

NOTES TO FINANCIAL STATEMENTS

31 December 2001

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- manufacture and sale of home and personal care products
- manufacture and sale of industrial surfactants
- property investment

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs are effective for the first time for the current year’s financial statements:

- | | |
|----------------------|--|
| ● SSAP 9 (Revised): | “Events after the balance sheet date” |
| ● SSAP 14 (Revised): | “Leases” |
| ● SSAP 18 (Revised): | “Revenue” |
| ● SSAP 26: | “Segment reporting” |
| ● SSAP 29: | “Intangible assets” |
| ● SSAP 30: | “Business combinations” |
| ● SSAP 31: | “Impairment of assets” |
| ● SSAP 32: | “Consolidated financial statements and accounting for investments in subsidiaries” |

These SSAPs prescribe new accounting measurements and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of these SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes the accounting treatment and disclosures for events occurring after the balance sheet date. In accordance with the revised SSAP, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. The adoption of this SSAP has had no effect on the amounts previously reported in the prior year financial statements.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(cont'd)*

SSAP 14 (Revised) prescribes the accounting treatment and disclosures for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 26 and 31 to the financial statements, respectively.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of this SSAP has had no significant impact on the preparation of these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has not resulted in any change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. This SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the separate disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. The adoption of this SSAP has had no significant impact on the preparation of these financial statements.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(cont'd)*

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively, and therefore, has had no effect on the amounts previously reported in the prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. The adoption of this SSAP has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs, certain minor revisions to SSAP 17 “Property, plant and equipment” are effective for the first time for the current year’s financial statements. The only significant effect of these revisions is that SSAP 17 requires that impairment losses on fixed assets are aggregated with accumulated depreciation in note 14 to the financial statement, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of fixed assets in the balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the periodic remeasurement of certain fixed assets and investment properties, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly and indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

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 financing and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold land and buildings	Over the lease terms
Leasehold improvements	5% or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and computer equipment	20% – 30%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs 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.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated except where the unexpired term of the lease is 20 years or less, in which case, depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Licences

Purchased licences are stated at cost less any impairment losses and are amortised, using the straight-line method, over their respective licencing periods ranging from 4 to 20 years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised, using the straight-line method, over the estimated commercial lives of the underlying products, subject to a maximum period of 5 years, commencing from the date when the products are put into commercial production.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line bases over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent cash, bank balances and deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sales of goods, 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;
- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in 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 grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet dates are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong 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 Hong Kong Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Hong Kong Scheme.

Before the Hong Kong Scheme became effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. This scheme was terminated with effect from 1 December 2000.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

Retirement benefits scheme *(cont'd)*

Pursuant to the relevant regulations of the government of the People's Republic of China (the "PRC"), a subsidiary of the Company operating in the PRC participates in a local municipal government retirement benefits scheme (the "PRC Scheme"), whereby the subsidiary is required to make contributions, as calculated under the rules specified by the relevant PRC local government authorities, to the PRC Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme mentioned above. Contributions under the PRC Scheme are charged to the profit and loss account as incurred. There are no provisions under the PRC Scheme whereby forfeited contributions may be used to reduce future contributions.

4. 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 provide. 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 other business segments. Summary details of the business segments are as follows:

- (a) Home and personal care products segment produces home and personal care products for sale to wholesalers and retailers in the general consumer market; and
- (b) Industrial products segment produces industrial surfactants for sale principally to textile and garment manufacturers and traders.

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

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

4. SEGMENT INFORMATION (cont'd)

(a) Business segments

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

Group

	Home and personal care products		Industrial products		Consolidated	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	238,533	112,145	102,508	76,589	341,041	188,734
Segment results	70,147	35,287	39,448	28,514	109,595	63,801
Interest income and unallocated revenue					2,606	3,225
Corporate and unallocated expenses					(11,700)	(2,837)
Profit from operating activities					100,501	64,189
Finance costs					(1,461)	(2,166)
Profit before tax					99,040	62,023
Tax					(15,874)	(7,488)
Profit before minority interests					83,166	54,535
Minority interests					18	—
Net profit from ordinary activities attributable to shareholders					83,184	54,535

