

Notes to the Financial Statements

For the year ended 31 December, 2002

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Absolute Target Limited, a company incorporated in the British Virgin Islands ("BVI").

The Company acts as an investment holding company. Its subsidiaries are principally engaged in production and sales of a series of health care and pharmaceutical products.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in changes in the format of presentation of the cash flow statement and inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Transaction" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group only participates in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

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For the year ended 31 December, 2002

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 as follows:

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 within the Group have been eliminated on consolidation.

Negative goodwill

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.

Negative goodwill arising on acquisition prior to 1 January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

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

Investments in subsidiaries

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

Notes to the Financial Statements

For the year ended 31 December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of net assets of the associate.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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 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 term 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, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development expenditures

Expenditures on research and development activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

Technology know-how

Technology know-how is measured initially at cost and amortised on a straight-line basis over its estimated useful life.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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 loss is 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, such 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 comprises direct materials and, where applicable, direct labour cost and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Notes to the Financial Statements

For the year ended 31 December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability is included in the balance sheet as obligations under finance leases. Finance costs, which represent the difference between the total lease payments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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 term of 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.

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.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as an income or as an expenses in the year in which the operation is disposed of.

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For the year ended 31 December, 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating business – production and sales of trading of health care products and pharmaceutical product. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Business segments

RESULTS

	Health care products		Pharmaceutical product		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment turnover	156,185	209,413	9,451	–	165,636	209,413
Segment result	36,590	42,845	5,491	–	42,081	42,845
Other operating income					465	898
Unallocated corporate expenses					(16,355)	(14,492)
Profit from operations					26,191	29,251
Finance charges					(5,173)	(2,770)
Profit before taxation					21,018	26,481
Taxation					(4,238)	(3,649)
Profit before minority interests					16,780	22,832
Minority interests					(3,664)	(4,144)
Net profit for the year					13,116	18,688

Notes to the Financial Statements

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

BALANCE SHEET

	Health care products		Pharmaceutical product		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
ASSETS						
Segment assets	363,059	352,016	38,914	–	401,973	352,016
Interest in an associate					9,434	–
Unallocated corporate assets					11,877	17,662
Consolidated total assets					423,284	369,678
LIABILITIES						
Segment liabilities	86,643	100,691	1,350	–	87,993	100,691
Unallocated corporate liabilities					114,097	55,813
					202,090	156,504

OTHER INFORMATION

	Health care products		Pharmaceutical product		Other		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Additions of property, plant and equipment	1,030	4,026	3,303	–	1,327	1,190	5,660	5,216
Additions of intangible asset	2,830	–	–	–	–	–	2,830	–
Depreciation and amortisation	2,026	1,993	44	–	648	188	2,718	2,181

Notes to the Financial Statements

For the year ended 31 December, 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments

The Group's operations are mainly located in the People's Republic of China (the "PRC") and all significant identifiable assets of the Group are located in the PRC. Accordingly, no analysis by geographical segment is presented.

5. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 6)	4,801	5,213
Other staff costs		
– salaries and allowances	12,759	10,884
– retirement benefits scheme contributions	620	601
	18,180	16,698
Auditors' remuneration	600	700
(Gain) loss on disposal of property, plant and equipment	(88)	76
Depreciation and amortisation	2,718	2,181
Operating lease rentals in respect of land and buildings	9,202	6,018
Research and development expenditures	1,016	147
Interest income	(373)	(898)

Notes to the Financial Statements

For the year ended 31 December, 2002

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Fee:		
Executive directors	–	–
Non-executive director	600	650
Independent non-executive directors	200	200
	800	850
Other emoluments for executive directors:		
Salaries and allowances	3,953	4,315
Retirement benefits scheme contributions	48	48
	4,001	4,363
	4,801	5,213

The emoluments of the directors were within the following bands:

	Number of director	
	2002	2001
Nil to HK\$1,000,000	5	4
HK\$1,000,001 – HK\$1,500,000	2	3

(b) Employees' emoluments

During the year, the five highest paid individuals included four (2001: four) directors, details of whose emoluments are set out above. The emoluments of the remaining one (2001: one) highest paid individual were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	960	1,040
Retirement benefits scheme contributions	12	12
	972	1,052

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.

