



## Notes to the Condensed Financial Statements

*For the six months ended 30 June 2001*

### 1. General

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 September 2000 under the Companies Law of the Cayman Islands.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) in preparation for the listing of the Company’s shares on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the Group on 17 January 2001. Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 26 April 2001.

The shares of the Company were listed on the Stock Exchange on 9 May 2001.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the condensed financial statements for the six months ended 30 June 2001 have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 27 “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants.

The condensed consolidated income statement and statement of recognised gains and losses for the six months ended 30 June 2000 and the condensed consolidated balance sheet as at 31 December 2000 have been prepared on a combined basis as if the current group structure had been in existence during these periods.

### 2. Basis of Preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”) and with SSAP 25 “Interim Financial Reporting” except that, in the first year of implementation of the Standard, as permitted by the Listing Rules, no comparative amounts have been presented for the condensed consolidated cash flow statement.



### 3. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the accountants' report set out in the prospectus issued by the Company dated 26 April 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs, which has resulted in the adoption of the following new and revised accounting policies.

#### **Dividends proposed or declared after the balance sheet date**

In accordance with SSAP 9 (Revised) "Event after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity in the notes to the condensed financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increases the accumulated profits as at 1 January 2001 by HK\$21,500,000.

#### **Provisions**

In accordance with SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated. Adoption of this standard does not have any material effect on the results for the current or prior accounting periods.

#### **Goodwill**

In the current period, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill or negative goodwill previously eliminated against or credited, respectively, to reserves. Accordingly, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or joint venture, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to income at the time of disposal of the relevant subsidiary, associate or joint venture.



Goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1 January 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

## Impairment of assets

SSAP 31 “Impairment of Assets” has introduced a formal framework for the recognition of impairment losses in respect of the Group’s assets. Adoption of this standard does not have any material effect on the results for the current or prior accounting periods.

## 4. Profit From Operations

	<b>Six months ended</b>	
	<b>30.6.2001</b>	30.6.2000
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation of property, plant and equipment	<b>985</b>	539
Interest income	<b>(578)</b>	(68)

## 5. Income Tax Expenses

No Hong Kong Profits Tax is payable by the Company or its Hong Kong subsidiary since they had no assessable profit for the period.

Income tax in the People’s Republic of China (the “PRC”) has been provided at the prevailing rates on the estimated assessable profit applicable to each individual company within the Group in the PRC.

The Group did not have any significant unprovided deferred taxation for the period.



## 6. Dividend

The dividend of HK\$21,500,000 for the six months ended 30 June 2001 represents the dividend declared by a subsidiary of the Group to then shareholders prior to the Group Reorganisation.

The rates of dividends are not presented as the directors do not consider such information to be meaningful in the context of these condensed financial statements.

The directors do not recommend the payment of an interim dividend for the period.

## 7. Earnings Per Share

The calculation of basic earnings per share for the six months ended 30 June 2001 is based on the net profit for the period of HK\$31,155,000 and on the weighted average of 510,028,729 shares that would have been in issue during the period as if the Group Reorganisation had been completed on 1 January 2001.

The calculation of basic earnings per share for the six months ended 30 June 2000 is based on the net profit for that period of HK\$43,108,000 and on the weighted average of 479,400,000 shares that would have been in issue during that period as if the Group Reorganisation had been completed on 1 January 2000.

Diluted earnings per share has not been calculated as no dilutive potential ordinary shares were in issue in either period.

## 8. Property, Plant And Equipment

During the period, the Group incurred costs for construction in progress of approximately HK\$528,000 and acquired other items of property, plant and equipment at a cost of approximately HK\$682,000.



## 9. Trade Receivables

The credit terms granted by the Group to its customers normally range from 90 days to 270 days. The aged analysis of trade receivables is as follows:

	<b>30.6.2001</b>	31.12.2000
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Aged:		
Within 30 days	<b>13,115</b>	46,147
More than 30 days and within 60 days	<b>14,820</b>	24,213
More than 60 days and within 90 days	<b>22,543</b>	19,073
More than 90 days and within 180 days	<b>33,686</b>	13,786
More than 180 days and within 270 days	<b>61,168</b>	39,184
	<b>145,332</b>	142,403

## 10. Trade Payables

The aged analysis of trade payables is as follows:

	<b>30.6.2001</b>	31.12.2000
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Aged:		
Within 30 days	<b>9,347</b>	34,855
More than 30 days and within 60 days	<b>93</b>	13,218
More than 60 days and within 90 days	<b>310</b>	2,254
More than 90 days and within 180 days	<b>1,398</b>	885
More than 180 days and within 365 days	<b>7,482</b>	550
	<b>18,630</b>	51,762



## 11. Share Capital

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
On the date of incorporation	1,000,000	100
Increase during the period	<u>999,000,000</u>	<u>99,900</u>
At 30 June 2001	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Allotted and issued on the date of incorporation	1,000,000	100
Issue of shares on Group Reorganisation	1,000,000	100
Issue of shares by capitalisation of share premium account (the "Capitalisation Issue")	477,400,000	47,740
Issue of shares to the public	<u>104,600,000</u>	<u>10,460</u>
At 30 June 2001	<u><u>584,000,000</u></u>	<u><u>58,400</u></u>

The Company was incorporated on 15 September 2000 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were allotted and issued nil paid on 15 September 2000.