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

4. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Group

	Home and personal care products		Industrial products		Consolidated	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	164,783	74,366	62,886	56,038	227,669	130,404
Corporate and unallocated assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	174,433	59,383
Total assets					402,102	189,787
Segment liabilities	23,934	16,685	10,286	11,395	34,220	28,080
Corporate and unallocated liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	71,243	28,897
Total liabilities					105,463	56,977
Other segment information:						
Depreciation	4,348	3,230	1,868	2,206	6,216	5,436
Impairment of fixed assets	2,058	—	885	—	2,943	—
Capital expenditure	34,011	5,206	5,856	3,556	39,867	8,762

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

4. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Elsewhere in the PRC		Consolidated	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	19,547	28,344	321,494	160,390	341,041	188,734
Segment results	(9,498)	5,825	119,093	57,976	109,595	63,801
Other segment information:						
Segment assets	35,056	14,706	192,613	115,698	227,669	130,404
Corporate and unallocated amounts	—	—	—	—	174,433	59,383
					402,102	189,787
Capital expenditure	23,582	303	16,285	8,459	39,867	8,762

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

5. TURNOVER, OTHER REVENUE AND GAINS

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

An analysis of turnover, other revenue and gains is as follows:

	2001	2000
	HK\$'000	HK\$'000
Turnover – sale of goods	341,041	188,734
Other revenue:		
Interest income	628	576
Rental income	1,665	1,529
Sale of raw materials	68	1,108
Others	55	—
	2,416	3,213
Gains:		
Gain on disposal of fixed assets	190	12
	2,606	3,225
	343,647	191,959

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2001	2000
	HK\$'000	HK\$'000
Cost of inventories sold	186,189	100,544
Auditors' remuneration	1,050	850
Staff costs (excluding directors' remuneration – note 8):		
Salaries and wages	5,625	3,203
Pension fund contributions	251	54
Provision for doubtful debts	1,308	1,717
Depreciation	6,216	5,436
Impairment of fixed assets	2,943	—
Research and development costs	1,276	5,787
Minimum lease payments under operating leases		
in respect of land and buildings	1,108	167
Exchange losses, net	31	69
Gain on disposal of fixed assets	(190)	(12)
Gross and net rental income	(1,665)	(1,529)
Interest income	(628)	(576)
	<u> </u>	<u> </u>

7. FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable:		
– Within five years	1,385	1,558
– After five years	—	608
Interest on convertible bond	39	—
Interest on finance leases	37	—
	<u> </u>	<u> </u>
	<u>1,461</u>	<u>2,166</u>

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

8. DIRECTORS' REMUNERATION

Details of the aggregate directors' remuneration are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Non-executive director	20	20
Independent non-executive directors	20	40
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	3,380	1,641
Pension scheme contributions	60	—
	3,480	1,701

Other than the fees payable to the independent non-executive directors, there were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

The remuneration of each of the directors fell within the Nil to HK\$1,000,000 band for each of the two years ended 31 December 2000 and 2001.

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

During the year, 18,425,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 31 to 34. In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no estimate value of such options has been charged to the profit and loss account as at the date of the grant.

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

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2000: *four*), details of whose remuneration are set out in note 8 to the financial statements above. The remuneration of the remaining highest paid, non-director employee (2000: *one*) is analysed as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	650	280
Pension scheme contributions	12	—
	<hr/>	<hr/>
	662	280
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The remuneration of the highest paid, non-director employee fell within the Nil to HK\$1,000,000 band for each of the two years ended 31 December 2000 and 2001.

During the year, 3,905,000 share options were granted to the highest paid, non-director employee in respect of her services to the Group. In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no estimate value of such options has been charged to the profit and loss account as at the date of the grant.

NOTES TO FINANCIAL STATEMENTS (cont'd)

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10. TAX

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	2	—
Elsewhere	15,872	7,488
	<hr/>	<hr/>
Tax charge for the year	15,874	7,488
	<hr/>	<hr/>

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. For the prior year, Hong Kong profits tax was not provided as the Group had tax losses carried forward to offset the assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Dongguan Proamine Chemicals Co., Limited ("Dongguan Proamine"), a wholly-owned subsidiary established in the PRC, was exempt from PRC corporate income tax for two years starting from its first profit-making year of operations, which was the year ended 31 December 1997, and thereafter is eligible for a 50% relief from PRC corporate income tax for the following three years under the relevant tax laws of the PRC. The standard PRC corporate income tax rate applicable to Dongguan Proamine is 24%. As a result of the 50% relief, the PRC corporate income tax rate for Dongguan Proamine for the year ended 31 December 2001 was reduced to 12% (2000: 12%).

