

# Notes to the Financial Statements

*For the year ended 31 December, 2001*

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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. The Company's ultimate holding company is Absolute Target Limited, a company incorporated in the British Virgin Islands ("BVI").

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are the production and sales of a series of health care products.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of 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 financial statements of the Group for the year ended 31 December, 2001 have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants.

## 2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of the new and revised SSAPs described above has resulted in the following change to the Group's accounting policies that have affected the amount reported for the prior period.

In the current year, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate negative goodwill previously credited to reserves. Accordingly, negative goodwill arising on acquisition prior to 1 January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition after 1 January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

## Notes to the Financial Statements

*For the year ended 31 December, 2001*

### 2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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. This change in accounting policy has been applied retrospectively, resulting in a prior year adjustment which increases the accumulated profits as at 1 January, 2001 by HK\$21,500,000.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

#### **Basis of consolidation**

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

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

All significant inter-company transactions and balances between group companies are eliminated on consolidation.

#### **Investments in subsidiaries**

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

#### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Goodwill arising on acquisition 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, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisition prior to 1 January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

## Notes to the Financial Statements

For the year ended 31 December, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Goodwill (continued)

Goodwill arising on acquisition after 1 January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Negative goodwill arising on acquisition after 1 January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

On the disposal of an investment in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

#### Revenue recognition

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and amortisation and accumulated impairment loss.

Construction in progress is stated at cost less any identified impairment loss and is not depreciated until completion of construction. Cost of completed construction works is transferred to the appropriate categories of property, plant and equipment.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the terms of the lease
Leasehold improvement	Over the terms of the lease
Plant and machinery	9%
Furniture, fixtures and equipment	18% – 20%
Motor vehicles	9%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

## Notes to the Financial Statements

*For the year ended 31 December, 2001*

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### Operating leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and reward of ownership of the assets concerned to the Group.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease terms.

#### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the financial statements of overseas operations are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

#### Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as an expense as they fall due.

# Notes to the Financial Statements

For the year ended 31 December, 2001

## 4. SEGMENTAL INFORMATION

The Group is solely engaged in production and sales of a series of health care products and operates only in the People's Republic of China (the "PRC"). All significant identifiable assets of the Group are located in the PRC. Accordingly, no segmental analysis is presented.

## 5. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 6)	5,213	356
Other staff costs		
– retirement benefits scheme contributions	601	316
– salaries and allowances	10,884	6,480
	<b>16,698</b>	7,152
Auditors' remuneration	700	500
Loss on disposal of property, plant and equipment	76	–
Depreciation and amortisation	2,181	1,453
Operating lease rentals in respect of land and buildings	6,018	1,953
Allowance for bad and doubtful debts	–	8,281
Interest income	(898)	(140)
PRC sales tax refund (*)	–	(1,102)

(\*) For the year ended 31 December, 2000, the amount represented the tax refunds received by a subsidiary due to changes in indirect tax system in the PRC.

## Notes to the Financial Statements

For the year ended 31 December, 2001

### 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Fee:		
Executive directors	–	–
Non-executive director	650	–
Independent non-executive directors	200	–
	<b>850</b>	–
Other emoluments for executive directors:		
Salaries and allowances	4,315	351
Retirement benefits scheme contributions	48	5
	<b>4,363</b>	356
	<b>5,213</b>	356

The emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	3	–

#### (b) Employees' emoluments

During the year, the five highest paid individuals included four directors (2000: one director), details of whose emoluments are set out above. The emoluments of the remaining one (2000: four) highest paid individual were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and allowances	1,040	696
Retirement benefits scheme contributions	12	4
	<b>1,052</b>	700

## Notes to the Financial Statements

For the year ended 31 December, 2001

### 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

### 7. FINANCE CHARGES

	2001 HK\$'000	2000 HK\$'000
The finance charges represent interest on:		
– Bank borrowings wholly repayable within five years	2,770	2,057
– Other borrowings wholly repayable within five years	–	80
	<b>2,770</b>	<b>2,137</b>

### 8. TAXATION

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

Income tax in 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 year or unprovided deferred tax asset or liability at the balance sheet date.