Notes to the Financial Statements

For the year ended 31 December, 2002

7. FINANCE CHARGES

	2002 HK\$'000	2001 HK\$'000
The finance charges represent interests on:		
– bank borrowings wholly repayable within five years	5,140	2,770
– a finance lease	33	–
	5,173	2,770

8. TAXATION

No Hong Kong Profits Tax is payable by the Company or its subsidiaries operated in Hong Kong 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. The tax charge provided has been made after taking these tax incentives into account.

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 ended 31 December, 2002.

Shenyang Chenlong Longevity Ginseng Co., Ltd. ("Shenyang Chenlong") was entitled to an exemption of the PRC income tax during the two years ended 31 December, 1999. Commencing on 1 January, 2002, Shenyang Chenlong is subject to PRC income tax at a rate of 15 per cent.. In addition, Shenyang Chenlong is entitled to an exemption of the local income tax during the five years ending 31 December 2004, followed by a 50 per cent. relief for the next three years ending 31 December, 2007.

The other PRC subsidiaries of the Group were still within the PRC income tax exemption/relief period during the year.

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9. DIVIDENDS

For the year ended 31 December, 2001, an interim dividend of HK\$21,500,000 was declared by a subsidiary of the Group to the then shareholders prior to the group reorganisation as set out in the prospectus issued by the Company dated 26 April, 2001 (the "Group Reorganisation"). The rate of dividend was not presented as the directors did not consider such information to be meaningful in the context of the financial statements.

No dividend was paid or proposed during 2002, nor has any dividend been proposed since the balance sheet date (2001: final dividend proposed of HK\$1.5 cents per share).

10. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of approximately HK\$13,116,000 and on 584,000,000 shares in issue during the year.

For the year ended 31 December, 2001, the calculation of basic earnings per share was based on the net profit 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.

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, 2002

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold			Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	land and buildings	Leasehold improvement	Plant and machinery	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At 1 January, 2002	31,980	1,220	4,669	1,362	2,991	905	43,127
Additions	-	-	712	184	2,060	2,704	5,660
Disposals	(1,047)	-	-	-	-	-	(1,047)
Transfers	-	-	3,412	-	-	(3,412)	-
At 31 December, 2002	30,933	1,220	8,793	1,546	5,051	197	47,740
DEPRECIATION AND AMORTISATION							
At 1 January, 2002	2,764	143	1,544	614	852	-	5,917
Provided for the year	999	431	581	250	457	-	2,718
Eliminated on disposals	(65)	-	-	-	-	-	(65)
At 31 December, 2002	3,698	574	2,125	864	1,309	-	8,570
NET BOOK VALUES							
At 31 December, 2002	27,235	646	6,668	682	3,742	197	39,170
At 31 December, 2001	29,216	1,077	3,125	748	2,139	905	37,210

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

At 31 December, 2002, the net book value of motor vehicles included an amount of approximately HK\$829,000 (2001: Nil) in respect of asset held under a finance lease.

Notes to the Financial Statements

For the year ended 31 December, 2002

12. INVESTMENTS IN SUBSIDIARIES

THE COMPANY 2002 & 2001

HK\$'000

Unlisted shares, at cost	111,371
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Details of the Company's principal subsidiaries at 31 December, 2002 are set out as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Group %	Principal activities
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. ("Jian New Wellon")	PRC	RMB7,000,000 (note b)	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	PRC	US\$3,705,000 (note c)	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 (note d)	80	Processing and sales of ginseng and related products
瀋陽金龍藥業有限公司 Shenyang Jinlong Pharmaceutical Company Limited ("Jinlong Pharmaceutical")	PRC	HK\$20,000,000 (note e)	100	Processing and sales of pharmaceutical product