No deferred tax asset has been recognised at the balance sheet date (2000: Nil) as the realisation of the relevant amounts cannot be assured beyond reasonable doubt.

The Group did not have any significant unprovided deferred tax liabilities as at 31 December 2001 (2000: Nil).

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 was HK\$21,732,000 (2000: HK\$501,000).

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

12. DIVIDENDS

	2001	2000
	HK\$'000	HK\$'000
Interim dividend	—	20,000
Special dividend	—	10,000
Proposed final dividend – HK5 cents per ordinary share	15,380	—
	15,380	30,000

The proposed final dividend for the year ended 31 December 2001 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date". The effect of this change in accounting policy as at 31 December 2001 is that the current year's proposed final dividend of approximately HK\$15,380,000 has been included in the proposed final dividend account within the capital and reserves section of the balance sheet at that date, whereas in previous years, it would have been recognised as a current liability at the balance sheet date.

All of the dividends declared and paid for the year ended 31 December 2000 were paid by subsidiaries of the Company to their then shareholders prior to the Group's reorganisation on 28 November 2000.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK\$83,184,000 (2000: HK\$54,535,000) and the weighted average of 270,498,432 (2000: 201,780,822) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2001 is based on the net profit attributable to shareholders for the year of HK\$83,223,000 as adjusted for the interest on convertible bond of HK\$39,000. The weighted average number of ordinary shares used in the calculation is 270,498,432 ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 1,195,280 ordinary shares assumed to have been issued on the full conversion of the convertible bond outstanding during the year; and the weighted average of 7,263,437 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year. The effect of the warrants outstanding during the year was anti dilutive, and accordingly, they had no impact on the calculation of the diluted earnings per share.

Diluted earnings per share for the year ended 31 December 2000 has not been calculated as no diluting events existed during that year.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

14. FIXED ASSETS

Group

	Construction- in-progress HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:							
At 1 January 2001	—	37,105	708	24,639	7,877	2,622	72,951
Additions	9,271	—	218	3,670	413	2,003	15,575
Disposals	—	—	—	—	—	(1,946)	(1,946)
Revaluation surplus	—	3,000	—	—	—	—	3,000
At 31 December 2001	9,271	40,105	926	28,309	8,290	2,679	89,580
Analysis of cost or valuation:							
At cost	9,271	4,105	926	28,309	8,290	2,679	53,580
At valuation in 2001	—	36,000	—	—	—	—	36,000
	9,271	40,105	926	28,309	8,290	2,679	89,580
Accumulated depreciation and impairment:							
At 1 January 2001	—	364	156	10,531	2,388	2,429	15,868
Provided during the year	—	679	101	2,640	2,319	477	6,216
Impairment during the year recognised in the profit and loss account	—	—	—	—	2,943	—	2,943
Disposals	—	—	—	—	—	(1,946)	(1,946)
Written back on revaluation	—	(597)	—	—	—	—	(597)
At 31 December 2001	—	446	257	13,171	7,650	960	22,484
Net book value:							
At 31 December 2001	9,271	39,659	669	15,138	640	1,719	67,096
At 31 December 2000	—	36,741	552	14,108	5,489	193	57,083

The leasehold land and buildings of the Group are held under medium term leases outside Hong Kong.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

14. FIXED ASSETS *(cont'd)*

As at 31 December 2001, the Group's interests in certain of its medium term leasehold land and buildings were revalued on an open market, existing use basis by AA Property Services Limited, an independent firm of professional valuers, at HK\$36,000,000 (2000: HK\$33,000,000). The resulting revaluation surplus of HK\$3,597,000 (2000: HK\$11,001,000) has been recognised in the revaluation reserve (note 29).