Pursuant to the written resolution passed by the sole shareholder on 17 January 2001:

- (a) the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of additional 1,000,000 shares of HK\$0.1 each; and
- (b) 1,000,000 shares of HK\$0.1 each were allotted and issued for the acquisition of the entire issued share capital of Chenlong Group Limited pursuant to the Group Reorganisation.



Pursuant to the written resolution passed by the sole shareholder on 18 January, 6 April and 19 April 2001:

- (a) the authorised share capital of the Company was increased from HK\$200,000 to HK\$100,000,000 by the creation of additional 998,000,000 shares of HK\$0.1 each; and
- (b) conditional on the share premium account of the Company being credited as a result of the issue of shares to the public, HK\$47,740,000 of such amount was directed to be capitalised and applied in paying up in full at par 477,400,000 shares for allotment and issue to the holders of shares on the register of members of the Company as at 26 April 2001 in proportion as nearly as possible to their then respective shareholdings.

On 9 April 2001, by means of new issue of shares to the public, the Company issued a total of 104,600,000 shares of HK\$0.1 each at a price of HK\$0.8 per share.

All the shares issued during the period rank *pari passu* with the then existing shares in all respects.

For the purposes of the preparation of the condensed consolidated balance sheet, the balance of the share capital at 31 December 2000 represents 479,400,000 shares of the Company comprising the aggregate of shares issued on the date of incorporation and shares issued pursuant to the Group Reorganisation and the Capitalisation Issue.



## 12. Reserves

	Share premium account <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Non- distributable reserves <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	–	2,281	(433)	19,595	(44,598)	25,906	2,751
Profit for the period	–	–	–	–	–	73,209	73,209
Transfer	–	–	–	2,173	–	(2,173)	–
Dividend	–	–	–	–	–	(21,500)	(21,500)
At 1 January 2001							
– as originally stated	–	2,281	(433)	21,768	(44,598)	75,442	54,460
– as adjusted for derecognition of liability for dividend for 2000 ( <i>note 3</i> )	–	–	–	–	–	21,500	21,500
– as restated	–	2,281	(433)	21,768	(44,598)	96,942	75,960
Premium arising on issue of shares	73,220	–	–	–	–	–	73,220
Expenses incurred in connection with the issue of shares	(12,701)	–	–	–	–	–	(12,701)
Transfer upon the Capitalisation Issue ( <i>note 11</i> )	(47,740)	–	–	–	47,740	–	–
Exchange differences arising on translation of overseas operations	–	–	(1,439)	–	–	–	(1,439)
Profit for the period	–	–	–	–	–	31,155	31,155
Dividend	–	–	–	–	–	(21,500)	(21,500)
At 30 June 2001	<u>12,779</u>	<u>2,281</u>	<u>(1,872)</u>	<u>21,768</u>	<u>3,142</u>	<u>106,597</u>	<u>144,695</u>





The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's PRC subsidiaries under the PRC laws and regulations.

The special reserve of the Group represents reserve arising pursuant to the Group Reorganisation on the basis that the Group Reorganisation had been effected on 1 January 2000.

### 13. Commitments

Capital commitments:

	<u>30.6.2001</u>	<u>31.12.2000</u>
	<i>HKS'000</i>	<i>HKS'000</i>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	<b>2,000</b>	–
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>3,298</u>	<u>1,716</u>
	<u><b>5,298</b></u>	<u>1,716</u>



Operating lease commitments:

As at 30 June 2001, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	<u>30.6.2001</u>	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<b>1,324</b>	335
In the second to fifth years inclusive	<b>2,408</b>	32
	<u><b>3,732</b></u>	<u>367</u>

In addition, as at 30 June 2001, the Group has also committed under various technology transfer and cooperative agreements with independent third parties to acquire certain technologies and rights for the production of new products at an aggregate consideration of approximately HK\$26 million.

#### 14. Segment Information

The Group is solely engaged in production and sale of ginseng products and operates only in the PRC. All the identifiable assets of the Group are located in the PRC.