

# Notes to the Financial Statements

For the year ended 30 June 2004

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 15 February 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company withdrew the listing of its shares on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 February 2003, and on the same date, by way of introduction, listed its entire issued share capital on the Main Board of the Stock Exchange.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing and trading of healthcare bedding, underclothing and other health products in the People's Republic of China, excluding Hong Kong (the "PRC").

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation

The financial statements on pages 19 to 50 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by the revaluation of short term investments.

#### Adoption of revised SSAP

In the current period, the Group has adopted SSAP 12 (Revised) Income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. 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.

In the absence of any specific transitional arrangement in SSAP 12 (Revised), the new accounting policy as detailed in note 2(l) below has been applied retrospectively. The adoption of SSAP 12 (Revised) has not resulted in any significant changes to the current and prior period's net assets and results and accordingly, no prior year adjustment is required.

### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The financial statements also include the Group's share of post-acquisition results and reserves of its jointly controlled entity.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The results of the subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less impairment losses.

### (d) Joint ventures

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Company's interests in jointly controlled entities are stated at cost less any impairment losses. Results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

The Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

### (e) Fixed assets

#### (i) Depreciation

Depreciation is provided to write off the cost of each asset over its estimated useful life, using the straight-line method. The estimated useful lives of the fixed assets are as follows :

Leasehold improvements	5 years or over the lease terms, whichever is shorter
Machinery and equipment	8 to 12 years
Furniture and office equipment	3 to 8 years
Motor vehicles	8 years

#### (ii) Measurement bases

Fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to fixed assets is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Fixed assets (Continued)

#### (ii) Measurement bases (Continued)

Construction in progress represents a building under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises direct cost of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### (f) Trade receivables

Trade receivables, which generally have credit terms of not more than 90 days, are recognised and carried at original invoiced amount less provision for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

### (h) Short term investments

Short term investments are investments in equity securities held for trading purpose and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

### (i) Patents and technical know-how

Patents represent the initial cost of registration in respect of the Group's patent rights. The cost of acquiring the rights to technical know-how for the manufacture of new products is recognised as intangible assets. Capitalised patents and technical know-how are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line basis over the estimated useful lives of not exceeding ten years, commencing from the date when the new products are put into commercial production or use.

### (j) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense as incurred.

Costs incurred on development projects whereby research findings or other knowledge are applied to a plan or design for the production of new or substantially improved products and processes, are recognised as intangible assets if the products or processes are technically or commercially feasible and the Group has sufficient resources to complete the development. The development costs capitalised include the cost of materials, direct labour and an appropriate proportion of overheads. Other development costs are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (j) Research and development costs (Continued)

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on the straight-line basis over a period of not exceeding five years, commencing from the date when the products are put into commercial production or use.

### (k) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the income statements are translated at an average rate for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

### (l) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 profit, 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 profit 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.

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 assets 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. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (l) Income tax (Continued)

Deferred tax assets and liabilities are not discounted. 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 to 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.

### (m) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any banks or other financial institutions. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### (n) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

#### (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### (ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) Employee benefits

#### (i) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Retirement Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Retirement Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Retirement Scheme. The assets of the Retirement Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Retirement Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Retirement Scheme.

Pursuant to the relevant regulations of the government of the PRC, subsidiaries of the Group operating in the PRC are required to participate in an employee pension scheme operated by the relevant local government authorities in the PRC and to make contributions for employees who are registered as permanent residents in the PRC. Such contributions are charged to the income statement as they become payable.

#### (ii) Equity compensation benefits

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

### (p) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income is recognised on a time proportion basis over the lease term.