The Group is in the process of applying for building ownership certificates for its remaining interests in medium term leasehold land and buildings (the "Buildings"). The carrying amount of the Buildings was stated at their historical construction cost of HK\$4,105,000 as at 31 December 2001. Based on a valuation report issued by AA Property Services Limited, the valuation of the Group's entire medium term leasehold land and buildings was HK\$45,000,000 (2000: HK\$42,000,000), as valued on an open market, existing use basis on the assumption that the Group will be able to obtain the building ownership certificates for the Buildings. The directors will reflect the additional revaluation surplus of HK\$5,341,000 (2000: HK\$5,259,000) for the Buildings once the related building ownership certificates are obtained.

Had the Group's medium term leasehold land and buildings been valued at cost less accumulated depreciation, the carrying amount would be HK\$25,176,000 (2000: HK\$25,741,000).

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2001 amounted to HK\$846,000 (2000: Nil).

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

15. INVESTMENT PROPERTIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Valuation:		
At beginning of year	16,000	15,846
Revaluation surplus – note 29	—	154
	<hr/>	<hr/>
At 31 December	16,000	16,000
	<hr/>	<hr/>

The investment properties of the Group are situated outside Hong Kong and are held under medium term leases.

As at 31 December 2001, the Group's investment properties were revalued on an open market, existing use basis under the income approach by AA Property Services Limited, an independent firm of professional valuers, at HK\$16,000,000 (2000: HK\$16,000,000). The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

16. INTANGIBLE ASSETS**Group**

	Licences	Deferred development costs	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
Additions during the year and at 31 December 2001	81,515	3,525	85,040
Accumulated amortisation:			
Provided during the year and at 31 December 2001	—	—	—
Net book value:			
At 31 December 2001	81,515	3,525	85,040

Licences comprise licence rights acquired from independent third parties during the year to exploit technical know-how for the manufacture of certain biotechnology products with medical and cosmetic applications. Deferred development costs represent the cost of technical know-how and expenses incurred for the development of large-scale production processes of certain industrial enzymes to be used in the Group's industrial products segment.

As at 31 December 2001, the underlying products relating to the licences acquired and the deferred development costs incurred have not yet been put into commercial production, and accordingly, no amortisation has been provided.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

17. DEPOSITS, PAYMENTS IN ADVANCE AND CLUB DEBENTURE

	Group	
	2001	2000
	HK\$'000	HK\$'000
Rental deposits	1,205	—
Deposits for purchases of fixed assets	4,860	—
Payments in advance for acquisition of technical know-how	4,463	—
Club debenture	350	350
	10,878	350

18. DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 1 January 2001 HK\$'000	Maximum amount outstanding during the year HK\$'000	As at 31 December 2001 HK\$'000
Related company:			
Inviting Finance Limited ("IFL")	5,317	5,317	—

The amount due from a related company represented the portion of share issue expenses in relation to the listing of the Company's shares in December 2000 payable by IFL, a company wholly owned by Mr. Choi Woon Man. The balance was unsecured, interest-free and was fully repaid by IFL during the year ended 31 December 2001.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	89,348	89,347

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are as follows:

Company	Place of incorporation/ establishment and operations	Nominal value of paid-up share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Global Success Properties Limited ("GSPL")	British Virgin Islands	US\$200 Ordinary	100	—	Investment holding
Global Chemicals (China) Company Limited ("GCC")	Hong Kong	HK\$10,000 Ordinary HK\$1,000,000 Non-voting deferred (Note 1)	—	100	Investment holding, and trading of home and personal care products and industrial surfactants
Dongguan Proamine Chemicals Co., Limited ("Dongguan Proamine")	PRC	HK\$67,000,000 (Note 2)	—	100	Manufacture and sale of home and personal care products and industrial surfactants
High Billion Investment Limited * ("High Billion")	Hong Kong	HK\$10,000 Ordinary	—	100	Holding of licences
Enzymes Technology Limited	Hong Kong	HK\$6,153,846 Ordinary	—	65	Development of large-scale production process of industrial enzymes

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

19. INVESTMENTS IN SUBSIDIARIES (cont'd)

Notes:

1. The non-voting deferred shares carry no rights as to dividends, no rights to attend or vote at general meetings, and no rights to receive any surplus in a return of capital in a winding-up of GCC (other than 1% of the surplus assets of GCC available for distribution after a total of HK\$1,000,000,000,000 has been distributed to holders of the ordinary shares of GCC in such a winding-up).
2. Dongguan Proamine is a wholly-foreign-owned enterprise established by the Group in the PRC for an operating period of 12 years commencing from the date of the issuance of its business licence on 29 August 1995. The registered capital of Dongguan Proamine was increased to HK\$87,000,000 on 25 September 2001, of which HK\$67,000,000 was paid up by the Group as at 31 December 2001.

