

# NOTES TO FINANCIAL STATEMENTS

31 May 2001

## 1. GROUP REORGANISATION

### Group reorganisation

The Company was incorporated in Bermuda on 4 November 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in July 2000, the Company became the holding company of the companies now comprising the Group on 25 June 2000. This was accomplished by acquiring the entire issued share capital of Central Pharmaceutical Holdings (BVI) Limited ("CBVI"), the then holding company of other subsidiaries set out in note 14 to the financial statements, in consideration and in exchange for the allotment and issue of a total of 1,000,000 shares of HK\$0.10 each in the share capital of the Company, credited as fully paid, to the former shareholder of CBVI. Further details of the Group Reorganisation are set out in note 19 to the financial statements and in the Company's prospectus dated 14 July 2000.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets as further explained below.

### Basis of presentation and consolidation

The consolidated financial statements have been prepared using the merger basis of accounting. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated/combined results of the Group for the years ended 31 May 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 June 1999 or since their respective dates of incorporation, where this is a shorter period. The combined balance sheet as at 31 May 2000 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors, the consolidated/combined financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group are eliminated on consolidation/combination.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been diminutions in values, other than those considered to temporary in nature, when they are written down to values determined by the directors.

### Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity. The joint venture agreement stipulates the composition of the joint venture parties' capital contributions, the duration of the joint venture, and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared by the joint venture parties in proportion to their respective capital contributions.

A joint venture is treated as a subsidiary if, under the joint venture contract, the Group beneficially owns more than 50% of the joint venture company's registered capital and the Group can control the composition of the board of directors or exercise unilateral controlling influence over the joint venture.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- provision of clinical and medicinal services, and medicinal preparations, when the services are rendered; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation

Fixed assets are stated at cost or valuation 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 fixed assets have been put into operation, such as repair and maintenance costs, is normally charged to the profit and loss account 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 asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is provided on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Short term leasehold land and buildings outside Hong Kong	Over the remaining lease terms
Plant and machinery	5 to 10 years
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures, motor vehicles and other equipment	5 to 10 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Deferred development costs

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable; and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Project development expenditure which does not meet these criteria, together with research costs, are expensed when incurred.

Deferred development costs are amortised, using the straight-line method, over the expected useful lives of the products subject to a maximum period of five years commencing in the year when the products are put into commercial production.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal level of activity. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

### Accounts receivable

Trade debtors, which generally have credit terms of not more than 90 days, are recognised and carried at original invoiced amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

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## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from bank repayable within three months from the date of the advance.

For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financing and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation/combination, the financial statements of overseas subsidiaries maintained in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### 3. CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is investment holding. During the year, the Group was involved in the following principal activities in the People's Republic of China, excluding Hong Kong ("PRC"):

- the development, manufacturing and provision of Chinese pharmaceutical products, which are predominantly medicinal preparations and anti-rheumatoid capsules, primarily for the treatment of rheumatoid and/or arthritic conditions;
- the wholesale and retail of Chinese and Western pharmaceutical products and healthcare products; and
- the operation of Taiyuan City Rheumatoid Hospital ("Taiyuan Hospital") which provides diagnosis and clinical treatment for patients with symptoms associated with rheumatism and/or arthritis.

In the opinion of the directors, as at 31 May 2001, the ultimate holding company of the Company is Healthlink International Inc., which is incorporated in the British Virgin Islands.

### 4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and services provided. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

### 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
Auditors' remuneration	850	869
Amortisation of deferred development costs	1,464	–
Cost of inventories sold	118,518	82,620
Cost of services provided	4,974	4,465
Operating lease rentals in respect of land and buildings	1,819	605
Depreciation	1,362	905
Loss on disposal of fixed assets	35	–
Research and development expenses	16,091	–
Staff costs (excluding directors' remuneration, note 6)	9,552	3,517
Interest income on bank balances	(1,326)	–

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## 5. PROFIT BEFORE TAX (continued)

The pension scheme contributions for the two years ended 31 May 2001 were insignificant.