Dividend income is recognised when the Group's right as a shareholder to receive payment is established.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (q) Related parties

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

### (r) Operating leases

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

### (s) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they sell. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- the healthy sleeping system segment consists of the manufacturing and trading of bedding products containing the BIOenergy® compound;
- the other BIOenergy® products segment consists of the manufacturing and trading of underclothing and body protection accessories containing the BIOenergy® compound;
- the polypeptide products segment consists of the trading of polypeptide products; and
- the anion water producer segment consists of the trading of anion water producer (formerly named as ionised water apparatus) containing the BIOenergy® compound.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments on the location of the assets.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 3. SEGMENT INFORMATION (Continued)

### (a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments:

	Healthy sleeping system		Other BIOenergy® products		Polypeptide products		Anion water producer		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	55,615	58,440	9,706	10,577	5,788	5,410	68,873	29,082	139,982	103,509
Segment results	23,929	21,074	1,989	1,166	1,574	735	19,547	4,608	47,039	27,583
Unallocated other revenue and gains									2,925	1,539
Unallocated expenses									(26,833)	(18,908)
Operating profit									23,131	10,214
Listing expenses									–	(4,068)
Profit before taxation									23,131	6,146
Taxation									(2,281)	(512)
Profit before minority interests									20,850	5,634
Minority interests									(664)	–
Profit attributable to shareholders									20,186	5,634



# Notes to the Financial Statements

For the year ended 30 June 2004

## 3. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

	Healthy sleeping system		Other BIOenergy® products		Polypeptide products		Anion water producer		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	13,668	8,597	2,279	2,676	2,334	2,982	8,693	482	26,974	14,737
Unallocated assets									103,508	80,823
Total assets									130,482	95,560
Unallocated liabilities									33,071	18,655
Total liabilities									33,071	18,655
Other segment information:										
Depreciation	–	–	–	–	–	–	18	–	18	–
Unallocated amount									3,964	3,275
									3,982	3,275
Amortisation of intangible assets	20	107	84	84	621	720	–	–	725	911
Capital expenditure	3,234	3	–	–	–	981	519	–	3,753	984
Unallocated amounts									13,754	6,379
									17,507	7,363
Provision for obsolete and slow-moving inventories and inventories written off/(back)	76	997	(612)	221	(232)	249	10	8	(758)	1,475
Unallocated provision for doubtful debts and bad debts expenses									102	169

### (b) Geographical segments

A geographical analysis of the Group's revenue, certain asset and expenditure information is not presented as the Group's revenue and assets in geographical segments other than the PRC are less than 10% of the aggregate amount of all segments.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts where applicable. All significant intra-group transactions have been eliminated on consolidation.

## 5. OTHER REVENUE AND GAINS

	2004 HK\$'000	Group 2003 HK\$'000
Interest income	1,019	426
Dividend income	121	25
Gain on disposal of short term investments	984	265
Others	801	823
	<b>2,925</b>	1,539

## 6. OPERATING PROFIT

Operating profit is arrived at after charging/(crediting):

	2004 HK\$'000	Group 2003 HK\$'000
Auditors' remuneration	480	480
Cost of inventories sold	63,024	40,846
Staff costs (excluding directors' remuneration (note 25(a)))		
Wages and salaries	11,735	13,748
Pension scheme contribution	489	515
	<b>12,224</b>	14,263
Depreciation of fixed assets	3,982	3,275
Amortisation of intangible assets	725	911
Exchange gain, net	(76)	—
Operating lease charges in respect of land and buildings	3,655	3,618
Provision for doubtful debts and bad debts expenses	102	169
Provision for obsolete and slow-moving inventories and inventories written off/(back)	(758)	1,475
Loss on disposal of fixed assets	754	91
Unrealised loss on revaluation of short term investments	326	52

# Notes to the Financial Statements

For the year ended 30 June 2004

## 7. TAXATION

	2004 HK\$'000	Group 2003 HK\$'000
PRC	2,281	512
Hong Kong	—	—
	<b>2,281</b>	<b>512</b>

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (2003: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the year.

The income tax expenses for the year can be reconciled to the profit before taxation per the income statement as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Profit before taxation	23,131	6,146
Tax at the applicable tax rate	3,623	635
Tax effect of non-deductible expenses	981	1,512
Tax effect of non-taxable revenue	(97)	(1,771)
Tax effect of tax losses not recognised	951	647
Tax benefit from tax holiday	(3,177)	(511)
Actual tax expense	<b>2,281</b>	<b>512</b>

The Group has tax losses arising in Hong Kong of approximately HK\$16,966,000 (2003: HK\$11,530,000) that are available indefinitely for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profits will be available against which these unused tax losses can be utilised.

