED ASSETS

(a) Movements of fixed assets were:

	2000				1999	
	Land and Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000	Total RMB'000
<b>The Group Cost</b>						
Beginning of year	102,273	598,346	2,865	1,343	704,827	697,282
Acquisition of a subsidiary	1,734	13,469	—	186	15,389	—
Additions	21,476	15,732	2,072	767	40,047	7,545
Disposals	—	—	(194)	(23)	(217)	—
End of year	<u>125,483</u>	<u>627,547</u>	<u>4,743</u>	<u>2,273</u>	<u>760,046</u>	<u>704,827</u>
<b>Accumulated depreciation</b>						
Beginning of year	5,923	77,497	1,270	172	84,862	51,373
Charge for the year	4,549	28,324	620	304	33,797	33,489
Disposals	—	—	(128)	(2)	(130)	—
End of year	<u>10,472</u>	<u>105,821</u>	<u>1,762</u>	<u>474</u>	<u>118,529</u>	<u>84,862</u>
<b>Net book value</b>						
End of year	<u>115,011</u>	<u>521,726</u>	<u>2,981</u>	<u>1,799</u>	<u>641,517</u>	<u>619,965</u>
Beginning of year	<u>96,350</u>	<u>520,849</u>	<u>1,595</u>	<u>1,171</u>	<u>619,965</u>	<u>645,909</u>

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## 11. FIXED ASSETS (continued)

(a) Movements of fixed assets were: (continued)

	2000		
	Motor Vehicles	Other equipment	Total
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<b>The Company</b>			
<b>Cost</b>			
Additions and end of year	<u>1,162</u>	<u>593</u>	<u>1,755</u>
<b>Accumulated depreciation</b>			
Charge for the year and end of year	<u>76</u>	<u>34</u>	<u>110</u>
<b>Net book value</b>			
End of year	<u><u>1,086</u></u>	<u><u>559</u></u>	<u><u>1,645</u></u>

The net book value of a motor vehicle purchased by the Company under finance lease amounted to approximately RMB1,070,000 (1999: Nil).

Land and buildings are held outside Hong Kong on lease terms ranging from 10 to 50 years. Land and buildings with net book value of approximately RMB82,539,000 (1999: RMB86,509,000) were pledged as security for bank loans.

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## 12. INVESTMENTS IN SUBSIDIARIES

	<u>Company</u>
	<u>2000</u>
	<u>RMB'000</u>
Unlisted equity interests, at cost	452,070
Due from subsidiaries	208,505
	<u>660,575</u>

The directors are of the opinion that the underlying value of investment in subsidiaries is not less than the carrying value as at 31 December 2000.

The balance due from subsidiaries is unsecured, non-interest bearing and not demand for repayable in the next twelve months.

The following is a list of the principal subsidiaries as at 31 December 2000:

Name	Place of incorporation and operations	Percentage of equity interest attributable to the Group (i)	Capital		Principal activities
			Registered	Paid up	
Heshun Technology Holdings Limited	British Virgin Islands	100%	US\$50,000	US\$1	Investment holding
Central Harvest Holdings Ltd.	Hong Kong	100%	HK\$121,000,000	HK\$99,900,000	Investment holding
Central Harvest International Trading Ltd.	Hong Kong	100%	HK\$10,000	HK\$10,000	General trading
Heshun (China) Industrial Group Co., Ltd. ("Heshun China")	Mainland China	100%	US\$38,000,000	US\$38,000,000	Production and sales of polyester filaments
Fujian Shunda Polyester Fibre Co., Ltd. ("Fujian Shunda")	Mainland China	100%	US\$18,000,000	US\$18,000,000	Production and sales of polyester filaments
Dalian Huayang Engineering Co., Ltd. ("Huayang Engineering")	Mainland China	95%	RMB8,100,000	RMB8,100,000	Provision of construction service for textile machinery
Heshun (Fujian) Spandex Co., Ltd. ("Heshun Spandex")	Mainland China	52%	US\$31,050,000	US\$5,253,736	Production and sales of spandex filaments

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## 12. INVESTMENTS IN SUBSIDIARIES (continued)

- (i) The shares of Heshun Technology Holdings Limited are held directly by the Company. The shares and equity interests of other subsidiaries are held indirectly.
- (ii) After the listing of the shares of the Company, Heshun China acquired 95% equity interest of Huayang Engineering at a consideration of RMB42,750,000.
- (iii) Of the subsidiaries incorporated in Mainland China, Heshun China and Fujian Shunda are wholly foreign-owned enterprises and Heshun Spandex is a sino-foreign equity joint venture.
- (iv) None of the subsidiaries had any debt securities in issue at any time during the year ended 31 December 2000.

