

# Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

## 1. REORGANIZATION AND BASIS OF PRESENTATION

Zhongda International Holdings Limited (the "Company", formerly known as Zhongda Hi-Tech Development Limited) was incorporated in Bermuda on 14th September, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation (the "Reorganisation") in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the other companies comprising the Group on 8th October, 2001. Further details of the Reorganisation are set out in the Company's prospectus dated 22nd October, 2001. The shares of the Company were listed on the Stock Exchange on 1st November, 2001.

The Company and its subsidiaries (collectively referred to as the "Group") resulting from the Reorganisation have been 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 31st December, 2001.

As of 31st December, 2001, the consolidated financial statements of the Group included the financial statements of the Company and the following subsidiaries:

Name	Country/place and date of incorporation/establishment	Issued and fully paid share capital	Registered share capital	Percentage of equity interest attributable to the Group	Principal activities
Zhong Da (BVI) Investments Limited ("Zhong Da (BVI) Investments")	British Virgin Islands 17th May, 1999	United States Dollars ("US\$") 1,175	US\$50,000	100%	Investment holding
Zhong Da International Limited ("Zhong Da International")*	Hong Kong 23rd February, 1993	Hong Kong Dollars ("HK\$") 10,000	HK\$10,000	100%	Investment holding
Zhongda Group (USA) Inc. ("Zhongda (USA)")*	The United States of America (the "USA") 15th January, 1998	US\$100,000	US\$1,000,000	100%	Trading and procurement
Ausen Group ("Ausen")*	USA 23rd January, 1998	-	US\$100,000	100%	Dormant

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

**1. REORGANIZATION AND BASIS OF PRESENTATION** (continued)

Name	Country/place and date of incorporation/ establishment	Issued and fully paid share capital	Registered share capital	Percentage of equity interest attributable to the Group	Principal activities
Zhongda Automobile Machinery Manufacture Co., Ltd. ("Zhongda Machinery")*	People's Republic of China (the "PRC") 15th December, 1993	RMB34,327,500	RMB34,327,500	86.7%	Manufacture and sale of automobile equipment
ZHONGDA Group (Europe) GmbH ("Zhongda (Germany)")*	The Federal Republic of Germany 25th March, 1999	–	Euro 30,000	100%	Dormant
Yancheng Dasheng Automotive Equipment Co., Ltd. ("Yancheng Dasheng")**	PRC 1st December, 1995	US\$500,000	US\$500,000	43.4%	Manufacture and sale of automobile equipment
Jiangsu Zhongda Industrial Painting and Environmental Protection Co., Ltd. ("Zhongda Painting")*	PRC 4th October, 1996	RMB5,600,000	RMB5,600,000	90.0%	Design, production, installation and sale of surface treatment systems
Yancheng Yuntong Automobile Machinery Co., Ltd. ("Yancheng Yuntong")*	PRC 11th October, 1996	–	RMB500,000	86.7%	Dormant
Yancheng Luhua Machinery Co., Ltd. ("Yancheng Luhua")*	PRC 20th May, 1998	–	RMB5,000,000	86.7%	Dormant
Yancheng Zhongda Industrial Equipment Manufacture Co., Ltd. ("Yancheng Zhongda Industrial Equipment")***	PRC 18th September, 2000	US\$1,385,500	US\$1,385,500	95.7%	Manufacture and sale of automobile equipment

# Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

## 1. REORGANIZATION AND BASIS OF PRESENTATION (continued)

- \* *These subsidiaries are indirectly held by the Company.*
- \*\* *Yancheng Dasheng is indirectly held by the Company through Zhongda Machinery. Yancheng Dasheng is accounted for as a subsidiary as the Group has control over Yancheng Dasheng.*
- \*\*\* *Yancheng Zhongda Industrial Equipment is indirectly held by the Company through Zhong Da International and Zhongda Machinery. In November 2001, Zhong Da International increased its equity interests in Yancheng Zhongda Industrial Equipment by additional capital contribution of US\$783,100. The Group's equity interest in Yancheng Zhongda Industrial Equipment was 90.0% prior to the capital contribution, which was used as the basis for the accounting of the Group's investment in Yancheng Zhongda Industrial Equipment prior to the capital contribution.*

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of presentation

The financial statements are prepared under the historical cost convention, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

### (b) Basis of consolidation

The consolidated financial statements of the Group include the accounts of the Company and subsidiaries. A subsidiary is an enterprise which the Company controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's consolidated balance sheet and consolidated income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

### (c) Turnover

Turnover represents gross invoiced sales, net of discounts and returns.

### (d) Revenue recognition

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

- (i) *Sale of goods*  
Sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to customers.