As at 30 June 2004, the Group and the Company did not have any significant unprovided deferred tax liabilities (2003: Nil).

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the consolidated profit attributable to shareholders of approximately HK\$20,186,000 (2003: HK\$5,634,000), a profit of approximately HK\$6,944,000 (2003: HK\$5,780,000) has been dealt with in the financial statements of the Company.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 9. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Proposed final dividend of HK1.00 cent (2003: HK0.72 cent) per ordinary share	<b>6,782</b>	4,789

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to shareholders for the year ended 30 June 2004 of approximately HK\$20,186,000 (2003: HK\$5,634,000) and the weighted average of 666,412,169 (2003: 665,247,397) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to shareholders for the year ended 30 June 2004 of approximately HK\$20,186,000 and the weighted average of 678,799,730 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 666,412,169 ordinary shares in issue during the year plus the weighted average of 12,387,561 ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

Diluted earnings per share for the year ended 30 June 2003 was not presented because the impact of the exercise of the share options was anti-dilutive.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 11. FIXED ASSETS

### Group

	Construction in progress HK\$'000	Leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1 July 2003	—	6,665	3,000	11,810	2,930	24,405
Additions	22	4,758	36	1,315	472	6,603
Acquisition of subsidiaries	7,184	—	35	105	346	7,670
Disposals	—	(3,492)	—	(922)	(257)	(4,671)
<b>At 30 June 2004</b>	<b>7,206</b>	<b>7,931</b>	<b>3,071</b>	<b>12,308</b>	<b>3,491</b>	<b>34,007</b>
<b>Accumulated depreciation</b>						
At 1 July 2003	—	1,868	1,799	4,744	1,485	9,896
Depreciation for the year	—	1,343	253	2,009	377	3,982
Disposals	—	(1,108)	—	(631)	(107)	(1,846)
<b>At 30 June 2004</b>	<b>—</b>	<b>2,103</b>	<b>2,052</b>	<b>6,122</b>	<b>1,755</b>	<b>12,032</b>
<b>Net book value</b>						
<b>At 30 June 2004</b>	<b>7,206</b>	<b>5,828</b>	<b>1,019</b>	<b>6,186</b>	<b>1,736</b>	<b>21,975</b>
At 30 June 2003	—	4,797	1,201	7,066	1,445	14,509

# Notes to the Financial Statements

For the year ended 30 June 2004

## 12. INTANGIBLE ASSETS

### Group

	Patents and technical know-how HK\$'000	Deferred development costs HK\$'000	Total HK\$'000
<b>Cost</b>			
At 1 July 2003	1,311	3,131	4,442
Additions	48	3,186	3,234
<b>At 30 June 2004</b>	<b>1,359</b>	<b>6,317</b>	<b>7,676</b>
<b>Aggregate amortisation</b>			
At 1 July 2003	790	958	1,748
Amortisation for the year	127	598	725
<b>At 30 June 2004</b>	<b>917</b>	<b>1,556</b>	<b>2,473</b>
<b>Net book value</b>			
<b>At 30 June 2004</b>	<b>442</b>	<b>4,761</b>	<b>5,203</b>
At 30 June 2003	521	2,173	2,694

## 13. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	39,952	39,952
Amounts due from subsidiaries	28,771	22,754
Amounts due to subsidiaries	(3,156)	(2,836)
	<b>65,567</b>	<b>59,870</b>