Costs of inventories sold and services provided include HK\$1,950,000 (2000: HK\$1,338,000) relating to staff costs, depreciation and operating lease rentals in respect of land and buildings, which are also included in the respective total amounts disclosed separately above for these types of expense.

## 6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

### Directors' remuneration

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and Section 161 of the Hong Kong Companies Ordinance are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	640	–
	<u>640</u>	–
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	1,500	1,500
	<u>2,140</u>	<u>1,500</u>

The remuneration of each director fell within the nil – HK\$1,000,000 band.

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (2000: Nil).

### Five highest paid employees

The five highest paid employees during the year included three (2000: three) executive directors, details of whose remuneration are set out above. The details of the remuneration of the remaining two (2000: two) highest paid, non-director employees, which fell within the nil – HK\$1,000,000 band, are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	<u>461</u>	<u>428</u>

**6. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES** (continued)**Five highest paid employees** (continued)

During the year, no emoluments were paid by the Group to the directors, or the highest paid, non-director employee as an inducement to join, or upon joining the Group, or as compensation for loss of office (2000: Nil).

In the opinion of the directors of the Company, the Group had no significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong, at 31 May 2001 and 2000.

**7. TAX**

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Current year provision – outside Hong Kong	<u>9,132</u>	<u>5,384</u>

Hong Kong profits tax has not been provided (2000: Nil) as the Group had no assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the subsidiaries operated during the year based on existing legislation, interpretation and practices in respect thereof.

PRC income tax for all of the subsidiaries operating in the PRC is calculated at a unified tax rate of 33% (2000: 33%) on their taxable profits unless waivers are granted by relevant tax authorities during the year.

Shanxi Zhengzhong Pharmaceutical Co., Ltd. ("Shanxi Zhengzhong") was exempted from PRC income tax for two years from its first profit-making year of operations, which was the year ended 31 December 1998, and thereafter is eligible for a 50% relief from PRC income tax for the following three years under the Income Tax Law of the PRC.

Deferred tax has not been provided (2000: Nil) because the Company and the Group had no significant timing differences at 31 May 2001.

**8. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$8,499,000 (period from 4 November 1999 (date of incorporation) to 31 May 2000: Nil).



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## 9. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim dividends	–	30,000
Proposed final dividend (HK2 cents per share)	–	8,400
	<u>–</u>	<u>38,400</u>
	<u>–</u>	<u>38,400</u>

Interim dividends of a total of HK\$30,000,000 were paid by certain subsidiaries of the Group during the year ended 31 May 2000 to their then shareholders prior to the Group Reorganisation as detailed in notes 1 and 19 to the financial statements.

The directors do not recommend the payment of any dividend in respect of the year ended 31 May 2001.

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$40,095,000 (2000: pro forma combined net profit of HK\$65,465,000) and the weighted average number of 1,874,452,055 (2000: weighted average of 1,725,000,000) ordinary shares, adjusted for the sub-division of ordinary shares of the Company subsequent to the balance sheet date as detailed in note 19 to the financial statements.

Diluted earnings per share for the years ended 31 May 2000 and 2001 have not been calculated as no dilutive events existed during the two years ended 31 May 2001.

## 11. FIXED ASSETS

## Group

	Short term leasehold land and buildings outside Hong Kong HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture, fixtures, motor vehicles and other equipment HK\$'000	Total HK\$'000
Cost or valuation:				
At 1 June 2000	8,230	2,371	2,055	12,656
Additions	7,708	383	5,951	14,042
Disposals	–	–	(38)	(38)
Surplus on revaluation	952	–	–	952
At 31 May 2001	<u>16,890</u>	<u>2,754</u>	<u>7,968</u>	<u>27,612</u>
Accumulated depreciation:				
At 1 June 2000	198	1,856	1,262	3,316
Provided during the year	517	349	496	1,362
Disposals	–	–	(3)	(3)
Reversal upon revaluation	(618)	–	–	(618)
At 31 May 2001	<u>97</u>	<u>2,205</u>	<u>1,755</u>	<u>4,057</u>
Net book value:				
At 31 May 2001	<u>16,793</u>	<u>549</u>	<u>6,213</u>	<u>23,555</u>
At 31 May 2000	<u>8,032</u>	<u>515</u>	<u>793</u>	<u>9,340</u>
Analysis of cost and valuation:				
At cost	1,940	2,754	7,968	12,662
At valuation	14,950	–	–	14,950
	<u>16,890</u>	<u>2,754</u>	<u>7,968</u>	<u>27,612</u>

All the short term leasehold land and buildings of the Group are located outside Hong Kong.