## 13. INVESTMENT IN AN ASSOCIATE

	Group	
	2000	1999
	RMB'000	RMB'000
Investment (unlisted), at cost	45,536	45,536
Share of losses	(22)	—
Share of net assets	45,514	45,536
Less: Provision for impairment in value	(9,600)	(9,600)
	35,914	35,936
Due from an associate	34,389	—
	70,303	35,936
Due to an associate	(143,029)	—
	<u>(72,726)</u>	<u>35,936</u>

The directors are of the opinion that the underlying value of the associate is not less than the carrying amount of the associate as at 31 December 2000.

The balance due from (to) an associate is unsecured, non-interest bearing and not demand for repayable in the next twelve months.

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## 13. INVESTMENT IN AN ASSOCIATE (continued)

The following is the details of the associate as at 31 December 2000:

Name	Date and place of incorporation/ establishment	Company's direct equity interest	Capital		Principal activities
			Registered	Paid up	
Changle City Shunshi Group Co. Ltd. ("Changle Shunshi")	23 February 1998 Mainland China	20%	RMB227,680,000	RMB227,680,000	Production and sales of polyester filaments

Supplementary financial information of the associate:

	2000	1999
	RMB'000	RMB'000
Balance sheet		
Fixed assets, net	220,266	200,080
Current assets	170,633	27,614
Current liabilities	(163,327)	(14)
	<u>227,572</u>	<u>227,680</u>
Income statement		
Net loss for the year	<u>108</u>	<u>—</u>

## 14. INVENTORIES

	Group	
	2000	1999
	RMB'000	RMB'000
Raw materials	9,417	4,921
Work-in-progress	2,050	2,794
Finished goods	5,580	5,903
	<u>17,047</u>	<u>13,618</u>

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## 15. DUE FROM CUSTOMERS FOR CONSTRUCTION WORK

	Group	
	2000	1999
	RMB'000	RMB'000
Contract costs incurred	14,454	—
Recognised profits less recognised loss	6,814	—
	21,268	—
Progress payment	(18,404)	—
	<u>2,864</u>	<u>—</u>

## 16. ACCOUNTS RECEIVABLE

The sales of the individual companies of the Group, except for Huayang Engineering, are usually settled by “delivery upon payment”. The credit terms of Huayang Engineering granted to the customers are governed by the contracts but usually not exceeding 365 days. The aging analysis of accounts receivable was as follows:

	Group	
	2000	1999
	RMB'000	RMB'000
Within 30 days	8,360	1,630
Over 30 days but within 180 days	31,229	212
Over 180 days but within 360 days	641	—
	<u>40,230</u>	<u>1,842</u>

## 17. PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables represented mainly the deposits for utilities and the purchase of raw materials.

## 18. PLEDGED BANK DEPOSITS

The pledged bank deposits were utilised as a security to a loan granted by a financial institution.



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## 19. DUE TO A DIRECTOR

Details of amounts due to a director in the consolidated balance sheet is as follows:

Name	Group	
	2000	1999
	RMB'000	RMB'000
Mr Chen Shun Li	—	54,216

The balance due to a director is unsecured, non-interest bearing and repayable on demand.

## 20. ACCOUNTS PAYABLE

The aging analysis of accounts payable was as follows:

	Group		Company
	2000	1999	2000
	RMB'000	RMB'000	RMB'000
Within 1 year	11,315	9,113	—
Over 1 year but within 2 years	2,132	17,678	—
Over 2 years	253	—	—
	<u>13,700</u>	<u>26,791</u>	<u>—</u>

## 21. TAXES PAYABLE

	Group	
	2000	1999
	RMB'000	RMB'000
Mainland China EIT	14,764	23,320
Mainland China Value-added Tax	17,489	35,327
	<u>32,253</u>	<u>58,647</u>