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries as at 30 June 2004 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued capital/ registered capital	Percentage of equity attributable to the Group		Principal activities
			Direct	Indirect	
Vitop Bioenergy Limited	British Virgin Islands ("BVI")	US\$1	100%	—	Investment holding
Vitop Bioenergy (China) Ltd (formerly known as Vitop Bioenergy Science and Technology Co., Ltd) ("Vitop China") *	PRC	HK\$50,000,000	—	100%	Manufacturing and trading of healthcare bedding, underclothing, anion water producer and other health products
Vitop Healthcare Product Limited	Hong Kong	HK\$2	—	100%	Trading of healthcare bedding, underclothing and other health products
Star Ocean Limited #	BVI	US\$1	—	100%	Investment holding
合肥天年美菱環保科技 有限責任公司 ***	PRC	RMB5,840,000	—	80%	Manufacturing of anion water producer
上海亘輝生物制品 有限公司 ("Shanghai Heng Fai")**	PRC	US\$435,000	—	100%	Property investment
Vitop Functional Water Holdings Limited #	BVI	US\$1	—	100%	Investment holding
Vitop Functional Water Development Limited #	BVI	US\$1	—	100%	Inactive
Vitop Environmental Protection Technology Limited #	BVI	US\$1	—	100%	Inactive
Vitop Franchise Distribution Network Limited	BVI	US\$1	100%	—	Inactive

# Acquired during the year.

\* Registered as wholly-foreign owned enterprise ("WFOE") under the PRC law.

\*\* Registered as Sino-foreign joint venture under the PRC law.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 13. INTERESTS IN SUBSIDIARIES (Continued)

During the year ended 30 June 2004, the turnover and profit attributable to shareholders from subsidiaries acquired during the year were approximately HK\$10,082,000 and HK\$3,322,000, respectively.

## 14. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	640	—

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	640	—

Particulars of the jointly controlled entity as at 30 June 2004 are as follows:

Name	Principal business structure	Place of establishment and operation	Nature of business	ownership interest	Percentage of voting power	profit sharing
Vitop OSG Environmental Technology (Suzhou) Co., Ltd ("Vitop OSG") *	Corporate	PRC	Inactive	40%	33%	40%

\* Registered as WOFE under the PRC law.



# Notes to the Financial Statements

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## 15. INVENTORIES

	2004 HK\$'000	Group 2003 HK\$'000
Raw materials	8,268	5,536
Work in progress	2,973	2,978
Finished goods	10,706	4,965
	<b>21,947</b>	13,479
Less: Provision for obsolete and slow-moving inventories	(678)	(1,436)
	<b>21,269</b>	12,043

As at 30 June 2004, no inventories were stated at net realisable value (2003: Nil).

## 16. TRADE RECEIVABLES

	2004 HK\$'000	Group 2003 HK\$'000
Outstanding balances with ages:		
Within 30 days	5,144	2,526
Between 31 to 60 days	1,151	984
Between 61 to 180 days	2,103	3,685
Over 180 days	2,782	1,778
	<b>11,180</b>	8,973
Less: Provision for doubtful debts	(222)	(169)
	<b>10,958</b>	8,804

The credit terms that the Group offers to customers are generally not more than 90 days.

## 17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

As at the balance sheet date, the balance of the Group's deposits, prepayments and other receivables included a refundable security deposit of approximately HK\$5,608,000 (2003: HK\$7,477,000) paid to 法制日報社 ("Legaldaily"), an independent third party, as a refundable security deposit for the Group's advertising campaign. The advertising period is one year from 20 January 2004 to 19 January 2005. The deposit is unsecured and bears interest at RMB420,000 in total for the advertising period.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 18. SHORT TERM INVESTMENTS

	2004 HK\$'000	Group 2003 HK\$'000
Listed equity investments in Hong Kong, at market value	2,424	4,238

## 19. CASH AT BANKS AND IN HAND

	2004 HK\$'000	Group 2003 HK\$'000	2004 HK\$'000	Company 2003 HK\$'000
Cash and bank balances	30,967	11,798	1,624	4
Time deposits	17,804	30,346	—	—
	<b>48,771</b>	42,144	<b>1,624</b>	4

As at the balance sheet date, the cash at banks and in hand of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$38,959,000 (2003: HK\$34,408,000). The RMB is not freely convertible into other currencies. However, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 20. TRADE PAYABLES