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## 11. FIXED ASSETS (continued)

As at 31 May 2001, certain leasehold land and buildings were revalued at depreciated replacement cost basis by Midland Surveyors Limited, an independent firm of professional valuers, at HK\$14,950,000. A surplus of HK\$1,570,000 was recognised in the asset revaluation reserve (note 20). The effect of this revaluation on the depreciation charge for the year was insignificant.

The directors believe that the carrying amount of the remaining short term leasehold building, which is stated at cost, in the PRC of HK\$1,843,000 approximates its fair value as at 31 May 2001.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$8,023,000 (2000: HK\$834,000) as at 31 May 2001.

## 12. DEFERRED DEVELOPMENT COSTS

### Group

	HK\$'000
Cost:	
At 1 June 2000	14,591
Additions	<u>44</u>
At 31 May 2001	<u>14,635</u>
Accumulated amortisation:	
At 1 June 2000	–
Provided during the year	<u>1,464</u>
At 31 May 2001	<u>1,464</u>
Net book value:	
At 31 May 2001	<u><u>13,171</u></u>
At 31 May 2000	<u><u>14,591</u></u>

### 13. LONG TERM DEPOSIT

The balance represents a deposit paid in respect of the acquisition of a factory located in the PRC.

The prior year's balance represented a deposit paid in respect of a construction project to extend the Group's existing factory premises. The construction project was completed during the year ended 31 May 2001. As a result, the deposit was transferred to fixed assets.

### 14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted investments, at cost	84,347	—

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are set out below:

Name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
<u>Directly held</u>					
Central Pharmaceutical Holdings (BVI) Limited	British Virgin Islands	Ordinary US\$500,000	100%	100%	Investment holding
<u>Indirectly held</u>					
Central Kwangchi Limited	British Virgin Islands/ People's Republic of China	Ordinary US\$1	100%	100%	Provision of consultancy and procurement services
Shanxi Zhengzhong Pharmaceutical Co., Ltd.	People's Republic of China	RMB20,000,000 (2000: RMB3,500,000)	99%	99% note (a)	Provision of medicinal preparations and sale of Chinese pharmaceutical products

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## 14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Shanxi Taiyuan Kexing Pharmaceutical Technology Research Company Limited	People's Republic of China	RMB500,000	100%	100% note (b)	Development of new medicines, clinical research and medical information technology
Taiyuan City Rheumatoid Hospital	People's Republic of China	RMB3,000,000	99.4%	99.4%	Provision of therapy for patients with symptoms associated with rheumatoid and/or arthritic conditions
Beijing Zhengzhongyuan Pharmaceutical Technology Development Company Limited	People's Republic of China	RMB1,000,000	99.2%	99.2%	Development of medical technology and provision of consultancy services
Beijing Zhengzhong Sante Medicine and Medicinal Materials Company Limited	People's Republic of China	RMB500,000	79.4%	79.4% note (c)	Wholesale and retail of Chinese and Western pharmaceutical products and healthcare products

Notes:

- (a) Shanxi Zhengzhong was established by Shanxi Taiyuan Kexing Pharmaceutical Technology Research Company Limited ("Kexing") and a foreign partner for an original period of 12 years commencing on 9 December 1993. In 1999, the tenure of Shanxi Zhengzhong was extended for a further eight years to 9 December 2013.