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (d) Revenue recognition (continued)

##### (ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

#### (e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. 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 property, plant and equipment 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 property, plant and equipment, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated using the straight-line basis to write off the cost, after taking into account the estimated residual value, of each asset over its expected useful life. The estimated useful lives and estimated residual values, as a percentage of the cost, are as follows:

Description	Useful life	Residual value
Land use rights	Over the remaining period of lease	–
Buildings	10-30 years	10%
Leasehold improvements	Over the unexpired period of the lease	–
Plant and machinery	10 years	10%
Motor vehicles	5 years	10%
Furniture and equipment	5-7 years	10%

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 disposal is included in the income statement.

#### (f) Construction-in-progress

Construction-in-progress represents plant and properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction, site restoration costs, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and ready for their intended use.

# Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (g) Investments in subsidiaries

Investments in subsidiaries are carried at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the income statement of the Company to the extent of dividends received by or receivable from the subsidiaries.

### (h) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is based on the weighted average cost formula and 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 the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

### (i) Trade and other receivables

Trade and other receivables are stated at their cost, after provision for doubtful accounts.

### (j) Cash and cash equivalents

Cash represents cash on hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

### (k) Operating leases

Leases 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.

# Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

### (m) Taxation

#### (i) Value-added tax ("VAT")

The subsidiaries of the Group established in the PRC are subject to VAT, which is levied at 17 per cent on the gross turnover upon sale or purchase of goods. Input VAT paid on purchases of raw materials, semi-finished products, etc., may be used to offset the VAT payable on sales to determine the net VAT payable. VAT is not included in the income statement.

Pursuant to relevant tax regulations, the subsidiaries of the Group established in the PRC are entitled to full refund of VAT previously paid on export sales of automobile equipment.

#### (ii) Income taxes

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

#### (iii) Deferred taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

### (n) Foreign currencies

Companies of the Group maintain their books and records in the primary currencies of their respective countries (the "respective reporting currencies"). Transactions in other currencies are translated into the respective reporting currencies at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into the respective reporting currencies at exchange rates in effect at the balance sheet date. Exchange differences are dealt with in the income statement.

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

**(n) Foreign currencies** (continued)

The Group prepares consolidated financial statements in RMB, as most of its business is transacted in RMB. For the purpose of consolidation, the financial statements prepared in other currencies are translated at exchange rates prevailing at period end with respect to the consolidated balance sheet of the Group, and at exchange rates at the dates of the transactions with respect to the consolidated income statement of the Group. All resulting translation differences are included in a cumulative translation reserve in equity.

**(o) Borrowing costs**

Interest is expensed as incurred, except for interest directly attributable to the acquisition or production of property, plant and equipment that necessarily takes a substantial period of time to get ready for its intended use, which is capitalised as part of the cost of that property. Interest is capitalised at the weighted average cost of the related borrowings up to the date of completion of the property.

**(p) Employee retirement benefits**

Cost of employee retirement benefits are recognised as expenses in the period in which the employees' services are rendered.

**(q) Impairment of assets**

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. The reversal is recorded in income.

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

**(r) Segments**

Segment revenue, segment expenses and segment performance include transfers between geographical segments. Those transfers are eliminated in consolidation.

**(s) Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**(t) Subsequent events**

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

**(u) Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### 3. TURNOVER

Analysis of turnover by major products is as follows:

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Lacquer rooms	106,382	96,987
Automobile lifters	24,311	23,476
Painting and coating lines	10,532	9,044
Computerised car wash system	7,109	5,560
Other automobile equipment	31,886	26,250
	<b>180,220</b>	161,317



## Notes to the Financial Statements

For the year ended 31st December, 2001

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### 4. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests is determined after crediting and charging the following:

	2001 RMB'000	2000 RMB'000
(a) Crediting		
Interest income on bank deposits	162	188
Exchange gains, net	-	14
(b) Charging		
Depreciation on owned assets	2,614	1,711
Staff costs (excluding directors' emoluments (Note 5))		
– salaries and wages	11,515	11,519
– retirement benefits expenses (Note 24)	1,053	1,176
Interest expense on bank borrowings		
repayable within five years	3,626	2,536
Operating leases in respect of buildings	1,668	1,631
Provision for inventory obsolescence	90	629
Provision for doubtful debts	4,643	3,768
Exchange losses, net	38	-
Auditors' remuneration	790	119

### 5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments pursuant Section 161 of the Companies Ordinance are set out below:

	2001 RMB'000	2000 RMB'000
Non-executive directors		
– Fees	-	-
Executive directors		
– Fees	530	-
– Salaries, allowance and other allowances and benefits in kind	374	468
– Bonuses	-	450
	904	918

## Notes to the Financial Statements

For the year ended 31st December, 2001

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

(a) (continued)

The emoluments of the directors analysed by the number of directors and emolument range were as follows:

	Number of directors	
	2001	2000
Up to HK\$1,000,000	5	5

No directors waived the right to receive emoluments during the year.