Notes to the Financial Statements

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12. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The directors are of the opinion that a complete list of all subsidiaries would be of excessive length and therefore the above list contains only the subsidiaries of the Company which principally affected the results of the Group or formed a substantial portion of the net assets of the Group.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

Notes:

- (a) Other than Chenlong Group Limited, all subsidiaries are indirectly held by the Company.
- (b) Jian New Wellon is a wholly foreign-owned enterprise for a period of 15 years commencing from 22 June, 1998.
- (c) Shenyang Chenlong is a wholly foreign-owned enterprise for a period of 15 years commencing from 7 May, 1999.
- (d) Shenyang Jinlong is a sino-foreign equity joint venture for a period of 15 years commencing from 27 November, 1992 established under a joint venture agreement with another PRC party. Pursuant to the agreement entered into between the Group and the relevant PRC party, the profit of Shenyang Jinlong is shared between the joint venture partners in proportional to their equity interests in Shenyang Jinlong unless otherwise unanimously agreed by the board of directors.
- (e) Jinlong Pharmaceutical is a wholly foreign-owned enterprise for a period of 15 years commencing from 8 June, 2001.

13. INTEREST IN AN ASSOCIATE

THE GROUP

The amount represents the share of net assets of the associate at the balance sheet date.

Details of the Group's associate at 31 December, 2002 are as follows:

Name of associate	Form of business structure	Place of registration/ operation	Registered capital	Proportion of registered capital held	Principal activity
廣州市富園房地產開發有限公司	Limited liability company	PRC	RMB20,500,000	48.8%	Property development

The associate has not commenced its commercial operations and its results for the year is immaterial.

14. INVESTMENT SECURITIES

The amount represents unlisted equity investment in Archnet Technology Limited ("Archnet"), a company incorporated in Hong Kong, which is stated at cost. The Group's investment represents a holding of 20% of the ordinary shares of Archnet. Archnet is not regarded as an associate of the Group because the Group has no significant influence over its affairs.

Notes to the Financial Statements

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15. INTANGIBLE ASSET

The amount represents the cost of a technology know-how acquired during the year and has not been amortised in 2002 as the production of the related product has not commenced.

The technology know-how will be amortised on a straight-line basis over its estimated useful life of 3 years when the production of the related product has commenced.

16. DEPOSITS PAID

The amount represents deposits paid to acquire certain technology know-hows and rights.

17. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	57,332	11,718
Work in progress	11,902	6,241
Finished goods	48,577	18,157
	117,811	36,116

18. 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	
	2002 HK\$'000	2001 HK\$'000
Aged:		
Current	143,414	190,064
1 to 30 days overdue	6,784	5,614
31 to 60 days overdue	6,999	2,497
	157,197	198,175

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19. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December, 2002, there were pledged bank deposits and bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK\$12,284,000 (2001: HK\$11,981,000) and HK\$27,080,000 (2001: HK\$27,700,000) respectively. RMB is not freely convertible into other currencies.

20. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Aged:		
Current	49,205	50,252
1 to 30 days overdue	92	–
31 days to 60 days overdue	–	438
61 days to 90 days overdue	52	639
More than 90 days overdue	3,484	4,231
	52,833	55,560

21. BANK BORROWINGS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
The borrowings are repayable on demand or within one year:		
Bank borrowings	84,151	47,170
Bank overdraft	17,809	–
	101,960	47,170
Analysed as:		
Secured	37,809	4,717
Unsecured	64,151	42,453
	101,960	47,170

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22. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under a finance lease:				
Within one year	219	–	190	–
In the second to fifth year inclusive	619	–	538	–
	838	–	728	–
Less: Future finance charges	(110)	–	–	–
	728	–	728	–
Less: Amount due within one year shown under current liabilities			(190)	–
Amount due after one year			538	–

The lease is on a fixed repayment basis and no arrangement has been entered into for contingent rental payments.