**14. INVESTMENTS IN SUBSIDIARIES** (continued)

- (b) In March 2000, Kexing became a wholly foreign owned enterprise with a tenure of five years commencing on 22 November 1999, the date of issuance of its business licence.
- (c) Beijing Zhengzhong Sante Medicine and Medicinal Materials Company Limited ("Beijing Sante") is a limited liability company with a registered capital of RMB500,000.

Prior to the acquisition of 80% of its equity interest by the Group in September 1999, Beijing Sante was wholly owned by an independent third party. Pursuant to the agreements dated 1 January 1996 and 25 July 1998, Shanxi Zhengzhong obtained the entire operational and management rights of Beijing Sante for a period of six years expiring on 31 December 2001. During the contracted period, an annual fee of RMB150,000 is payable by the Group to Beijing Sante, while all profits and losses derived from Beijing Sante's operations are to be vested in or borne by the Group.

Upon execution of an agreement entered into on 20 September 1999, the Group acquired an 80% equity interest in Beijing Sante which became an 80%-owned subsidiary of the Group thereafter. On 10 November 1999, the date that the business licence of Beijing Sante was granted, the agreement dated 25 July 1998 was replaced by another agreement with the same terms, except that the contracted period will now expire on 9 November 2009.

**15. INVENTORIES**

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>398</b>	399
Work in progress	<b>519</b>	272
Finished goods	<b>2,452</b>	2,975
	<b>3,369</b>	3,646

At 31 May 2001, no inventories were stated at net realisable values (2000: Nil).

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## 16. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable at 31 May is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Less than 90 days	42,384	34,916
91 – 180 days	1,153	1,354
Over 180 days	236	–
Total	<u>43,773</u>	<u>36,270</u>

## 17. CASH AND CASH EQUIVALENTS

The cash and cash equivalents are mainly denominated in Renminbi. Renminbi is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks authorised to conduct foreign exchange business.

## 18. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable at 31 May is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Less than 90 days	13,280	14,337
91 – 180 days	2,193	2,418
Over 180 days	6,708	1,378
Total	<u>22,181</u>	<u>18,133</u>

## 19. SHARE CAPITAL

	Company	
	2001 HK\$'000	2000 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each (2000: 1,000,000 ordinary shares of HK\$0.1 each)	<u>200,000</u>	<u>100</u>
Issued and fully paid:		
420,000,000 ordinary shares of HK\$0.10 each (2000: 1,000,000 ordinary shares nil paid)	<u>42,000</u>	<u>–</u>

The comparative amount at 31 May 2000 represents the pro forma issued share capital of the Company after the issue of 1,000,000 ordinary shares of HK\$0.10 each on incorporation, the issue of 1,000,000 ordinary shares for the acquisition of the entire issued share capital of CBVI, pursuant to the Group reorganisation on 25 June 2000, and the capitalisation issue of 343,000,000 ordinary shares of HK\$0.10 each.

During the period from 4 November 1999 (date of incorporation) to 31 May 2001, the following changes in the Company's authorised and issued share capital took place:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued and allotted nil paid on 18 November 1999.
- (b) On 25 June 2000, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of a further 1,000,000 shares of HK\$0.10 each. On 8 July 2000, the authorised share capital of the Company was further increased from HK\$200,000 to HK\$200,000,000 by the creation of a further 1,998,000,000 shares of HK\$0.10 each.
- (c) On 25 June 2000, as part of the Group Reorganisation set out in note 1, the Company issued an aggregate of 1,000,000 shares of HK\$0.10 each, credited as fully paid, in consideration for the acquisition of the entire issued share capital of CBVI.
- (d) On 25 June 2000, an amount of HK\$100,000, being a portion of the amount credited to the contributed surplus of the Company on the issue of shares in exchange for the shares in CBVI as set out in (c) above, was applied to pay up in full at par value the 1,000,000 shares issued and allotted nil paid on 18 November 1999.