(b) Details of senior executives' emoluments are set out below:

Of the five highest paid individuals in the Group, three (2000: three) are directors of the Company whose emoluments are included above. The emoluments of the remaining two (2000: two) individuals were as follows:

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	169	218

Their emoluments were within the following band:

	Number of senior executives	
	2001	2000
Up to HK\$1,000,000	2	2

During the year, no emoluments were paid to the five highest paid individuals (including directors, members and employees) as an inducement to join the Group or as compensation for loss of office.

## Notes to the Financial Statements

For the year ended 31st December, 2001

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### 6. TAXATION

	2001 RMB'000	2000 RMB'000
Current income tax		
– Hong Kong profits tax (Note (a))	–	–
– PRC income tax (Note (b))	3,203	8,643
– USA income taxes (Note (c))	83	19
Deferred tax income		
– PRC income taxes (Note 11)	(1,390)	(7,919)
	<b>1,896</b>	743

(a) No Hong Kong profits tax has been provided, as the Group had no assessable profits in Hong Kong during the year.

(b) The PRC income tax represents enterprise income tax ("EIT") charges on the taxable income reported in the statutory accounts of the companies of the Group established in the PRC.

Generally, companies established in the PRC are subject to EIT at 33 per cent. In accordance with relevant tax laws and regulations, Zhongda Machinery, Yancheng Dasheng, Zhongda Painting and Yancheng Zhongda Industrial Equipment are subject to EIT at a rate of 24 per cent and are entitled to full exemption from EIT for the first two years and a 50 per cent reduction for the next three years, commencing from the first profitable year after offsetting available tax losses carried forward from the previous five years. As approved by Yancheng State Tax Bureau, the first profitable year of Zhongda Machinery, Yancheng Dasheng and Zhongda Painting was 1994, 1998 and 1998 respectively. Yancheng Zhongda Industrial Equipment commenced operations in 2001 and is also eligible for the above preferential tax treatment.

(c) The USA income taxes represent the federal income taxes that are provided on a graduated rate basis and state income taxes that are provided at a flat rate of 8.84 per cent on the taxable income of Zhongda (USA).

## Notes to the Financial Statements

For the year ended 31st December, 2001

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### 6. TAXATION (continued)

- (d) The reconciliation between tax expense and the product of accounting profit in the accompanying consolidated income statements multiplied by the applicable tax rate is as follows:

	2001 RMB'000	2000 RMB'000
Accounting profit	40,216	28,495
Tax at applicable tax rate of 24 per cent	9,652	6,839
Net tax effect of income and expense items which are not assessable or deductible for income tax purpose	(479)	823
Tax effect of timing differences not accounted for	(31)	345
Effect of different tax rates on subsidiaries' income	(7,246)	(82)
Deferred tax effect resulting from change in applicable EIT rate	-	(7,182)
<b>Tax expense</b>	<b>1,896</b>	<b>743</b>

### 7. DIVIDENDS

Dividends amounting to RMB4,376,000 were declared by certain companies within the Group for the year ended 31st December, 2000. The rates of dividend and number of share ranking for dividends for the year ended 31st December, 2000 are not presented as such information is not meaningful.

Pursuant to a resolution of board of directors dated 22nd April, 2002, the board of directors of the Company proposed to distribute a cash dividend of HK\$0.01 per share, amounting to HK\$4,000,040, for the year ended 31st December, 2001. The appropriation is subject to the approval by shareholders at their next general meeting.

## Notes to the Financial Statements

For the year ended 31st December, 2001

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### 8. NET PROFIT FOR THE YEAR

The consolidated net profit for the year included a loss of approximately RMB1,281,000 dealt with in the financial statements of the Company.

### 9. EARNINGS PER SHARE

The calculation of earnings per share was based on the consolidated net profit of RMB33,511,000 (2000: RMB22,710,000) and the weighted average number of approximately 333,370,000 shares (2000: 320,000,000 deemed shares) in issue during the year.

The calculation of diluted earnings per share for 2001 was based on the consolidated net profit of RMB33,511,000 and the diluted weighted average number of approximately 342,755,000 shares in issue during the year. The diluted earnings per share was calculated after taking into account the outstanding warrants as of 31st December, 2001. The effect of the dilutive potential ordinary shares resulting from the outstanding warrants on the weighted average number of shares in issue during the year was approximately 9,385,000 shares, which were deemed to be issued at HK\$0.675 each if all outstanding warrants have been exercised on the date the warrants were issued. The diluted earnings per share for the year ended 31st December, 2000 is not calculated because there was no potential dilutive shares.