As at the balance sheet date, an aged analysis of trade payables, based on invoice date, was as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Outstanding balances with ages:		
Within 30 days	10,029	1,325
Between 31 to 60 days	953	604
Between 61 to 180 days	4,929	212
Over 180 days	30	30
	<b>15,941</b>	2,171

# Notes to the Financial Statements

For the year ended 30 June 2004

## 21. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.025 each	500,000	500,000
Issued and fully paid:		
678,198,400 (2003: 665,170,000) ordinary shares of HK\$0.025 each	16,955	16,629

The subscription rights attaching to 5,695,000 and 7,333,400 share options were exercised at the subscription price of HK\$0.25 and HK\$0.30 per share, respectively (note 22), resulting in the issue of 13,028,400 ordinary shares of HK\$0.025 each in the capital of the Company for a total cash consideration, before expenses, of approximately HK\$3,624,000.

During the year ended 30 June 2003, in July 2002, the Company repurchased on the Stock Exchange a total of 1,130,000 ordinary shares of HK\$0.025 each in the capital of the Company (the "Share Repurchase") at an aggregate price of approximately HK\$294,000. The repurchased shares were duly cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium account. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

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

	Number of authorised shares	Number of shares issued	Nominal value of shares issued HK\$'000
At 1 July 2002	20,000,000,000	666,300,000	16,658
Share Repurchase	—	(1,130,000)	(29)
At 30 June 2003 and 1 July 2003	20,000,000,000	665,170,000	16,629
Share options exercised	—	13,028,400	326
<b>At 30 June 2004</b>	<b>20,000,000,000</b>	<b>678,198,400</b>	<b>16,955</b>

## 22. SHARE OPTION SCHEME

In connection with the listing of the Company's shares on the Main Board of the Stock Exchange, the Company conditionally adopted a share option scheme (the "Scheme") pursuant to an ordinary resolution passed by the shareholders of the Company on 23 January 2003. The Scheme became effective on 10 February 2003 upon the listing of the Company's shares on the Main Board of the Stock Exchange by way of introduction and, unless otherwise cancelled or amended, the Scheme remains in force for ten years from that date.

The purpose of the Scheme is to provide incentives or rewards to participants for their contribution to the Group or any entity in which the Group has an equity interest (the "Invested Entity") and/or to enable the Group or an Invested Entity to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or an Invested Entity.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 22. SHARE OPTION SCHEME (Continued)

The participants of the Scheme include: (a) any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (b) any non-executive director (including any independent non-executive director) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of the Group or any Invested Entity; (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their associates, are subject to approval in advance by independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in any twelve-month period up to the date of grant, are subject to shareholders' approval in advance in a general meeting.

The total number of shares of the Company in respect of which options may be granted under the Scheme must not exceed 66,517,000 shares, being 10% of the total number of shares of the Company in issue on the date when the 10% Scheme limit has been refreshed. The 10% Scheme limit was refreshed at the last annual general meeting of the Company held on 26 November 2003. The total number of shares in respect of which options are issuable under the Scheme was 58,280,100, representing approximately 8.6% of the issued share capital of the Company at 30 June 2004.

The total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted to each participant (including exercised and outstanding options) in any twelve-month period up to the date of grant shall not exceed 1% of the total number of shares of the Company in issue as at the date of grant (the "Individual Limit"). Any further grant of options in excess of the Individual Limit must be subject to shareholders' approval in general meeting with such participant and his or her associates abstaining from voting.

An option may be exercised at any time during a period as the board of directors of the Company (the "Board") may determine which shall not be more than ten years from the date of grant of the option.

Save as determined by the Board, there is no minimum period for which an option must be held before it can be exercised.

The acceptance of an offer of the grant of an option must be made within 28 days from the date upon which such offer is made with a non-refundable payment of HK\$1.00 from the grantee to the Company by way of consideration for the grant thereof.