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## 19. SHARE CAPITAL (continued)

- (e) On 8 July 2000, a total of 343,000,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company, in proportion to their respective shareholdings at the close of business on that date, by way of the capitalisation of the sum of HK\$34,300,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued to the public on 21 July 2000.
- (f) On 21 July 2000, 75,000,000 shares of HK\$0.10 each ("Offer Shares"), were issued at HK\$0.85 each for a total cash consideration, before expenses, of HK\$63,750,000. Among these shares, 60,000,000 shares were placed with professional, institutional and private investors and the remaining 15,000,000 shares were offered to the public in Hong Kong.

The following is a summary of the above movements in the authorised and issued share capital of the Company:

	Notes	Number of authorised shares (‘000)	Number of issued shares (‘000)	Nominal value of shares issued HK\$’000
On incorporation, shares allotted and issued nil paid	(a)	1,000	1,000	–
Increase in authorised share capital	(b)	1,999,000	–	–
On acquisition of CBVI:				
Shares issued as consideration	(c)	–	1,000	100
Application of contributed surplus to pay up nil paid shares	(d)	–	–	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares	(e)	–	343,000	–
Pro forma share capital as at 31 May 2000		2,000,000	345,000	200
New issue on public listing	(f)	–	75,000	7,500
Capitalisation of the share premium account as set out above	(e)	–	–	34,300
Share capital as at 31 May 2001		<u>2,000,000</u>	<u>420,000</u>	<u>42,000</u>

**19. SHARE CAPITAL** (continued)

Subsequent to the balance sheet date, pursuant to an ordinary resolution passed in a special general meeting of the Company held on 25 July 2001, each of the shares of HK\$0.10 each in the issued and unissued share capital of the Company was sub-divided into 5 shares of HK\$0.02 each. As a result, the Company's authorised share capital was changed from 2,000,000,000 shares of HK\$0.10 each to 10,000,000,000 shares of HK\$0.02 each, while the Company's issued share capital was changed from 420,000,000 shares of HK\$0.10 each to 2,100,000,000 shares of HK\$0.02 each. All the shares, after adjustment for the sub-division, rank pari passu with each other in all respects.

**Share options**

On 8 July 2000, under the terms of the share option scheme adopted by the Company conditional upon the listing of the Company's shares on the Stock Exchange, the directors of the Company may, at their absolute discretion, invite any employees, including any executive directors of the Company or any of its subsidiaries, to take up options to subscribe for the Company's shares. The subscription price will be a price determined by the directors of the Company, but may not be less than the higher of 80% of the average of the closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the option, or the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme is limited to 10% of the issued share capital of the Company in issue from time to time, and the maximum number of shares in respect of which options may be granted to any employee is limited to 25% of the maximum number of shares in respect of which options may be granted under the share option scheme. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 25 July 2000.

Up to the date of this report, no share options had been granted under the scheme.

# NOTES TO FINANCIAL STATEMENTS

31 May 2001

## 20. RESERVES

### Group

	<b>Share</b>	<b>Asset</b>	<b>Contributed</b>	<b>Retained</b>	<b>Total</b>
	<b>premium</b>	<b>revaluation</b>	<b>surplus</b>	<b>profits</b>	<b>Total</b>
	HK\$'000	reserve HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 June 1999	–	–	4,500	45,186	49,686
Revaluation surplus	–	7,396	–	–	7,396
Net profit for the year	–	–	–	65,465	65,465
Dividends	–	–	–	(38,400)	(38,400)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Pro forma balance at 31 May and 1 June 2000	–	7,396	4,500	72,251	84,147
Issue of shares to public	56,250	–	–	–	56,250
Share issue expenses	(15,811)	–	–	–	(15,811)
Capitalisation issue of shares (note 19)	(34,300)	–	–	–	(34,300)
Revaluation surplus	–	1,570	–	–	1,570
Net profit for the year	–	–	–	40,095	40,095
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 May 2001	<u>6,139</u>	<u>8,966</u>	<u>4,500</u>	<u>112,346</u>	<u>131,951</u>

The contributed surplus arose as a result of the Group Reorganisation and represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the nominal value of the aggregate share/registered capital of the subsidiaries acquired.