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## 22. LONG TERM LIABILITIES

	Group		Company
	2000	1999	2000
	RMB'000	RMB'000	RMB'000
Due to an associate ( <i>Note 13</i> )	143,029	—	—
Bank loans:			
Amount due within one year	251,280	272,124	—
Amount due in the second year	493	1,281	—
Amount due in the third to fifth years	1,746	2,330	—
	253,519	275,735	—
Obligation under finance lease:			
Amount due within one year	555	—	555
Amount due in the second year	303	—	303
	858	—	858
	397,406	275,735	858
Amount due within one year included under current liabilities	(251,835)	(272,124)	(555)
	<u>145,571</u>	<u>3,611</u>	<u>303</u>

The bank loans were secured by land and buildings with net book value of RMB82,539,000 (1999: RMB86,509,000) and by guarantees issued by the Water Supply Company of Changle City, Changle Shunshi, one of the directors and a related company and bore interest at rates ranging from 6.4% to 11.0% (1999: 6.4%-11.0%) per annum.

# Notes to the Financial Statements

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## 23. SHARE CAPITAL

Movements during the year are as follows:

	Number of shares '000	Nominal value HK\$'000	Nominal value RMB'000 Equivalent
Authorised (ordinary shares of HK\$0.10 each)			
Incorporation of the Company (i)	1,000	100	106
Increase in authorised share capital (ii)	4,999,000	499,900	530,244
	<u>5,000,000</u>	<u>500,000</u>	<u>530,350</u>
Issued and fully paid (ordinary shares of HK\$0.10 each)			
Issue of shares upon incorporation (i)	1,000	—	—
Issue of shares arising from the Reorganisation ((i) and (ii))	1,000	200	212
Issue of shares through a public offering and placing (iii)	465,000	46,500	49,322
Capitalisation of share premium (iv)	1,393,000	139,300	147,756
	<u>1,860,000</u>	<u>186,000</u>	<u>197,290</u>

Notes:

- (i) On 28 June 2000, the Company was incorporated with an authorised share capital of HK\$100,000, divided into 1,000,000 shares of HK\$0.10 each. 1,000,000 shares were issued at nil paid. On 25 September 2000, these 1,000,000 shares were credited as fully paid at par.
- (ii) On 25 September 2000, the authorised share capital of the Company was increased from HK\$100,000 to HK\$500,000,000, by the creation of 4,999,000,000 shares of HK\$0.10 each ranking pari passu with the then existing shares in all respects. On 25 September 2000, 1,000,000 shares were credited as fully paid at par.
- (iii) On 9 November 2000, 465,000,000 share of HK\$0.10 each were issued at HK\$0.50 per share through a public offering and placing (the “New Issue”), resulting in net cash proceeds of approximately RMB212,788,000.
- (iv) Immediately after the New Issue, share premium of approximately RMB147,756,000 (HK\$139,300,000) was capitalised for the issuance of 1,393,000,000 shares of HK\$0.10 each on pro-rata basis to the Company’s shareholders before the New Issue.

# Notes to the Financial Statements

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(Amounts expressed in Renminbi Yuan ("RMB") unless otherwise stated)