During the year, the Group acquired High Billion from certain independent third parties. Further details of this acquisition are included in note 30(b) to the financial statements. The turnover and net profit attributable to shareholders contributed by High Billion during the year ended 31 December 2001 was insignificant.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	13,459	8,569
Finished goods	10,160	8,740
	23,619	17,309

No inventories were stated at net realisable value as at 31 December 2001 (2000: Nil).

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

21. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at the original invoice amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

The ages of the Group's trade receivables as at 31 December 2001, based on invoice date, are analysed as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current to 30 days	74,334	34,088
31 days to 60 days	19,916	7,696
61 days to 90 days	3,562	11,008
91 days to 180 days	3,058	1,073
181 days to 360 days	894	605
	101,764	54,470
Provision	(3,180)	(1,872)
Total after provision	98,584	52,598

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	85,796	17,712	24,113	13,278
Bank deposits	8,539	20,005	500	20,005
	94,335	37,717	24,613	33,283
Less:				
Pledged bank deposits for long term bank loans	(4,014)	—	—	—
Pledged bank deposits for short term bank loans and overdraft facilities	(4,525)	(10,000)	(500)	(10,000)
Cash and cash equivalents	85,796	27,717	24,113	23,283

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

23. TRADE AND BILLS PAYABLES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trade payables	10,349	11,064
Bills payables	1,624	944
	<u>11,973</u>	<u>12,008</u>

The ages of the Group's trade and bills payables as at 31 December 2001, based on invoice dates, are analysed as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Current to 30 days	6,080	8,680
31 days to 60 days	2,078	133
61 days to 90 days	1,161	4
91 days to 180 days	685	3,118
Over 180 days	1,969	73
	<u>11,973</u>	<u>12,008</u>

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

24. INTEREST-BEARING BORROWINGS, SECURED

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank overdrafts	34	11,056
Trust receipt loans	8,033	6,988
Bank loans	19,584	5,345
	27,651	23,389
Non-current portion	(4,284)	(4,298)
Portion classified as current liabilities	23,367	19,091

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank loans repayable:		
Within one year	15,300	1,047
In the second year	2,332	1,146
In the third to fifth years, inclusive	1,952	1,599
After five years	—	1,553
	19,584	5,345
Portion classified as current liabilities	(15,300)	(1,047)
Non-current portion	4,284	4,298

25. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by the following:

- (a) Corporate guarantees executed by the Company and certain subsidiaries of the Company; and
- (b) Fixed deposits of HK\$8,539,000 (2000: HK\$10,000,000) of the Group.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

26. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its general business purposes. The lease is classified as finance lease and has remaining lease term of four years.

At 31 December 2001, the total future minimum lease payments under finance lease and their present values were as follows:

Group

	Minimum lease payments 2001 HK\$'000	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:		
Within one year	205	195
In the second year	205	186
In the third to fifth years, inclusive	258	222
	<hr/>	<hr/>
Total minimum finance lease payments	668	603
		<hr/> <hr/>
Future finance charges	(65)	
	<hr/>	
Total net finance lease payables	603	
Portion classified as current liabilities	(175)	
	<hr/>	
Non-current portion	428	
	<hr/> <hr/>	

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

27. CONVERTIBLE BOND

On 13 December 2001, an agreement was entered into between Credit Suisse First Boston (Hong Kong) Limited ("CSFB") and the Company, pursuant to which

