

Notes to the Financial Statements

For the Year ended 31st March, 2001

23. NOTES RECEIVABLE - continued

Notes: - continued

- (b) The 7.5% Note was issued on 23rd October, 2000 by Cupac Technology Limited ("Cupac") and is redeemable on the first anniversary date of issue of the 7.5% Note (the "7.5% Note Maturity Date"). China United Holdings Limited ("China United"), a public company listed on the Stock Exchange, holds 43.3% equity interest in Cupac at 31st March, 2001.

The 7.5% Note bears interest at a rate of 7.5% per annum, is unsecured and guaranteed by China United. Pursuant to the terms of the 7.5% Note, the Group has the option to convert all or part of the 7.5% Note into shares of Cupac of HK\$0.01 each at an initial price of HK\$0.80 per share, subject to adjustments, at any time during the period from the date of issue of the 7.5% Note up to the 7.5% Note Maturity Date.

Cupac is a private limited company incorporated in Bermuda, it acts as an investment holding company and principally holds an investment portfolio of internet-related business.

During the year, the Group did not exercise any rights to convert any amount of the 7.5% Note into shares of Cupac.

- (c) The 12.72% Note represented amount due from a company formerly controlled by a substantial shareholder and was secured by a guarantee from another company formerly controlled by the substantial shareholder. The 12.72% Note bore interest at 12.72% per annum and was fully repaid during the year.

Notes to the Financial Statements

For the Year ended 31st March, 2001

24. PROPERTIES HELD FOR RESALE

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The Group's properties held for resale are held under the following lease terms:		
Long leases in Hong Kong	10,500	—
Medium-term land use rights in the PRC	80,000	107,742
	<u>90,500</u>	<u>107,742</u>
Less: Impairment losses recognised	(40,900)	(27,742)
	<u>49,600</u>	<u>80,000</u>

25. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	6,086	3,221
Finished goods	50,998	43,180
	<u>57,084</u>	<u>46,401</u>

At 31st March, 2001, included in the inventories of the Group are raw materials and finished goods of HK\$55,295,000 (2000: HK\$41,358,000) which are stated at net realisable value.

Notes to the Financial Statements

For the Year ended 31st March, 2001

26. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers. Included in trade and other receivables of the Group are trade receivables with the following aging analysis:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Trade receivables:		
0-30 days	12,537	15,721
31-60 days	1,002	2,415
61-90 days	303	405
Over 90 days	12	859
	<u>13,854</u>	<u>19,400</u>
Other receivables	<u>22,151</u>	<u>23,429</u>
	<u><u>36,005</u></u>	<u><u>42,829</u></u>

27. SHORT-TERM LOANS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
The short-term loans, net of provision, comprises		
Unsecured loans	4,014	20,574
Secured loans	—	44,793
	<u>4,014</u>	<u>65,367</u>

The secured loans were secured either by pledge of listed shares owned by the borrowers or pledge of shares of property holding companies which are under the control of the borrowers and personal guarantees from independent third parties.

These short-term loans bear interest at the prevailing market rate and are due for repayment within one year.

The Group negotiates credit period to loan borrower according to credit of individual borrower.

Notes to the Financial Statements

For the Year ended 31st March, 2001

27. SHORT-TERM LOANS - continued

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Details of the aging analysis of short-term loans are as follows:		
0-30 days	4,014	—
Over 90 days	—	65,367
	<u>4,014</u>	<u>65,367</u>

28. DEPOSITS MADE ON INVESTMENTS

	Notes	THE GROUP	
		2001 HK\$'000	2000 HK\$'000
The deposits made on investments comprise:			
Deposits made on acquisition of a subsidiary	(a)	87,508	—
Deposit made on acquisition of an investee company	(b)	50,000	—
Deposit made on acquisition of a convertible note receivable	(c)	22,750	—
		<u>160,258</u>	<u>—</u>

Notes:

- (a) The balance represents deposits and related expenses paid for the acquisition of a subsidiary in the PRC.

In January 2001, the Group entered into two conditional agreements with 河南省義馬市國有資產管理局 (Henan Provincial Yima Municipal Stated-owned Assets Administration Bureau, "Henan Yima") and 河南省義馬市狂口居委會 (Henan Provincial Yima Municipal Kuangkou Neighbourhood Committee, "Henan Yima Committee"). Pursuant to the agreements, the Group agreed to acquire 91.3% and 8.7% equity interest in 河南興邦藥業有限公司 (Henan Xingbang Pharmacy Limited, "Henan Subsidiary") from Henan Yima and Henna Yima Committee, respectively, for a total consideration of RMB146,225,000 (equivalent to approximately HK\$136,658,000).

At 31st March, 2001, deposits amounting to RMB85,131,000 (equivalent to approximately HK\$79,561,000) and RMB8,112,000 (equivalent to approximately HK\$7,582,000) have been paid by the Group to Henan Yima and Henan Yima Committee, respectively. The remaining consideration of RMB52,982,000 (equivalent to approximately HK\$49,515,000) has been included in note 49.

Notes to the Financial Statements

For the Year ended 31st March, 2001

28. DEPOSITS MADE ON INVESTMENTS - continued

Notes: - continued

The Henan Subsidiary is a state-owned limited liability company registered in the PRC. It is principally engaged in the manufacture, process, sale and export of traditional Chinese medicine in the PRC. The Henan Subsidiary is now applying for the approval of the relevant authorities in the PRC for conversion of the Henan Subsidiary into a wholly foreign-owned enterprise.

Up to the date of this report, the transaction has not been completed.

- (b) The amount represents deposit paid for the acquisition of an investee company.

In March 2001, the Group entered into a conditional agreement with Hennabun Management Inc. ("HMI") and China United ("HMI Agreement"). China United holds 95.68% equity interest in HMI at 31st March, 2001.

Pursuant to the HMI Agreement, the Group paid a deposit of HK\$50,000,000 for subscribing 10,000,000 ordinary shares of US\$0.10 each of and in the share capital of HMI for a subscription price of HK\$50,000,000.

HMI is a private limited company incorporated in the British Virgin Islands, it acts as an investment holding company of companies engaged in the stock brokerage and corporate finance business.

The transaction was completed in June 2001.

- (c) The amount represents deposit paid for acquisition of a convertible note receivable ("4% Note") to be issued by Cupac.

The 4% Note will be redeemed on the third anniversary date of issue (the "4% Note Maturity Date").

The 4% Note bears interest at a rate of 4% per annum and is unsecured. The Group has an option to convert all or part of the 4% Note into shares of Cupac of HK\$0.01 each at an initial price of HK\$0.65 per share, subject to adjustments, at any time during the period from the date of issue of the 4% Note up to the 4% Note Maturity Date.

Up to the date of this report, the transaction has not been completed.

29. LOAN TO A SUBSIDIARY

The amount of the Company represented a loan granted to a non-wholly owned subsidiary, Tung Fong Hung Investment Limited ("TFHI"). The amount was unsecured, bore interest at a rate of 2% above Hong Kong prime rate and was assigned to a third party subsequent to the balance sheet date.