Pursuant to relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50 per cent. tax relief for the next three years.

Shenyang Jinlong Health Care Products Co., Ltd. ("Shenyang Jinlong") was entitled to a 50 per cent. relief from PRC income tax during the two years ended 31 December, 1999. Commencing on 1 January, 2000, Shenyang Jinlong is subject to PRC income tax at a rate of 15 per cent. In addition, Shenyang Jinlong is entitled to an exemption of the local income tax during the five years ended 31 December, 1999, followed by a 50 per cent. relief for the next three years. Accordingly, Shenyang Jinlong is subject to a local income tax at the reduced rate of 1.5 per cent. for the three years ending 31 December, 2002. The other PRC subsidiaries of the Group were still within the PRC income tax exemption/relief period during the year.

## Notes to the Financial Statements

*For the year ended 31 December, 2001*

### 9. DIVIDENDS

The interim dividend of HK\$21,500,000 for the year represents the dividend declared by a subsidiary of the Group to the then shareholders prior to the Group Reorganisation.

The rate of dividend is not presented as the directors do not consider such information to be meaningful in the context of the financial statements.

The final dividend of HK1.50 cents (2000: nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

### 10. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December, 2001 is based on the net profit for the year of approximately HK\$18,688,000 and on the weighted average of 547,891,507 shares that would have been in issue during the year as if the Group Reorganisation had been completed on 1 January, 2001.

The calculation of basic earnings per share for the year ended 31 December, 2000 is based on the net profit for that year of approximately HK\$73,209,000 and on the weighted average of 479,400,000 shares that would have been in issue during that year as if the Group Reorganisation and the issue of shares by way of capitalisation of share premium account in 2001 had been completed on 1 January, 2000.

No diluted earnings per share is presented, as the Company did not have any dilutive potential ordinary shares in issue.



# Notes to the Financial Statements

For the year ended 31 December, 2001

## 11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvement	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>							
COST							
At 1 January, 2001	29,395	–	3,589	1,115	2,553	91	36,743
Exchange adjustments	1,109	–	136	34	96	3	1,378
Additions	–	1,220	944	213	552	2,287	5,216
Disposals	–	–	–	–	(210)	–	(210)
Transfers	1,476	–	–	–	–	(1,476)	–
At 31 December, 2001	31,980	1,220	4,669	1,362	2,991	905	43,127
DEPRECIATION AND AMORTISATION							
At 1 January, 2001	1,695	–	958	380	665	–	3,698
Exchange adjustments	64	–	36	11	25	–	136
Provided for the year	1,005	143	550	223	260	–	2,181
Eliminated on disposals	–	–	–	–	(98)	–	(98)
At 31 December, 2001	2,764	143	1,544	614	852	–	5,917
NET BOOK VALUES							
At 31 December, 2001	29,216	1,077	3,125	748	2,139	905	37,210
At 31 December, 2000	27,700	–	2,631	735	1,888	91	33,045

The leasehold land and buildings are situated in the PRC and held under medium term lease.