## Notes to the Financial Statements

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**10. PROPERTY, PLANT AND EQUIPMENT GROUP**

	2001							2000	
	Land use rights	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and equipment	Construction-in-progress	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>									
Beginning of year	2,096	14,008	-	8,391	714	599	29	25,837	22,589
Additions	5,600	23,776	501	28	-	145	9,760	39,810	3,252
Disposals	-	-	-	-	-	-	-	-	(4)
End of year	7,696	37,784	501	8,419	714	744	9,789	65,647	25,837
<b>Accumulated depreciation</b>									
Beginning of year	1,224	1,539	-	3,258	551	296	-	6,868	5,159
Charge for the year	422	1,177	84	755	88	88	-	2,614	1,711
Disposals	-	-	-	-	-	-	-	-	(2)
End of year	1,646	2,716	84	4,013	639	384	-	9,482	6,868
<b>Net book value</b>									
End of year	6,050	35,068	417	4,406	75	360	9,789	56,165	18,969
Beginning of year	872	12,469	-	5,133	163	303	29	18,969	17,430

**COMPANY**

	2001	2000
	RMB'000	RMB'000
<b>Leasehold improvements</b>		
Cost	501	-
Accumulated depreciation	(84)	-
Net book value	417	-

## Notes to the Financial Statements

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### 10. PROPERTY, PLANT AND EQUIPMENT (continued)

- (a) The land use rights of the land, where certain of the Group's buildings are situated, have a usage period of 12 years from the date of obtaining the land use right certificates.
- (b) As of 31st December, 2001, all the buildings of the Group are located in the PRC.
- (c) As of 31st December, 2001, land use rights and buildings with an aggregate net book value of approximately RMB34,600,000 are mortgaged as collateral for bank borrowings of the Group (Note 17(c)).

### 11. DEFERRED TAX ASSETS

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Beginning of year	7,919	–
Deferred tax income relating to the origination of timing differences	1,390	737
Deferred tax income resulting from change in tax rates	–	7,182
End of year	9,309	7,919

Deferred taxation represents the tax effect of the following timing differences:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Provision for doubtful debts	8,634	7,139
Provision for inventory obsolescence	536	641
Others	139	139
	9,309	7,919

There was no material unprovided deferred tax as of 31st December, 2001.

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### 12. INVESTMENT IN A SUBSIDIARY COMPANY

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	<b>30,387</b>	30,387

This represents investment in Zhong Da (BVI) Investments. Details of this subsidiary directly held by the Company as of 31st December, 2001 are set out in Note 1.

### 13. INVENTORIES

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	<b>18,691</b>	9,379
Work-in-progress	<b>5,197</b>	3,967
Finished goods	<b>16,007</b>	19,940
Less: Provision for obsolescence	<b>(3,293)</b>	(3,203)
	<b>36,602</b>	30,083

### 14. TRADE RECEIVABLES

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable	<b>113,979</b>	90,318
Less: Provision for doubtful debts	<b>(27,462)</b>	(22,819)
	<b>86,517</b>	67,499



## Notes to the Financial Statements

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### 14. TRADE RECEIVABLES (continued)

Ageing analysis for trade receivables after provision for doubtful debts is as follows:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Within six month	41,993	37,130
From seven to twelve months	13,470	17,630
From one to two years	25,778	8,497
Above two years	5,276	4,242
	<b>86,517</b>	67,499

Movement in provision for doubtful debts is as follows:

	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Beginning of year	22,819	33,306
Additions	4,643	3,768
Write-off of accounts receivable ( <i>Note (a)</i> )	-	(14,255)
End of year	<b>27,462</b>	22,819

- (a) Pursuant to a resolution passed by the directors of one of the Group's subsidiaries dated 31st December, 2000, accounts receivable of approximately RMB14,255,000 were written off against provision for doubtful debts.

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**15. SHARE CAPITAL**

	2001		
	Number of shares	Nominal value HK\$	RMB equivalent RMB'000
<i>Authorised:</i>			
- Ordinary shares of HK\$0.10 each	1,000,000,000	100,000,000	
<i>Issued and fully paid:</i>			
- Ordinary shares of HK\$0.10 each	400,004,000	40,000,400	42,386

The following changes in the Company's share capital occurred since its incorporation:

- (a) Upon incorporation of the Company on 14th September, 2000, the authorised share capital was HK\$100,000, divided into 1,000,000 shares, all of which were allotted, issued and nil paid to Zhong Da (BVI) Limited on 28th September, 2000.
- (b) On 8th October, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of additional 999,000,000 shares.
- (c) On 19th October, 2001, pursuant to the Reorganisation described in Note 1 to the financial statements, the Company allotted and issued 300,000 shares, credited as fully paid to Zhong Da (BVI) Limited, Mr. Zhang Yuqing, Gainful Outcome Holdings Limited and Outstanding Management Limited (hereinafter collectively referred to as the "Existing Shareholders"), in the proportion of 34,800 shares to Zhong Da (BVI) Limited, 71,500 shares to Mr. Zhang Yuqing, 110,500 shares to Gainful Outcome Holdings Limited and 83,200 shares to Outstanding Management Limited, as consideration for the acquisition of equity interests in the other companies comprising the Group, and also credited as fully paid the 1,000,000 shares as set out in (a) above. On the same date, 318,700,000 shares were allotted and issued, credited as fully paid to the Existing Shareholders in the proportion of 253,685,200 shares to Zhong Da (BVI) Limited, 17,528,500 shares to Mr. Zhang Yuqing, 27,089,500 shares to Gainful Outcome Holdings Limited and 20,396,800 shares to Outstanding Management Limited.
- (d) On 1st November, 2001, 20,000,000 shares held by Zhong Da (BVI) Limited were sold under private placement, in addition, 70,000,000 shares were issued under private placement and 10,000,000 shares were issued to the public, all at HK\$0.50 each with one warrant for every two shares. The total cash consideration from the private placement and the share issuance was HK\$40,000,000 (equivalent to RMB42,423,000) before the deduction of related issuance expenses borne by the Company.

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 15. SHARE CAPITAL (continued)

- (e) The warrants issued by the Company entitle the holders to subscribe up to HK\$33,750,000 in aggregate in cash for a total of 50,000,000 shares at an initial price of HK\$0.675 each, subject to adjustment, at any time on or after 1st November, 2001 until 31st October, 2006. On 28th November, 2001, 4,000 warrants were converted by the respective warrant holders into 4,000 shares of the Company at the amount of HK\$2,700 (equivalent to RMB3,000). No further warrants were exercised during the period from 29th November, 2001 to the date of this report.

A summary of the movements in the authorised and issued share capital of the Company is as follows:

	Number of shares authorised	Number of shares issued	Nominal value of share issued HK\$	RMB equivalent RMB'000
Shares allotted and issued on incorporation as nil paid and subsequently credited as paid-in	1,000,000	1,000,000	100,000	106
Increase in authorised share capital	999,000,000	-	-	-
Shares issued as consideration for the acquisition of equity interests in the other companies comprising the Group	-	319,000,000	31,900,000	33,795
Pro forma share capital as of 31st December, 2000	1,000,000,000	320,000,000	32,000,000	33,901
New issues on private placement	-	70,000,000	7,000,000	7,424
New issues on initial public offering	-	10,000,000	1,000,000	1,060
New issues on exercise of warrants	-	4,000	400	1
Balance as of 31st December, 2001	1,000,000,000	400,004,000	40,000,400	42,386

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 15. SHARE CAPITAL (continued)

The comparative share capital amount as of 31st December, 2000 represents the pro forma issued share capital of the Company after the issue of 1,000,000 shares on incorporation, and 319,000,000 shares for the acquisition of equity interests in the other companies comprising the Group, as if the Reorganisation had been in place as of 31st December, 2000.

As of 31st December, 2001, 234,720,000 of the Company's shares were held by Zhong Da (BVI) Limited, a company incorporated in the British Virgin Islands. The directors consider Zhong Da (BVI) Limited to be the ultimate holding company of the Group.

### 16. RESERVES

#### GROUP

	Paid-in capital RMB'000 Note (a)	Share premium RMB'000	Enterprise Cumulative			Retained profits RMB'000 Note (c)	Total RMB'000
			Reserve fund RMB'000 Note (b)	expansion fund RMB'000 Note (b)	translation reserve RMB'000		
Balances as of							
1st January, 2000	(3,514)	-	2,662	2,662	-	20,779	22,589
Net profit for the year	-	-	-	-	-	22,710	22,710
Profit appropriations							
- Reserve fund	-	-	13	-	-	(13)	-
- Enterprise expansion fund	-	-	-	13	-	(13)	-
Balance as of 31st December, 2000	(3,514)	-	2,675	2,675	-	43,463	45,299
Difference between paid-in capital of subsidiaries between par value of 320,000,000 deemed shares arising from the Reorganisation	3,514	(3,514)	-	-	-	-	-
Premium arising from issuance of shares	-	33,939	-	-	-	-	33,939