## 24. RESERVES

	Share premium RMB'000	Reserve fund RMB'000	Statutory surplus reserve RMB'000	Statutory common welfare fund RMB'000	Merger reserve RMB'000	Contributed surplus RMB'000	Cumulative translation adjustment RMB'000	Retained profits (accumulated deficits) RMB'000	Total RMB'000
<b>The Group</b>									
Balances as at 31 December 1998	—	11,065	—	—	—	—	—	83,142	94,207
Profit after tax and minority interests	—	—	—	—	—	—	—	121,131	121,131
Transfer from retained profits to statutory reserves	—	11,915	—	—	—	—	—	(11,915)	—
Balance as at 31 December 1999	—	22,980	—	—	—	—	—	192,358	215,338
Premium on issue of shares	197,290	—	—	—	—	—	—	—	197,290
Share issuance expenses	(33,825)	—	—	—	—	—	—	—	(33,825)
Transfer from retained profits to statutory reserves	—	18,443	2,123	1,061	—	—	—	(21,627)	—
Capitalisation of share premium	(147,756)	—	—	—	—	—	—	—	(147,756)
Waivers of amount due to a director	—	—	—	—	—	—	—	104,904	104,904
Negative goodwill	—	—	—	—	—	—	—	3,548	3,548
Effect of the Reorganisation (Note 1)	—	—	—	—	(212)	—	—	—	(212)
Profit after tax and minority interests	—	—	—	—	—	—	—	182,421	182,421
Translation adjustments	—	—	—	—	—	—	1,125	—	1,125
Balance as at 31 December 2000	<u>15,709</u>	<u>41,423</u>	<u>2,123</u>	<u>1,061</u>	<u>(212)</u>	<u>—</u>	<u>1,125</u>	<u>461,604</u>	<u>522,833</u>
Attributable to									
The Company and subsidiaries	15,709	41,423	2,123	1,061	(212)	—	1,125	461,626	522,855
Associate	—	—	—	—	—	—	—	(22)	(22)
	<u>15,709</u>	<u>41,423</u>	<u>2,123</u>	<u>1,061</u>	<u>(212)</u>	<u>—</u>	<u>1,125</u>	<u>461,604</u>	<u>522,833</u>
<b>The Company</b>									
Premium on issue of shares	197,290	—	—	—	—	—	—	—	197,290
Share issuance expenses	(33,825)	—	—	—	—	—	—	—	(33,825)
Capitalisation of share premium	(147,756)	—	—	—	—	—	—	—	(147,756)
Profit after tax and minority interests	—	—	—	—	—	—	—	(4,164)	(4,164)
Effect of the Reorganisation (Note 1)	—	—	—	—	—	451,858	—	—	451,858
Balance as at 31 December 2000	<u>15,709</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>451,858</u>	<u>—</u>	<u>(4,164)</u>	<u>463,403</u>

# Notes to the Financial Statements

31 December 2000

(Amounts expressed in Renminbi Yuan ("RMB") unless otherwise stated)

## 24. RESERVES (continued)

Mainland China laws and regulations require the Group's Mainland China companies, except for Huayang Engineering to provide for certain statutory funds, namely, reserve fund and staff welfare fund, which are appropriated from the net profit as reported in the statutory accounts but before dividend distribution. They are required to allocate 10% of their net profit to the reserve fund until the balance of such fund has reached 50% their registered capital. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. Appropriation to staff welfare fund is at the discretion of the directors. Since the dates of establishment, respective companies now comprising the Group, except for Huayang Engineering have not appropriated any profit to the staff welfare fund.

According to relevant laws and regulations, and the article of association of Huayang Engineering, Huayang Engineering shall set aside 10% of its net profit for statutory surplus reserve (except where the fund has reached 50% of the registered capital) and 10% of its net profit for the statutory common welfare fund. These reserves cannot be used for the purposes other than those for which they are created and are not distributable.

The merger reserve of the Group represents the difference between the amount of the capital of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's share issued as consideration for the acquisition.

The contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation.

The Company's reserves as at 31 December 2000 available for distribution to shareholders are represented by the contributed surplus of approximately RMB451,858,000 less accumulated losses of approximately RMB4,164,000.

# Notes to the Financial Statements

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## 25. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

	Group	
	2000	1999
	RMB'000	RMB'000
Waivers of amount due to a director	<u>104,904</u>	<u>—</u>
Due from an associate (Note 13)	<u>34,389</u>	<u>—</u>
Due to an associate (Note 13)	<u>143,029</u>	<u>—</u>
Due to a director (Note 19)	<u>—</u>	<u>54,216</u>

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow from operating activities:

	Group	
	2000	1999
	RMB'000	RMB'000
Profit before taxation	202,458	144,451
Adjustments for:		
Share of loss of associate	22	—
Depreciation of fixed assets	33,797	33,489
Loss on disposal of fixed assets	87	—
Interest income	(164)	(170)
Interest expenses	23,702	24,675
Decrease in inventories	6,026	64,481
Increase in accounts receivable	(28,341)	(357)
Increase in prepayments and other assets	(2,978)	(3,283)
(Decrease) increase in accounts payable, prepayments from customers and other liabilities	<u>(27,492)</u>	<u>62,793</u>
	<u>207,117</u>	<u>326,079</u>

# Notes to the Financial Statements

31 December 2000

(Amounts expressed in Renminbi Yuan ("RMB") unless otherwise stated)