The subscription price of a share of the Company in respect of any option shall be such price as the Board in its absolute discretion shall determine, save that such price will not be lower than the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a trading day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option; and (c) the nominal value of the share.

Subject to early termination of the Company by resolution in general meeting, the Scheme shall be valid and effective till 9 February 2013. After the expiry of such valid period, no further options will be offered but in all other respects the provisions of the Scheme shall remain in full force and effect.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 22. SHARE OPTION SCHEME (Continued)

Particulars of the share options granted and remained outstanding under the Scheme during the year were as follows:

Name or category of participant	At 1 July 2003	Granted during the year	Number of share options		Exercised during the year	At 30 June 2004	Date of grant*	Exercise period	Exercise price** HK\$
			Reclassification	Lapsed during the year					
Directors:									
Hung Kai So	4,000,000	–	–	–	(2,400,000)	1,600,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	2,651,700	–	–	(2,651,700)	–	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Kam Ioi	4,000,000	–	–	–	(2,400,000)	1,600,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	2,651,700	–	–	(2,651,700)	–	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Ma Yufeng	2,500,000	–	–	–	–	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	4,151,700	–	–	–	4,151,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Sae-lao Rakchanok	2,500,000	–	–	–	–	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	4,151,700	–	–	–	4,151,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Liu Jun	2,500,000	–	–	–	–	2,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	4,151,700	–	–	–	4,151,700	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Lau Hin Hung (Note 1)	500,000	–	–	(350,000)	(150,000)	–	30 April 2003	30 April 2003 to 30 April 2006	0.25
	–	500,000	–	–	(500,000)	–	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
Lee Kwok Ming (Note 2)	–	20,000,000	–	–	–	20,000,000	5 Jan. 2004	5 Jan. 2004 to 4 Jan. 2009	0.495
	16,000,000	38,258,500	–	(350,000)	(10,753,400)	43,155,100			
Other employees:									
In aggregate	2,300,000	–	(1,100,000)	–	(450,000)	750,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
In aggregate	–	5,900,000	–	–	(1,530,000)	4,370,000	4 Nov. 2003	4 Nov. 2003 to 4 Nov. 2006	0.30
In aggregate	–	5,700,000	–	–	–	5,700,000	1 June 2004	1 June 2004 to 31 May 2007	0.425
	2,300,000	11,600,000	(1,100,000)	–	(1,980,000)	10,820,000			
Suppliers:									
In aggregate	1,500,000	–	–	–	–	1,500,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
Customers:									
In aggregate	2,000,000	–	1,100,000	–	(295,000)	2,805,000	30 April 2003	30 April 2003 to 30 April 2006	0.25
	21,800,000	49,858,500	–	(350,000)	(13,028,400)	58,280,100			

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 22. SHARE OPTION SCHEME (Continued)

Notes:

1. On 5 January 2004, Mr. Lau Hin Hung resigned as the executive director of the Company. On 1 February 2004, upon his cessation of eligible employee of the Group, all of his outstanding unexercised share options ceased to be exercisable and were lapsed.
2. On 5 January 2004, the Company granted the share options to subscribe for up to 20,000,000 ordinary shares of HK\$0.025 each (the "Lee Options") in the capital of the Company to Mr. Lee Kwok Ming ("Mr. Lee"). The Lee Options are exercisable during the period of five years commencing from 5 January 2004 provided that Mr. Lee shall only be entitled to exercise the subscription rights attaching to the Lee Options to subscribe for not more than 5,000,000 shares upon the occurrence of each of the events set out below:
  - (i) upon the expiration of the twelve-month period commencing from 5 January 2004;
  - (ii) the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group for the financial year ending 30 June 2005 as shown in the audited final results of the Group for the financial year ending 30 June 2005 published by the Company as required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") is not less than HK\$25 million;
  - (iii) upon the expiration of the initial term of two years commencing from 5 January 2004; and
  - (iv) the audited consolidated net profit after taxation and minority interests but before extraordinary and exceptional items of the Group for the financial year ending 30 June 2006 as shown in the audited final results of the Group for the financial year ending 30 June 2006 published by the Company as required under the Listing Rules is not less than HK\$50 million.