## 12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY
	2001 HK\$'000
Unlisted shares, at cost	111,371

## Notes to the Financial Statements

For the year ended 31 December, 2001

### 12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the Company's subsidiaries at 31 December, 2001 are set out as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
北京東方金龍生物保健 品有限公司 (Beijing Dong Fang Jinlong Biological Health Care Products Co., Ltd.)	PRC	US\$600,000	100	Production and sales of health care food and related products Commercial operations not yet commenced
Chenlong Group Limited	BVI/Hong Kong	US\$20,000	100	Investment holding
集安新華龍參業有限公司 (Jian New Wellon Ginseng Industry Co., Ltd.)	PRC	RMB7,000,000	100	Purchase and sales of raw ginseng
New Wellon Limited	Hong Kong	HK\$10,000	100	Investment holding
瀋陽辰龍保齡參有限公司 (Shenyang Chenlong Longevity Ginseng Co., Ltd.)	PRC	US\$3,705,000	100	Processing and sales of a series of health care products
瀋陽金龍保健品有限公司 (Shenyang Jinlong)	PRC	US\$1,220,000	80	Processing and sales of ginseng and related products
瀋陽金龍藥業有限公司	PRC	HK\$20,000,000	100	Processing of new Pharmaceutical products Commercial operations not yet commenced

Note: Other than Chenlong Group Limited, all subsidiaries are indirectly held by the Company. None of the subsidiaries had any loan capital outstanding during the year or at the end of the year.

## Notes to the Financial Statements

For the year ended 31 December, 2001

### 13. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	11,718	23,499
Work in progress	6,241	14,693
Finished goods	18,157	18,001
	<b>36,116</b>	56,193

### 14. 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:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Aged:		
Current	190,064	142,403
1 to 30 days overdue	5,614	–
31 to 60 days overdue	2,497	–
	<b>198,175</b>	142,403

### 15. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

As at 31 December, 2001, there were pledged bank deposits and bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK\$12.0 million (2000: HK\$2.7 million) and HK\$36.5 million (2000: HK\$27.7 million) respectively. RMB is not freely convertible into other currencies.

## Notes to the Financial Statements

For the year ended 31 December, 2001

### 16. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Aged:		
Current to 30 days overdue	50,252	51,212
31 to 60 days overdue	438	–
61 to 90 days overdue	639	–
More than 90 days overdue	4,231	550
	<b>55,560</b>	51,762

### 17. BANK BORROWINGS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Bank borrowings	47,170	27,273
Analysed as:		
Secured	4,717	–
Unsecured	42,453	27,273
	<b>47,170</b>	27,273

# Notes to the Financial Statements

For the year ended 31 December, 2001

## 18. SHARE CAPITAL

	Number of shares	Amount
Ordinary shares of HK\$0.10 each	'000	HK\$'000
Authorised:		
On the date of incorporation	1,000	100
Increase during the period	999,000	99,900
At 31 December, 2001	1,000,000	100,000
Issued and fully paid:		
Allotted and issued on the date of incorporation	1,000	100
Issue of shares on Group Reorganisation	1,000	100
Issue of shares by capitalisation of share premium account (the "Capitalisation Issue")	477,400	47,740
Issue of shares to the public	104,600	10,460
At 31 December, 2001	584,000	58,400

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 and credited as fully paid subsequently on 17 January, 2001.

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\$0.10 each; and
- (b) 1,000,000 shares of HK\$0.10 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 resolutions 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\$0.10 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.

## Notes to the Financial Statements

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### **18. SHARE CAPITAL (CONTINUED)**

On 7 May, 2001, by means of new issue of shares to the public, the Company issued a total of 104,600,000 shares of HK\$0.10 each at a price of HK\$0.80 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 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.

# Notes to the Financial Statements

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## 19. RESERVES

	Share premium account HK\$'000	Negative goodwill HK\$'000	Translation reserve HK\$'000	Non- distributable reserves HK\$'000	Special reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At 1 January, 2000		2,281	(433)	19,595	(44,598)	25,906	2,751
Net profit for the year	-	-	-	-	-	73,209	73,209
Transfer	-	-	-	2,173	-	(2,173)	-
Dividend	-	-	-	-	-	(21,500)	(21,500)
At 31 December, 2000							
- as originally stated	-	2,281	(433)	21,768	(44,598)	75,442	54,460
- as adjusted for derecognition of liability for dividend for 2000 (note 2)	-	-	-	-	-	21,500	21,500
- as restated	-	2,281	(433)	21,768	(44,598)	96,942	75,960
Premium arising on issue of shares to the public	73,220	-	-	-	-	-	73,220
Expenses incurred in connection with the issue of shares	(12,701)	-	-	-	-	-	(12,701)
Transfer upon the Capitalisation Issue (note 18)	(47,740)	-	-	-	47,740	-	-
Exchange differences arising on translation of overseas operations	-	-	4,238	-	-	-	4,238
Net profit for the year	-	-	-	-	-	18,688	18,688
Dividend paid	-	-	-	-	-	(21,500)	(21,500)
At 31 December, 2001	12,779	2,281	3,805	21,768	3,142	94,130	137,905

