

Notes to the Financial Statements

For the year ended 31 December 2003

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, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
-------------------	--------------

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 losses.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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.

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-hows

Technology know-hows are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

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 translation reserve. Such translation differences are recognised as an income or as an expenses in the year in which the operation is disposed of.

Retirement benefits costs

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

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating business – production and sales of health care products and pharmaceutical products. 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 products		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment turnover	138,820	156,185	17,443	9,451	156,263	165,636
Segment result	24,048	36,590	10,052	5,491	34,100	42,081
Other operating income					938	465
Unallocated corporate expenses					(15,380)	(16,355)
Profit from operations					19,658	26,191
Finance charges					(6,359)	(5,173)
Profit before taxation					13,299	21,018
Taxation					(2,738)	(4,238)
Profit before minority interests					10,561	16,780
Minority interests					(2,345)	(3,664)
Net profit for the year					8,216	13,116

Notes to the Financial Statements

For the year ended 31 December 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

BALANCE SHEET

	Health care products		Pharmaceutical products		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS						
Segment assets	349,056	363,059	45,271	38,914	394,327	401,973
Interest in an associate					–	9,434
Unallocated corporate assets					30,154	11,877
Consolidated total assets					424,481	423,284
LIABILITIES						
Segment liabilities	74,490	86,643	4,057	1,350	78,547	87,993
Unallocated corporate liabilities					82,979	114,097
Consolidated total liabilities					161,526	202,090

OTHER INFORMATION

	Health care products		Pharmaceutical products		Other		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions of property, plant and equipment	117	1,030	268	3,303	6	1,327	391	5,660
Additions of intangible assets	–	2,830	754	–	–	–	754	2,830
Depreciation and amortisation of property, plant and equipment	2,020	2,026	458	44	715	648	3,193	2,718
Amortisation of intangible assets	466	–	42	–	–	–	508	–
Loss (gain) on disposal of property, plant and equipment	42	–	–	–	59	(88)	101	(88)

Notes to the Financial Statements

For the year ended 31 December 2003

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

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Staff costs		
Directors' emoluments (note 6)	5,154	4,801
Other staff costs		
– salaries and allowances	9,038	12,759
– retirement benefits scheme contributions	758	620
	14,950	18,180
Amortisation of intangible assets	508	–
Cost of inventories recognised as expense	49,273	53,932
Auditors' remuneration	600	600
Loss (gain) on disposal of property, plant and equipment	101	(88)
Depreciation and amortisation		
– owned assets	3,005	2,609
– asset held under a finance lease	188	109
	3,193	2,718
Operating lease rentals in respect of land and buildings	5,879	9,202
Research and development expenditures	–	1,016
Interest income	(341)	(373)

Notes to the Financial Statements

For the year ended 31 December 2003

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Fee:		
Executive directors	–	–
Non-executive director	680	600
Independent non-executive directors	200	200
	880	800
Other emoluments for executive directors:		
Salaries and allowances	4,226	3,953
Retirement benefits scheme contributions	48	48
	4,274	4,001
	5,154	4,801

The emoluments of the directors were within the following bands:

	Number of director	
	2003	2002
Nil to HK\$1,000,000	4	5
HK\$1,000,001 – HK\$1,500,000	3	2

(b) Employees' emoluments

During the year, the five highest paid individuals included four (2002: four) directors, details of whose emoluments are set out above. The emoluments of the remaining one (2002: one) highest paid individual were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	1,040	960
Retirement benefits scheme contributions	12	12
	1,052	972

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 2003

7. FINANCE CHARGES

	2003 HK\$'000	2002 HK\$'000
The finance charges represent interests on:		
– bank borrowings wholly repayable within five years	6,331	5,140
– a finance lease	28	33
	6,359	5,173

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.

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") is entitled to an exemption of PRC income tax of 15 per cent. during the two years ended 31 December 2001, followed by a 50 per cent. relief for the next three years ending 31 December 2004. In addition, Shenyang Jinlong is entitled to an exemption of the local income tax of 3 per cent. during the five years ended 31 December 1999, followed by a 50 per cent. relief for the three years ended 31 December 2002. Commencing on 1 January 2003, Shenyang Jinlong is subject to the local income tax at a rate of 3 per cent.

Shenyang Chenlong Longevity Ginseng Co., Ltd. ("Shenyang Chenlong") is entitled to a 50 per cent. relief from PRC income tax during the three years ending 31 December 2004. In addition, Shenyang Chenlong is entitled to an exemption of the local income tax of 3 per cent. 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.