Further details of the Lee Options are set out in the circular to shareholders of the Company dated 21 January 2004. On 9 February 2004, the independent shareholders' approval for the grant of the Lee Options was obtained at an extraordinary general meeting of the Company.

The share options granted on 30 April 2003 shall be exercisable up to 30%, 60% and 100% on or before the first, second and third anniversary of the date of grant, respectively, for all categories of participants.

The share options granted on 4 November 2003 shall be exercisable up to 30%, 60% and 100% on or before the first, second and third anniversary of the date of grant, respectively, for categories of participants other than the directors of the Company.

The share options granted on 1 June 2004 shall be exercisable up to 30%, 60% and 100% on or before 31 May 2005, 2006 and 2007, respectively.

The consideration for the grant of share options is HK\$1.00 and the closing prices of the Company's shares traded on the Stock Exchange immediately before the dates of grant of share options on 30 April 2003, 4 November 2003, 5 January 2004 and 1 June 2004 are HK\$0.25, HK\$0.295, HK\$0.425 and HK\$0.435, respectively. The weighted average closing prices of the Company's shares traded on the Stock Exchange immediately before the dates of exercise of 5,695,000 share options at the exercise price of HK\$0.25 per share and 7,333,400 share options at the exercise price of HK\$0.3 per share, are HK\$0.424 and HK\$0.483, respectively.

No share options under the Scheme were cancelled during the year.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 23. RESERVES

### Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

The Group's capital reserve represented the amount of retained earnings of Vitop China applied for the increase in its registered and paid-up capital.

In accordance with the relevant PRC regulations applicable to WOFEs, Vitop China and Shanghai Heng Fai, being the wholly-owned subsidiaries of the Company, are required to transfer 10% of their profit after tax, if any, to the statutory reserve until the balance of the fund reach 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against their respective accumulated losses.

### Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2002	50,263	—	108	50,371
Share Repurchase	(265)	—	—	(265)
Transfer upon the Share Repurchase	—	29	(29)	—
Net profit for the year	—	—	5,780	5,780
Proposed final 2003 dividend	—	—	(4,789)	(4,789)
At 30 June 2003 and at 1 July 2004	49,998	29	1,070	51,097
Share options exercised	3,298	—	—	3,298
Net profit for the year	—	—	6,944	6,944
Proposed final 2004 dividend	—	—	(6,782)	(6,782)
<b>At 30 June 2004</b>	<b>53,296</b>	<b>29</b>	<b>1,232</b>	<b>54,557</b>

The share premium account of the Group mainly includes: (i) shares issued at a premium; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") in preparation for the public listing of the Company's shares on the GEM of the Stock Exchange over the nominal value of the share capital of the Company issued in exchange therefor.

The share premium account of the Company mainly includes: (i) shares issued at a premium; and (ii) the difference between the nominal value of the share capital of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying net assets of the subsidiaries acquired pursuant to the Group Reorganisation. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 24. OPERATING LEASE COMMITMENTS

The Group leases certain of its offices and warehouses under non-cancellable operating lease arrangements with lease terms ranging from one to five years.

As at 30 June 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Within one year	3,060	3,742
In the second to fifth years	6,900	6,495
	<b>9,960</b>	10,237

The Company did not have any significant operating lease arrangements as at the balance sheet date (2003: Nil).

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

### (a) Directors' emoluments

The directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 HK\$'000	Group 2003 HK\$'000
Fees	168	228
Other emoluments :		
Salaries, allowances and benefits in kind	5,060	3,695
Discretionary bonus	1,960	—
Pension scheme contributions	35	33
	<b>7,055</b>	3,728

Fees include HK\$168,000 (2003: HK\$228,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).