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

**16. RESERVES** (continued)**GROUP** (continued)

	Paid-in capital RMB'000 Note (a)	Share premium RMB'000	Enterprise Cumulative			Retained profits RMB'000 Note (c)	Total RMB'000
			Reserve fund RMB'000 Note (b)	expansion fund RMB'000 Note (b)	translation reserve RMB'000		
Expenditures on issuance of shares	-	(13,354)	-	-	-	-	(13,354)
Premium arising from exercise of warrants	-	2	-	-	-	-	2
Net profit for the year	-	-	-	-	-	33,511	33,511
Profit appropriations							
- Reserve fund	-	-	22	-	-	(22)	-
- Enterprise expansion fund	-	-	-	22	-	(22)	-
Translation differences	-	-	-	-	21	-	21
Balances as of 31st December, 2001	-	17,073	2,697	2,697	21	76,930	99,418

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

**16. RESERVES** (continued)**COMPANY**

	Share premium	Cumulative translation reserve	Accumulated loss	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note (a)</i>			
Balance as of 1st January, 2000	–	–	–	–
Difference between paid-in capital of subsidiaries and par value of 320,000,000 deemed shares arising from the Reorganisation	(3,514)	–	–	(3,514)
Balance as of 31st December, 2000	(3,514)	–	–	(3,514)
Premium arising from issuance of shares	33,939	–	–	33,939
Expenditures on issuance of shares	(13,354)	–	–	(13,354)
Premium arising from exercise of warrants	2	–	–	2
Net loss for the year	–	–	(1,281)	(1,281)
Translation differences	–	16	–	16
Balance as of 31st December, 2001	17,073	16	(1,281)	15,808

- (a) Paid-in capital of the Group and share premium of the Company as of 31st December, 2000 represents the difference between capital injected to subsidiaries of the Company and HK\$32,000,000 (equivalent to approximately RMB33,901,000) recorded as deemed share capital, as if the Reorganisation had been in place as of that date.

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 16. RESERVES (continued)

- (b) According to the rules and regulations applicable to the Group's subsidiaries in the PRC, when distributing net income of each year, these subsidiaries shall set aside a portion of their net income as reported in their statutory accounts for the reserve fund, enterprise expansion fund and staff and workers' bonus and welfare fund. Such amounts that are appropriated are determined at the discretion of the board of directors. These statutory reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends. Under the accounting principles generally accepted in Hong Kong, the appropriations to staff and workers' bonus and welfare fund have been included as expenses and the balance of the fund as liabilities of the Group.
- (c) Retained profits may be carried forward for future distribution.

### 17. BORROWINGS

#### (a) Short-term bank borrowings

	2001 RMB'000	2000 RMB'000
Secured	21,100	30,400
Unsecured	5,000	–
	<b>26,100</b>	30,400

All short-term bank borrowings are denominated in RMB and bear interest at rates ranging from 6.44 per cent to 7.02 per cent per annum as of 31st December, 2001 (2000: 6.70 per cent to 7.13 per cent per annum).

#### (b) Long-term bank borrowings

	2001 RMB'000	2000 RMB'000
Secured	8,400	11,000

All long-term bank borrowings are denominated in RMB and bear interest at 7.13 per cent per annum as of 31st December, 2001 (2000: 7.13 per cent per annum).

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 17. BORROWINGS (continued)

#### (b) Long-term bank borrowings (continued)

Long-term bank borrowings are repayable as follows:

	2001 RMB'000	2000 RMB'000
Repayable		
– Within one year	5,500	5,500
– In two to five years	2,900	5,500
	8,400	11,000
Less: amounts due within one year included under current liabilities	(5,500)	(5,500)
	2,900	5,500

#### (c) Pledge and guarantee

As of 31st December, 2001, the Group's bank borrowings were secured by the following:

- (i) a charge on bank deposits of USD195,000 (equivalent to approximately RMB1,614,000) for short-term bank borrowings of RMB1,600,000. Of this amount, the charge on the bank deposits of USD110,000 (equivalent to approximately RMB910,000) was released subsequent to 31st December, 2001;
- (ii) certain land use rights and buildings with an aggregate net book value of approximately RMB34,600,000 pledged as collateral for short-term bank borrowings of RMB14,500,000 and long-term bank borrowings of RMB8,400,000 (Note 10); and
- (iii) corporate guarantee given by a third party company for short-term bank borrowings of RMB5,000,000.



## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 18. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	15,904	20,698
From one to two years	3,182	1,544
From two to three years	1,485	1,774
Above three years	1,929	695
	<b>22,500</b>	<b>24,711</b>

### 19. TAXES PAYABLE

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
PRC VAT payable	12,044	27,541
PRC EIT payable	3,285	8,643
USA income taxes payable	94	296
Other taxes	299	426
	<b>15,722</b>	<b>36,906</b>

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

**20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of profit before taxation and minority interests to net cash flow from operating activities**

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation and minority interests	40,216	28,495
Interest income	(162)	(188)
Interest expense	3,626	2,536
Depreciation	2,614	1,711
Provision for inventory obsolescence	90	629
Provision for doubtful debts	4,643	3,768
(Increase) Decrease in inventories	(6,609)	1,008
Increase in due from a related company	(17,679)	(36,438)
Decrease (Increase) in prepayments and other current assets	6,634	(5,890)
(Increase) Decrease in other receivables	(6,005)	2,056
Increase in trade receivables	(23,661)	(24,531)
Increase in due to a related company	32	-
Increase in other payables and other current liabilities	1,527	77
Increase in taxes payable	8,048	10,603
Decrease in trade payables	(2,211)	(1,229)
Net cash inflow (outflow) from operating activities	11,103	(17,393)

**(b) Acquisition of property, plant and equipment**

	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of property, plant and equipment acquired	39,810	3,252
Less: Consideration settled by offset of amounts due from a related company (Note 21(b))	(29,262)	-
Cash payments for acquisition of property, plant and equipment	10,548	3,252

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

**20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** (continued)**(c) Analysis of changes in financing**

	2001				2000
	Share capital and share premium RMB'000	Bank borrowings RMB'000	Minority interests RMB'000	Total RMB'000	Total RMB'000
Beginning of year	30,387	41,400	8,660	80,447	51,186
Issuance of ordinary shares on private placement and public offering less expenses	29,069	-	-	29,069	24,195
Issuance of ordinary shares on exercise of warrants	3	-	-	3	-
Net cash (outflow) inflow from financing	-	(6,900)	-	(6,900)	4,400
Payment of dividends to minority interests	-	-	-	-	(4,376)
Profit attributable to minority interests	-	-	4,809	4,809	5,042
End of year	59,459	34,500	13,469	107,428	80,447

**(d) Analysis of the components of cash and cash equivalents**

	2001 RMB'000	2000 RMB'000
Cash and bank balances	34,646	15,668
Less: Bank deposits pledged as collateral for bank borrowings (Note 17(c))	(1,614)	-
Cash and cash equivalents	33,032	15,668

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 21. RELATED PARTY TRANSACTIONS

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

#### (a) Transactions with related companies

Apart from the transactions with a related company disclosed in Note (b), the Group had the following transactions with related companies:

	2001 RMB'000	2000 RMB'000
Transactions with a company, in which the Chairman of the Group has a controlling interest		
– Service fee	750	750
– Patent fee	200	200
– Trademark fee	150	150
– Rental of office premises	100	100
Purchases from a company, in which the Chairman of the Group has a controlling interest	6,731	5,450
Sales to companies, in which the Chairman of the Group has significant influence (Note (i))	494	1,758

In the opinion of the directors of the Group, the above transactions with related parties, other than those described in Note (b), were carried out on normal commercial terms and in the usual course of business.

Save for the transactions with a related company as disclosed in Note (b) and those set out below, the related party transactions would continue after the listing of the Company's shares on the Stock Exchange.

- (i) Sales to related companies were discontinued after the listing of the Company's shares on the Stock Exchange.
- (ii) Pursuant to a revised borrowing arrangement dated 2nd August, 2001, collateral provided by a related company, in which the Chairman of the Group has a controlling interest, for bank borrowings of the Group amounting to RMB27,000,000 was released with effect from that date.

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 21. RELATED PARTY TRANSACTIONS (continued)

#### (b) Balances with a related company

Included in the balance sheet are the following balances with a related company, in which the Chairman of the Group has a controlling interest:

	2001	2000
	RMB'000	RMB'000
Due (to) from a related company	<b>(32)</b>	43,816

Amounts due from a related company, in which the Chairman of the Group has a controlling interest, as of 31st December, 2000 mainly arose from the above transactions and costs and expenses paid by the Company and the related company on behalf of each other. Amounts due from the related company were unsecured, interest-free and were settled as follows:

- (i) Pursuant to an agreement dated 31st December, 2000 between one of the Group's subsidiaries and the related company and a consent statement from the relevant tax bureau on 23rd March, 2001, taxes payable of the subsidiary of approximately RMB32,233,000 would be paid through the related company. As a result, the liabilities were offset against amounts due from the related company as of 31st March, 2001 to reflect the substance of the transaction.
- (ii) As of 1st May, 2001, one of the subsidiaries of the Group acquired certain plant buildings and related land use right from a related company, in which the Chairman of the Group has a controlling interest, at their open market value of approximately RMB29,262,000. Consideration for the acquisition of the assets was settled via the offset of amounts due from the related party.