## Notes to the Financial Statements

For the year ended 31 December, 2001

### 19. RESERVES (CONTINUED)

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
Surplus arising on Group Reorganisation	–	111,171	–	111,171
Premium arising on issue of shares to the public	73,220	–	–	73,220
Expenses incurred in connection with the issue of the shares	(12,701)	–	–	(12,701)
Transfer upon the Capitalisation Issue	(47,740)	–	–	(47,740)
Net loss for the year	–	–	(8,155)	(8,155)
At 31 December, 2001	12,779	111,171	(8,155)	115,795

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.

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, over the nominal value of the share capital of the Company issued in exchange therefor.



## Notes to the Financial Statements

For the year ended 31 December, 2001

### 20. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>26,481</b>	83,298
Interest expenses	<b>2,770</b>	2,137
Interest income	<b>(898)</b>	(140)
Depreciation and amortisation	<b>2,181</b>	1,453
Loss on disposal of property, plant and equipment	<b>76</b>	–
Decrease in inventories	<b>20,077</b>	35,970
Increase in trade receivables	<b>(55,772)</b>	(63,302)
Increase in deposits and other receivables	<b>(8,606)</b>	(10,416)
Increase (decrease) in trade payables	<b>3,798</b>	(6,317)
Increase in accruals and other payables	<b>4,296</b>	27,939
<b>NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES</b>	<b>(5,597)</b>	70,622

### 21. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Share capital and share premium</b>	<b>Bank borrowings</b>
	HK\$'000	HK\$'000
At 1 January, 2000	–	35,283
Bank borrowings raised	–	27,273
Repayment of bank borrowings	–	(35,283)
At 31 December, 2000	–	27,273
Issue of share on Group Reorganisation	200	–
Issue of shares to the public	83,680	–
Expenses incurred in connection with the issue of shares	(12,701)	–
Bank borrowings raised	–	61,321
Repayment of bank borrowings	–	(41,424)
At 31 December, 2001	71,179	47,170

## Notes to the Financial Statements

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### 22. NON-CASH TRANSACTIONS

- (a) On 15 September, 2000 (date of incorporation), 1,000,000 shares of HK\$0.10 each were allotted and issued nil paid which were subsequently credited as fully paid on 17 January, 2001.
- (b) On 17 January, 2001, 1,000,000 shares of HK\$0.10 each were allotted and issued nil paid which were subsequently credited as fully paid for the acquisition of the entire issued share capital of Chenlong Group Limited pursuant to the Group Reorganisation.

### 23. PLEDGE OF ASSETS

At the balance sheet date, the Group's bank deposits of approximately HK\$11,981,000 (2000: HK\$2,727,000) were pledged to banks to secure general banking facilities granted to subsidiaries.

### 24. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory provident fund scheme (the "Scheme") for all qualifying employees of the Group in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government.

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 18% to 22% of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

### 25. OPERATING LEASE COMMITMENTS

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

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,482</b>	335
In the second to fifth year inclusive	<b>1,789</b>	32
	<b>3,271</b>	367

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

## Notes to the Financial Statements

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### 26. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b>2,172</b>	1,716

At the balance sheet date, the Company has no significant capital commitments.

### 27. OTHER COMMITMENTS

At the balance sheet date, the Group had 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 (2000: HK\$27 million).