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year was as follows:

	Group					1999 Total RMB'000
	2000					
	Share capital and share premium RMB'000	Advance from related parties RMB'000	Finance lease RMB'000	Bank loans RMB'000	Total RMB'000	
Beginning of the year	1,070	54,216	—	275,735	331,021	626,610
Inception of finance lease	—	—	1,146	—	1,146	—
Advance from (to) related parties	—	158,258	—	—	158,258	(300,841)
Waivers of an amount due to a director	—	(104,904)	—	—	(104,904)	—
Raise of new loans	—	—	—	8,841	8,841	5,252
Repayment of loans	—	—	(288)	(31,057)	(31,345)	—
Shares acquired from the then shareholder	(1,070)	1,070	—	—	—	—
Proceeds from issue of new shares	246,613	—	—	—	246,613	—
Expenses for issue of new shares	(33,825)	—	—	—	(33,825)	—
	<u>212,788</u>	<u>108,640</u>	<u>858</u>	<u>253,519</u>	<u>575,805</u>	<u>331,021</u>

(c) Purchase of a subsidiary

	RMB'000
Net assets acquired	
Fixed assets, net	15,389
Inventories	9,455
Accounts receivable	12,911
Prepayment and other assets	17,134
Cash and cash equivalents	21,998
Accounts payable and accruals	(26,704)
Taxes payable	(1,448)
	<u>48,735</u>
Minority interests	(2,437)
	<u>46,298</u>
Negative goodwill	(3,548)
	<u>42,750</u>

# Notes to the Financial Statements

31 December 2000

(Amounts expressed in Renminbi Yuan ("RMB") unless otherwise stated)

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

The subsidiary acquired during the year contributed approximately RMB3,974,000 to the Group's net operating cash flows and RMB2,000 in respect of the net returns on investments and servicing of finance, paid approximately RMB1,048,000 in respect of taxation.

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertaking.

	RMB'000
Cash consideration	42,750
Cash and cash equivalents acquired	<u>(21,998)</u>
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary undertaking	<u><u>20,752</u></u>

### (d) Major non-cash transactions

During the year, an amount of approximately RMB104,904,000 due to a director was waived by the director. The said amount was credited to the retained earnings.

## 27. COMMITMENTS

### (a) Capital

As at 31 December 2000, the capital commitments of the Group and the Company on the purchase of machines and equipment were as follows:

	Group		Company
	2000	1999	2000
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Contracted but not provided for	386,933	76,500	—
Authorised but not contracted for	121,263	388,000	—
	<u><u>508,196</u></u>	<u><u>464,500</u></u>	<u><u>—</u></u>



# Notes to the Financial Statements

31 December 2000

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## 27. COMMITMENTS (continued)

### (b) Operating

Operating lease commitments of the Group and the Company at 31 December 2000 amount to approximately RMB8,211,452 and RMB1,845,660 respectively of which RMB2,064,000 is payable in the next twelve months in connection with plant and office premises. The amount payable in the next twelve months, analysed according to the period in which the lease expires, is as follows:

	Group		Company
	2000	1999	2000
	RMB'000	RMB'000	RMB'000
Expiring in the second to fifth years inclusive	2,064	—	675
	<u>2,064</u>	<u>—</u>	<u>675</u>

## 28. CONTINGENT LIABILITIES

As at 31 December 2000, the Group and the Company had no significant contingent liabilities (1999: Nil).

## 29. RETIREMENT SCHEME

Certain individual companies of the Group participate in defined contribution retirement schemes based on local laws and regulations in Mainland China and Hong Kong. Employees covered by these schemes are entitled to pension payments from the government authorities equal to the basic salary of the employees as at their retirement dates in Mainland China or an amount as stipulated under the relevant retirement schemes in Hong Kong. During the year, the Group made monthly contributions to the retirement schemes at rates ranging from 18%-20% of the basic salaries and an amount of not more than HK\$1,000 of the salaries for the eligible employees in Mainland China and Hong Kong respectively.

Details of the pension contributions made by the Group for the year ended 31 December 2000 were as follows:

	2000	1999
	RMB'000	RMB'000
Contributions to retirement scheme	<u>539</u>	<u>332</u>