# Notes to the Financial Statements

For the year ended 30 June 2004

## 25. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (Continued)

### (a) Directors' emoluments (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
HK\$Nil – HK\$1,000,000	6	6
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	1	—
	<b>9</b>	<b>8</b>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 38,258,500 share options (2003: 16,000,000) were granted to the directors in respect of their services to the Group and further details of which were set out in note 22 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above directors' remuneration disclosures.

### (b) Five highest paid individuals

The five highest paid individuals during the year included five (2003: five) directors, details of whose remuneration have been disclosed above.

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 26. CAPITAL COMMITMENTS

As at 30 June 2004, the Group and the Company had outstanding capital commitments in respect of the capital injection to Vitop OSG, a jointly controlled entity of the Group, of approximately HK\$3,675,000 which have been contracted but not provided for in the financial statements.

## 27. OTHER COMMITMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Commitments in respect of:		
– fixed assets contracted, but not provided for	2,860	—
– technical know-how contracted, but not provided for	—	888
	<b>2,860</b>	<b>888</b>

The Company did not have any significant other commitments as at the balance sheet date (2003 : Nil).

# Notes to the Financial Statements

For the year ended 30 June 2004

## 28. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with certain related parties:

	Notes	2004 HK\$'000	Group 2003 HK\$'000
Sales to a minority shareholder of a subsidiary of the Company	(i)	919	—
Rental expenses paid to a minority shareholder of a subsidiary of the Company	(i)	118	—
Purchase of goods from the joint venture partner of the jointly controlled entity of the Group	(i)	2,560	—
Rental expenses paid to a related company	(ii)	748	2,243

Notes:

- (i) The Group's transactions with a minority shareholder of a subsidiary of the Company and the joint venture partner of the jointly controlled entity of the Group were made in accordance with the agreements entered into between both parties.
- (ii) On 26 October 2000, a tenancy agreement (the "Tenancy Agreement") was entered into between the Group and a company in which a relative of Mr. Ma Yufeng, a director of the Company, has a minority interest (the "Related Company") in respect of the leasing of leasehold land and buildings owned by the Related Company to the Group for a period of five years from 1 January 2001 to 31 December 2005 at a monthly rental of RMB200,000 determined by reference to comparable market rental. On 27 June 2003, a supplementary agreement was entered into between the Group and the Related Company under which both contracted parties agreed to terminate the Tenancy Agreement on 31 October 2003 with neither party incurring any compensation for such early termination of the lease.
- (iii) On 5 January 2004, the Company and Mr. Lee, an executive director of the Company, entered into a subscription agreement (the "Subscription Agreement") relating to the subscription of an aggregate of 7,752,000 ordinary shares of HK\$0.025 each in the capital of the Company at HK\$0.31 per share (the "Subscription Price"). The Subscription Price is determined by reference to the average closing price of the Company's shares for the ten trading days on the Stock Exchange immediately preceding the date of the Subscription Agreement. Completion of the subscription would take place in four tranches, as to 1,938,000 subscription shares each on the seventh business days after the expiration of each six-month period, with the first six-month period commencing from 5 January 2004.

The entering into of the Subscription Agreement constituted a connected transaction for the Company under the Listing Rules and was subject to independent shareholders' approval. Further details of the Subscription Agreement are set out in the circular to shareholders of the Company dated 21 January 2004. On 9 February 2004, the independent shareholders' approval was obtained at an extraordinary general meeting of the Company.

Subsequent to the balance sheet date, the first tranche of 1,938,000 shares has been subscribed by Mr. Lee at HK\$0.31 each pursuant to the Subscription Agreement.

# Notes to the Financial Statements

For the year ended 30 June 2004

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### Purchase of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	7,670	—
Inventories	2,827	—
Trade and other receivables	2,046	—
Cash at banks and in hand	4,222	—
Trade and other payables	(9,094)	—
Minority interests	(835)	—
	<b>6,836</b>	—
Satisfied by		
Cash consideration	<b>6,836</b>	—

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(6,836)	—
Cash at banks and in hand acquired	4,222	—
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	<b>(2,614)</b>	—

## 30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 19 to 50 were approved and authorised for issue by the Board on 25 August 2004.