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

**22. SEGMENT INFORMATION**

The Group conducts the majority of its business activities in two geographical areas, the PRC and the USA. An analysis by geographical segment, as determined by location of assets, is as follows:

	PRC		USA		Unallocated		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>REVENUE</b>								
External sales	157,477	152,127	22,743	9,190	-	-	180,220	161,317
Other revenue	2,927	1,628	23	31	-	-	2,950	1,659
<b>Total</b>	<b>160,404</b>	<b>153,755</b>	<b>22,766</b>	<b>9,221</b>	<b>-</b>	<b>-</b>	<b>183,170</b>	<b>162,976</b>
<b>RESULT</b>								
Segment result	43,967	35,654	1,737	(4,847)	-	-	45,704	30,807
Unallocated corporate expenses	-	-	-	-	(1,778)	-	(1,778)	-
Operating profit (loss)	43,967	35,654	1,737	(4,847)	(1,778)	-	43,926	30,807
Finance (cost) income, net	(3,546)	(2,348)	-	-	82	-	(3,464)	(2,348)
Others, net	(239)	42	(9)	(6)	2	-	(246)	36
Taxation	(1,813)	(724)	(83)	(19)	-	-	(1,896)	(743)
Minority interests	(4,809)	(5,042)	-	-	-	-	(4,809)	(5,042)
<b>Net profit (loss) for the year</b>	<b>33,560</b>	<b>27,582</b>	<b>1,645</b>	<b>(4,872)</b>	<b>(1,694)</b>	<b>-</b>	<b>33,511</b>	<b>22,710</b>
<b>ASSETS</b>								
Segment assets	198,331	193,089	13,410	10,800	-	-	211,741	203,889
Unallocated corporate assets	-	-	-	-	30,804	-	30,804	-
<b>Total</b>	<b>198,331</b>	<b>193,089</b>	<b>13,410</b>	<b>10,800</b>	<b>30,804</b>	<b>-</b>	<b>242,545</b>	<b>203,889</b>
<b>LIABILITIES</b>								
Segment liabilities	84,093	113,522	2,684	2,507	-	-	86,777	116,029
Unallocated corporate liabilities	-	-	-	-	495	-	495	-
<b>Total</b>	<b>84,093</b>	<b>113,522</b>	<b>2,684</b>	<b>2,507</b>	<b>495</b>	<b>-</b>	<b>87,272</b>	<b>116,029</b>

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

**22. SEGMENT INFORMATION** (continued)

	PRC		USA		Unallocated		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>MINORITY INTERESTS</b>	<b>13,469</b>	<b>8,660</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,469</b>	<b>8,660</b>
<b>OTHER INFORMATION</b>								
Segment capital expenditure	39,205	3,190	104	62	-	-	39,309	3,252
Unallocated corporate capital expenditure	-	-	-	-	501	-	501	-
<b>Total</b>	<b>39,205</b>	<b>3,190</b>	<b>104</b>	<b>62</b>	<b>501</b>	<b>-</b>	<b>39,810</b>	<b>3,252</b>
Segment depreciation	2,452	1,647	78	64	-	-	2,530	1,711
Unallocated corporate depreciation	-	-	-	-	84	-	84	-
<b>Total</b>	<b>2,452</b>	<b>1,647</b>	<b>78</b>	<b>64</b>	<b>84</b>	<b>-</b>	<b>2,614</b>	<b>1,711</b>

**23. COMMITMENTS****(a) Capital commitments**

The Group had capital commitments relating to the acquisition of property, plant and equipment for production purposes amounting to RMB8 million as of 31st December, 2001, which had been authorised and contracted for.

**(b) Operating leases**

The Group had the following operating lease commitments to make future payments under non-cancellable operating leases as of 31st December, 2001 in respect of land and buildings:

	2001 RMB'000
Land and buildings	
– Within one year	742
– In two to five years	1,618
– After five years	900
	<b>3,260</b>

## Notes to the Financial Statements

For the year ended 31st December, 2001

(Amounts expressed in thousands of Renminbi ("RMB") unless otherwise stated)

### 24. RETIREMENT BENEFITS

The subsidiaries of the Group established in the PRC have participated in defined contribution plans organised by the relevant local government authorities in the PRC. These subsidiaries were required to make monthly contributions to these plans at 17 per cent of the employees's basic salary.

The subsidiaries of the Group established in the PRC have no obligation for the payments of retirement and other post-retirement benefits of employees other than the monthly contributions described above.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

There were no contribution forfeited (2000: RMB Nil) for the year ended 31st December 2001 and no forfeited contributions were available to the Group as at 31st December 2001.

### 25. SHARE OPTION SCHEME

The Company adopted a share option scheme under which the directors may, at their discretion, invite any executive and/or employee of the Company and/or its subsidiaries to take up options to subscribe for shares. The exercise price is determined by the directors and will at least be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which shall be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

As of 31st December, 2001, no share options was granted.

### 26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

### 27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 22nd April, 2002.