The Group's obligations under a finance lease is secured by the lessor's charge over the leased assets.

23. SHARE CAPITAL

	Number of shares	Amount
	'000	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
On the date of incorporation	1,000	100
Increase during the period	999,000	99,900
At 31 December, 2001 and 31 December, 2002	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 and 31 December, 2002	584,000	58,400

There was no movement in the Company's share capital during the year.

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24. 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
THE GROUP							
At 1 January, 2001	-	2,281	(433)	21,768	(44,598)	96,942	75,960
Premium arising on issue of shares	73,220	-	-	-	-	-	73,220
Expenses incurred in connection with the issue of shares	(12,701)	-	-	-	-	-	(12,701)
Transfer upon the Capitalisation Issue (note 23)	(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
Net profit for the year	-	-	-	-	-	13,116	13,116
Transfer	-	-	-	2,264	-	(2,264)	-
Dividend paid	-	-	-	-	-	(8,760)	(8,760)
At 31 December, 2002	12,779	2,281	3,805	24,032	3,142	96,222	142,261

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
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
Net loss for the year	-	-	(8,668)	(8,668)
Dividend paid	-	(8,760)	-	(8,760)
At 31 December, 2002	12,779	102,411	(16,823)	98,367

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24. RESERVES (CONTINUED)

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.

25. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, the Group entered into a finance lease arrangement in respect of motor vehicles with a total capital value at the inception of the lease of approximately HK\$950,000 (2001: nil).
- (b) For the year ended 31 December, 2001, 1,000,000 shares of HK\$0.10 each were allotted and issued nil paid on date of incorporation of the Company which were subsequently credited as fully paid on 17 January, 2001.
- (c) For the year ended 31 December, 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.

26. SHARE OPTION SCHEME

In accordance with the terms of a share option scheme (the "Scheme") adopted by the Company on 6 April, 2001 for the primary purpose of providing incentives of directors and eligible employees, the board of directors of the Company is authorised, at its absolute discretion, to grant options to eligible employees, including executive directors of the Company and its subsidiaries to subscribe for shares in the Company. The Scheme became effective upon the listing of the shares in the Company on The Stock Exchange of Hong Kong Limited on 9 May, 2001. Options granted may be exercised in accordance with the terms of the Scheme at any time during the three-year period commencing on the date on which the option is accepted and expiry on the last day of the three-year period or the tenth anniversary of the date the Scheme is adopted, whichever is the earlier.

As at 31 December, 2002, no options have been granted to any executive directors or employees of the Company under the Scheme.

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For the year ended 31 December, 2002

27. 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 the trustees. The employees of the subsidiaries in the PRC are members of retirement benefits schemes operated by the PRC government. The contributions are charged to the income statement as incurred.

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.

28. BANKING FACILITIES

At 31 December, 2002, the Group's banking facilities were secured by:

- (i) the Group's bank deposits of approximately HK\$27,423,000 (2001: HK\$11,981,000);
- (ii) the US dollars deposits placed with a bank (2001: Nil) from an independent third party; and
- (iii) corporate guarantees given by the Company and certain of its subsidiaries.

29. CONTINGENT LIABILITIES

The Company has given guarantees in favour of banks to the extent of HK\$40,000,000 (2001: Nil) in respect of banking facilities granted to a subsidiary of the Company. At the balance sheet date, the banking facilities utilised by the subsidiary amounted to approximately HK\$37,809,000 (2001: Nil).

Notes to the Financial Statements

For the year ended 31 December, 2002

30. OPERATING LEASE COMMITMENTS

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

	2002	2001
	HK\$'000	HK\$'000
Within one year	1,637	1,482
In the second to fifth year inclusive	649	1,789
	2,286	3,271

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.

31. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	131	2,172

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

32. 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\$4 million (2001: HK\$26 million).