- (i) the Company agreed to issue a convertible bond of US\$4,080,000 (equivalent to approximately HK\$31,824,000) (the "First Tranche Convertible Bond") to CSFB;
- (ii) the Company conditionally granted to CSFB an additional option (the "Additional Option") giving CSFB the right to subscribe for an additional convertible bond of US\$4,080,000 (equivalent to approximately HK\$31,824,000) which may be exercised at any time during the period from 13 December 2001 to 13 December 2004 (both dates inclusive);
- (iii) CSFB granted to the Company a call option (the "Call Option") giving the Company the right to require CSFB to subscribe and pay for an additional convertible bond of US\$3,840,000 (equivalent to approximately HK\$29,952,000) which may be exercised at any time within 60 days from the date of full conversion of the First Tranche Convertible Bond, subject to the fulfilment of certain conditions; and
- (iv) the Company granted to CSFB a subscription option (the "Subscription Option") giving CSFB the right to subscribe for up to 3,000,000 ordinary shares of the Company, at a subscription price of HK\$2.0791 per share which may be exercised at any time during the period from 13 December 2001 to 31 December 2004 (both dates inclusive).

The First Tranche Convertible Bond bears interest at a rate of 2.5% per annum. Interest is payable semi-annually in arrears on 30 June and 30 December of each year. The outstanding principal amount of the First Tranche Convertible Bond may be converted into the Company's ordinary shares, ranking *pari passu* in all respects with the Company's ordinary shares in issue on the date of conversion, at the option of the converting bondholder at either (i) HK\$2.1623 per share (subject to adjustment) (the "Fixed Conversion Price"); or (ii) 93% of the average of any five consecutive closing prices per ordinary share of the Company as selected by the converting bondholder within 30 consecutive business days immediately prior to the date of conversion. The First Tranche Convertible Bond is convertible at any time prior to its maturity date on 13 December 2004. The conversion in full of the entire principal of the First Tranche Convertible Bond at the Fixed Conversion Price of HK\$2.1623 per share would, under the present capital structure of the Company, result in the issue of approximately 14,700,000 additional ordinary shares of the Company, representing approximately 4.8% of the issued share capital of the Company as enlarged by such issue.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

27. CONVERTIBLE BOND (cont'd)

As at the report date, the conditions to the Additional Option had not been fulfilled and the Subscription Option was not exercised by CSFB. The exercise of the Subscription Option would, under the present capital structure of the Company, result in the issue of approximately 3,000,000 additional ordinary shares of the Company, representing approximately 1% of the issued share capital of the Company as enlarged by such issue.

Any outstanding First Tranche Convertible Bond will be repaid by the Company at par as at the maturity date on 13 December 2004. Further details of the above transaction are set out in a press announcement of the Company dated 13 December 2001.

Subsequent to the balance sheet date, a principal amount of US\$1,400,000 of the First Tranche Convertible Bond was converted into approximately 9,060,000 additional ordinary shares of the Company at an average conversion price of HK\$1.21 per ordinary share.

28. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
<i>Issued and fully paid:</i>		
307,603,625 (2000: 250,000,000) ordinary shares of HK\$0.10 each	<u>30,760</u>	<u>25,000</u>

During the year, the following movements in the share capital of the Company were recorded:

- (i) The subscription rights attaching to 10,603,625 share options were exercised at the average subscription price of HK\$0.80 per share, resulting in the issue of 10,603,625 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$8,483,000.
- (ii) During the year, the Company issued an aggregate of 47,000,000 ordinary shares of HK\$0.10 each to certain independent third parties for a total cash consideration of HK\$68,540,000.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

28. SHARE CAPITAL (cont'd)

A summary of the above changes in the issued share capital of the Company is as follows:

		Number of shares in issue	Share capital
	<i>Notes</i>		<i>HK\$'000</i>
At 1 January 2001		250,000,000	25,000
Share options exercised	(i)	10,603,625	1,060
Placements of shares	(ii)	47,000,000	4,700
At 31 December 2001		307,603,625	30,760

Share options

The Company operated share option schemes during the year, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 31 to 34.