## 20. RESERVES (continued)

## Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At beginning of year	–	–	–	–
Arising on acquisition of CBVI	–	84,247	–	84,247
Applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation (note 19)	–	(100)	–	(100)
Issue of shares to public	56,250	–	–	56,250
Capitalisation issue of shares (note 19)	(34,300)	–	–	(34,300)
Share issue expenses	(15,811)	–	–	(15,811)
Net profit for the year	–	–	8,499	8,499
Dividend paid	–	–	(8,400)	(8,400)
<b>At 31 May 2001</b>	<b><u>6,139</u></b>	<b><u>84,147</u></b>	<b><u>99</u></b>	<b><u>90,385</u></b>

The contributed surplus of the Company arose as a result of the Group Reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda, the Company's contributed surplus is available for cash distribution and/or distribution in specie under certain circumstances.

# NOTES TO FINANCIAL STATEMENTS

31 May 2001

## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before tax to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit before tax	49,667	71,433
Interest income	(1,326)	–
Depreciation	1,362	905
Amortisation of deferred development costs	1,464	–
Loss on disposal of fixed assets	35	–
Decrease/(increase) in inventories	277	(889)
Increase in accounts receivable	(7,503)	(10,481)
Decrease/(increase) in prepayments, deposits and other receivables	7,656	(6,256)
Increase in accounts payable	4,048	10,327
Increase/(decrease) in accrued liabilities and other payables	(11,348)	24,454
	<u>44,332</u>	<u>89,493</u>
Net cash inflow from operating activities	<u>44,332</u>	<u>89,493</u>

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

## (b) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Contributed surplus HK\$'000	Due to a director HK\$'000	Minority interests HK\$'000
At 1 June 1999	200	4,500	7,798	466
Net cash outflow from financing	–	–	(7,798)	–
Share of profit for the year	–	–	–	584
Balance at 31 May and 1 June 2000	200	4,500	–	1,050
Net cash inflow from financing	47,939	–	–	–
Capital contribution from the minority equity holder of a subsidiary	–	–	–	150
Share of profit for the year	–	–	–	440
Dividend distributed to a minority equity holder of a subsidiary	–	–	–	(91)
At 31 May 2001	<u>48,139</u>	<u>4,500</u>	<u>–</u>	<u>1,549</u>

## (c) Major non-cash transactions

- (i) The reorganisation of the Group in preparation for the public listing of the Company's shares on the Stock Exchange involved the acquisition of CBVI by the issue of shares, further details of which are set out in notes 1 and 19 to the financial statements.
- (ii) During the year, the Group's share premium of HK\$34,300,000 (2000: Nil) was capitalised into share capital.

# NOTES TO FINANCIAL STATEMENTS

31 May 2001

## 22. COMMITMENTS

As at 31 May 2001, the Group had the following commitments:

- (a) The Group had a capital commitment of approximately HK\$4,400,000 (2000: Nil) in respect of the acquisition of a factory located in the PRC.
- (b) The Group had a capital commitment of approximately HK\$145,000 (2000: Nil) in respect of the decoration work for the Group's premises in the PRC.
- (c) Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	2001 HK\$'000	2000 HK\$'000
Within one year	46	91
In the second to fifth years, inclusive	<u>1,330</u>	<u>526</u>
	<u><u>1,376</u></u>	<u><u>617</u></u>

As at 31 May 2000, the Group had a capital commitment of HK\$24,046,000 in respect of the construction project to extend the Group's existing factory premises located in the PRC. During the year, the Group has paid a further HK\$4,436,000 to the contractor. The construction project was completed during the year. Pursuant to an agreement signed between the Group and the contractor subsequent to the balance sheet date, on 25 August 2001, the contractor agreed to discharge the Group from the outstanding contracted amount of HK\$19,610,000, due to the alteration of the original construction plan.

At 31 May 2001, the Company had no significant commitments (2000: Nil).

## 23. POST BALANCE SHEET EVENT

On 25 July 2001, an ordinary resolution was passed in a special general meeting for the sub-division of the Company's shares. Details of the share sub-division are set out in note 19 to the financial statements.

## 24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the directors on 24 September 2001.