Notes to the Financial Statements

For the year ended 31 December 2003

8. TAXATION (CONTINUED)

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003	2002
	HK\$'000	HK\$'000
Profit before taxation	13,299	21,018
Tax at PRC income tax rate of 33% (2002: 33%)	4,389	6,936
Tax effect of expenses not deductible for tax purpose	1,635	1,513
Tax effect of tax losses not recognised	1,371	1,517
Effect of tax relief entitled by the Company's subsidiaries	(4,657)	(5,728)
Tax expense for the year	2,738	4,238

At the balance sheet date, the Group has unused estimated tax losses of approximately HK\$16,414,000 (2002: HK\$8,579,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused estimated tax losses due to the unpredictability of future profit streams. The unused estimated tax losses may be carried forward indefinitely.

9. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of approximately HK\$8,216,000 (2002: HK\$13,116,000) and on 584,000,000 (2002: 584,000,000) shares in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the year.

Notes to the Financial Statements

For the year ended 31 December 2003

10. 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
THE GROUP							
COST							
At 1 January 2003	30,933	1,220	8,793	1,546	5,051	197	47,740
Additions	24	–	261	12	58	36	391
Disposals	–	–	–	–	(408)	–	(408)
At 31 December 2003	30,957	1,220	9,054	1,558	4,701	233	47,723
DEPRECIATION AND AMORTISATION							
At 1 January 2003	3,698	574	2,125	864	1,309	–	8,570
Provided for the year	979	431	987	265	531	–	3,193
Eliminated on disposals	–	–	–	–	(156)	–	(156)
At 31 December 2003	4,677	1,005	3,112	1,129	1,684	–	11,607
NET BOOK VALUES							
At 31 December 2003	26,280	215	5,942	429	3,017	233	36,116
At 31 December 2002	27,235	646	6,668	682	3,742	197	39,170

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

At 31 December 2003, the net book value of motor vehicles included an amount of approximately HK\$641,000 (2002: HK\$829,000) in respect of asset held under a finance lease.

Notes to the Financial Statements

For the year ended 31 December 2003

11. INVESTMENTS IN SUBSIDIARIES

THE COMPANY

2003 & 2002

HK\$'000

Unlisted shares, at cost	111,371
--------------------------	---------

Details of the Company's principal subsidiaries at 31 December 2003 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
新華龍有限公司 New Wellon Limited ("New Wellon")	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 products

Notes to the Financial Statements

For the year ended 31 December 2003

11. 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 at the end of the year except for New Wellon which has issued US\$4 million (equivalent to HK\$31.2 million) of preferred shares, in which the Group has no interest. Details are set out in note 22.

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.
- (e) Jinlong Pharmaceutical is a wholly foreign-owned enterprise for a period of 15 years commencing from 8 June 2001.

12. INTEREST IN AN ASSOCIATE

	2003	2002
	HK\$'000	HK\$'000
Share of net assets	—	9,434

Pursuant to an agreement dated 29 July 2003 entered into between the Company and Messrs. Wang Wei Zhong and Bai Xiang Chun, the Company disposed of its entire 48.8% interest in the associate, 廣州市富園房地產開發有限公司, at its carrying value at the disposal date.

The associate has not commenced its commercial operations and its results from 1 January 2003 to the date on which its interest was disposed of is not significant.

13. 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

For the year ended 31 December 2003

14. INTANGIBLE ASSETS

	Technology know-hows
	HK\$'000
<hr/>	
COST	
At 1 January 2003	2,830
Transfer from deposits paid	754
<hr/>	
At 31 December 2003	3,584
<hr/>	
AMORTISATION	
Charge for the year and at 31 December 2003	508
<hr/>	
NET BOOK VALUES	
At 31 December 2003	3,076
<hr/>	
At 31 December 2002	2,830
<hr/>	

All of the Group's technology know-hows were acquired from third parties and are amortised on a straight-line basis over their estimated useful lives of 3 years from the date on which the technology know-hows were brought into use by the Group.

15. DEPOSITS PAID

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

16. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	56,690	57,332
Work in progress	22,742	11,902
Finished goods	28,633	48,577
<hr/>		
	108,065	117,811
<hr/>		

Notes to the Financial Statements

For the year ended 31 December 2003

17. 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	
	2003	2002
	HK\$'000	HK\$'000
Aged:		
Current	159,431	143,414
1 to 30 days overdue	–	6,784
31 to 60 days overdue	–	6,999
	159,431	157,197

18. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December 2003, there were pledged bank deposits and bank balances and cash denominated in Renminbi ("RMB") amounting to approximately HK\$10,438,000 (2002: HK\$12,284,000) and HK\$34,385,000 (2002: HK\$27,080,000) respectively. RMB is not freely convertible into other currencies.

19. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Aged:		
Current	33,129	49,205
1 to 30 days overdue	293	92
31 days to 60 days overdue	12	–
61 days to 90 days overdue	106	52
More than 90 days overdue	9,067	3,484
	42,607	52,833

Notes to the Financial Statements

For the year ended 31 December 2003

20. BANK BORROWINGS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
The borrowings are repayable on demand or within one year:		
Bank borrowings	81,189	84,151
Bank overdraft	–	17,809
	81,189	101,960
Analysed as:		
Secured	23,774	37,809
Unsecured	57,415	64,151
	81,189	101,960

21. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under a finance lease:				
Within one year	219	219	190	190
In the second to fifth year inclusive	400	619	348	538
	619	838	538	728
Less: Future finance charges	(81)	(110)	–	–
	538	728	538	728
Less: Amount due within one year shown under current liabilities			(190)	(190)
Amount due after one year			348	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 asset.

22. PREFERRED SHARES ISSUED BY A SUBSIDIARY

Pursuant to the terms and conditions of an equity subscription agreement (the "Agreement") dated 14 October 2003 entered into between New Wellon, a subsidiary of the Group, and a subscriber, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (the "Subscriber"), 4,000,000 non-voting preferred shares of US\$1 (equivalent to HK\$7.8) each were allotted and issued by New Wellon, and were fully paid by the Subscriber on 5 November 2003.

Holders of the preferred shares shall (i) be entitled to receive, in priority to the holders of ordinary shares of New Wellon, a fixed cumulative dividend payable at the rate of 5% per annum on the par value of the preferred shares; (ii) rank in priority to the holders of ordinary shares as to a return of capital on liquidation of New Wellon; (iii) have the right to convert the preferred shares, at any time during a six-month period commencing at the end of twenty four months from the issue date, into a one-year senior term loan bearing interest at London Inter-Bank Offer Rate plus 3% per annum; and (iv) be entitled to receive notice of and to attend as observer without voting powers at general meetings of New Wellon.

Pursuant to a deed of put option (the "Deed") dated 5 November 2003 entered into between the Company and the Subscriber, the Company has granted to the Subscriber a put option (the "Option") which is exercisable by the Subscriber to require the Company to purchase all but not part only of the preferred shares from the Subscriber at an exercise price to give internal rate of return of 15% which will be reduced by actual dividend paid on the preferred shares.

The Option is exercisable at any time during the three-year period commencing one year after the Subscriber or its assignee has first held shares in New Wellon, inclusive of the start and end date of that period.

The Company shall, at its discretion, but subject to the reasonable satisfaction of the preferred shareholder, pay the Subscriber for the purchase of the preferred shares by (i) delivery of cash or originals of other financial instruments as instructed by the Subscriber; (ii) delivery of original share certificates duly issued by the Company in such number as set out in the Deed; and (iii) delivery of an irrevocable and legally binding three-year promissory note duly issued by the Company in favour of the Subscriber or Subscriber's nominees together with the delivery of the original corporate guarantee duly issued by Absolute Target Limited, the ultimate holding company of the Company, in favour of the Subscriber and/or Subscriber's designee.

Notes to the Financial Statements

For the year ended 31 December 2003

23. SHARE CAPITAL

	Number of shares	Amount
	'000	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 December 2002 and 31 December 2003	1,000,000	100,000
Issued and fully paid:		
at 31 December 2002 and 31 December 2003	584,000	58,400

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

24. RESERVES

	Share premium	Negative goodwill	Translation reserve	Non-distributable reserves	Special reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
At 1 January 2002	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
Net profit for the year	–	–	–	–	–	8,216	8,216
At 31 December 2003	12,779	2,281	3,805	24,032	3,142	104,438	150,477

	Share premium	Contributed surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
At 1 January 2002	12,779	111,171	(8,155)	115,795
Dividend paid	–	(8,760)	–	(8,760)
Net loss for the year	–	–	(8,668)	(8,668)
At 31 December 2002	12,779	102,411	(16,823)	98,367
Net loss for the year	–	–	(7,834)	(7,834)
At 31 December 2003	12,779	102,411	(24,657)	90,533

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 as set out in the prospectus issued by the Company dated 26 April 2001 (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. SHARE OPTION SCHEME

(A) Share option scheme adopted on 6 April 2001 ("Old Scheme")

The major terms of the Old Scheme are summarised as follows:

- (i) The purpose was to provide incentives to the participants.
- (ii) The participants included any full-time employees including any executive director of the Group.
- (iii) The maximum number of shares in respect of which options might be granted under the Old Scheme must not exceed 10% of the issued share capital of the Company from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under the Old Scheme, must not exceed 25% of the maximum shares issuable under the Old Scheme from time to time.
- (v) The exercisable period of an option granted must not exceed a period of 3 years commencing on the date of grant and expiring on the last day of the said period or the tenth anniversary of the date the Old Scheme is adopted, whichever is the earlier.
- (vi) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1 from the grantee to the Company.
- (vii) The exercise price of an option must be the higher of:
 - 80% of the average closing price of the share for the 5 trading days immediately preceding the grant; and
 - the nominal value of the share.

Notes to the Financial Statements

For the year ended 31 December 2003

25. SHARE OPTION SCHEME (CONTINUED)

(viii) On 30 May 2003, the Old Scheme was resolved by the shareholders of the Company to have been terminated thereon. As at 31 December 2003, no options pursuant to the Old Scheme have been granted to any executive directors or employees of the Company.

(B) Share option scheme adopted on 30 May 2003 ("New Scheme")

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 30 May 2003, the Company adopted the New Scheme to replace the Old Scheme. The major terms of the New Scheme are summarised as follows:

- (i) The purpose is to provide incentives to award the participants who have made contributions to the Group and/or any entity in which the Group holds any equity interest ("Invested Entity").
- (ii) The participants included any employee, director, supplier, customer, adviser, shareholder or joint venture partner of the Group and/or Invested Entity.
- (iii) The maximum number of shares in respect of which options might be granted under the New Scheme must not exceed 30% of the issued share capital of the Company from time to time.
- (iv) The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable (including exercised and outstanding options) under any option granted to the same participant under the New Scheme within any 12 month period, must not exceed 1% of the shares in issue from time to time.
- (v) There was no requirement for a grantee to hold the option for a certain period before exercising the option save as determined by the board of directors and provided in the offer of grant of option.
- (vi) The exercise period of an option granted must not exceed a period of 5 years commencing on the date of grant.
- (vii) The acceptance of an option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1 from the grantee to the Company.
- (viii) The exercise price of an option must be the highest of:
 - the closing price of the shares on the date of grant which must be a trading day;
 - the average closing price of the shares for the 5 trading days immediately preceding the date of grant; and
 - the nominal value of the share.

25. SHARE OPTION SCHEME (CONTINUED)

(ix) The life of the New Scheme is effective for 10 years from the date of adoption until 29 May 2013.

As at 31 December 2003, no options pursuant to the New Scheme were granted during the year.

26. 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.

27. BANKING FACILITIES

At 31 December 2003, the Group's banking facilities were secured by:

- (i) the Group's bank deposits of approximately HK\$20,626,000 (2002: HK\$27,423,000);
- (ii) the US dollars deposits placed with a bank from an independent third party; and
- (iii) corporate guarantees given by the Company and certain of its subsidiaries.

28. CONTINGENT LIABILITIES

The Company has given guarantees in favour of banks to the extent of HK\$26,000,000 (2002: HK\$40,000,000) 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\$26,000,000 (2002: HK\$37,809,000).

Notes to the Financial Statements

For the year ended 31 December 2003

29. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	2003	2002
	HK\$'000	HK\$'000
Within one year	542	1,637
In the second to fifth year inclusive	22	649
	564	2,286

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

The Group as lessor

Property rental income earned during the year was approximately HK\$195,000 (2002: nil). The property held has committed tenants for an average term of one year. At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2003	2002
	HK\$'000	HK\$'000
Within one year	716	–

30. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	134	131

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



Notes to the Financial Statements

For the year ended 31 December 2003

31. 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\$3.9 million (2002: HK\$4 million).

32. RELATED PARTY TRANSACTIONS

During the year, the Group received rental income of approximately HK\$195,000 (2002: nil) from Shenyang SBT Technology Development Company Limited ("SBT"). The charge is based on the areas occupied by SBT pursuant to the agreement entered into between the parties and was determined by the directors based on estimated market rates.