The movements in the number of share options to subscribe for ordinary shares in the Company during the year were as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of				
	HK\$0.80	HK\$0.81	HK\$1.30	HK\$1.40	Total
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
At 1 January 2001	—	—	—	—	—
Granted during the year	24,800	200	4,700	30,760	60,460
Exercised during the year	(10,604)	—	—	—	(10,604)
At 31 December 2001	14,196	200	4,700	30,760	49,856

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

28. SHARE CAPITAL *(cont'd)***Share options** *(cont'd)*

The share options outstanding as at 31 December 2001 expire in the period from 3 January 2004 to 23 December 2004. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of approximately 49,856,000 additional ordinary shares and cash proceeds to the Company are approximately HK\$60,693,000 before the related share issue expenses.

Subsequent to the balance sheet date, 40,083,000 share options were exercised at an average exercise price of HK\$1.30 per ordinary with cash proceeds of approximately HK\$52,032,000, before any related expenses. The exercise of 40,083,000 share options resulted in the issue of 40,083,000 additional ordinary shares of the Company.

Warrants

Pursuant to an ordinary resolution passed in the extraordinary general meeting of the Company held on 18 October 2001, the Company granted bonus warrants to its shareholders on the basis of one warrant for every five existing ordinary shares of HK\$0.10 each in the issued share capital of the Company held by the shareholders whose name appear on the register of members of the Company at the close of business on 18 October 2001. Based on the issued share capital of the Company at that date, approximately 54,121,000 bonus warrants were issued. Each of the bonus warrants entitles the holder thereof to subscribe for one ordinary share at an initial subscription price of HK\$2.50 per share, payable in cash and subject to adjustment, at any time during the period from 22 October 2002 to 30 December 2003 (both dates inclusive). Any shares falling to be issued upon the exercise of the subscription rights attaching to the warrants rank *pari passu* in all respects with the existing fully— paid ordinary shares in issue on the relevant subscription date.

The exercise in full of the outstanding warrants at the subscription price of HK\$2.50 per share at the balance sheet date would, under the present capital structure of the Company, result in the issue of approximately 54,121,000 additional ordinary shares of the Company and the cash proceeds to the Company are approximately HK\$135,303,000, before any related expenses.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

29. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group								
At 1 January 2000	—	900	—	—	—	212	56,541	57,653
Issue of shares	45,000	—	—	—	—	—	—	45,000
Capitalisation issue of shares	(19,900)	—	—	—	—	—	—	(19,900)
Share issue expenses	(10,633)	—	—	—	—	—	—	(10,633)
Surplus on revaluation of leasehold land and buildings (note 14)	—	—	11,001	—	—	—	—	11,001
Surplus on revaluation of investment properties (note 15)	—	—	—	154	—	—	—	154
Net profit for the year	—	—	—	—	—	—	54,535	54,535
Transfer to statutory reserve (note (c))	—	—	—	—	14,000	—	(14,000)	—
Interim dividend	—	—	—	—	—	—	(30,000)	(30,000)
At 31 December 2000 and at 1 January 2001	14,467	900	11,001	154	14,000	212	67,076	107,810
Issue of shares	71,263	—	—	—	—	—	—	71,263
Share issue expenses	(2,111)	—	—	—	—	—	—	(2,111)
Surplus on revaluation of leasehold land and buildings (note 14)	—	—	3,597	—	—	—	—	3,597
Net profit for the year	—	—	—	—	—	—	83,184	83,184
Transfer to statutory reserve (note (c))	—	—	—	—	3,509	—	(3,509)	—
Proposed final dividend	—	—	—	—	—	—	(15,380)	(15,380)
At 31 December 2001	83,619	900	14,598	154	17,509	212	131,371	248,363

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

29. RESERVES (cont'd)

Company	Share premium HK\$'000	Capital reserve HK\$'000	Investment		Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
			Assets revaluation reserve HK\$'000	property revaluation reserve HK\$'000				
Arising on acquisition of GSPL and applied in payment of 100 shares allotted nil paid on incorporation	—	89,247	—	—	—	—	—	89,247
Issue of shares	45,000	—	—	—	—	—	—	45,000
Capitalisation issue of shares	(19,900)	—	—	—	—	—	—	(19,900)
Share issue expenses	(10,633)	—	—	—	—	—	—	(10,633)
Net profit for the period	—	—	—	—	—	—	501	501
At 31 December 2000 and at 1 January 2001	14,467	89,247	—	—	—	—	501	104,215
Issue of shares	71,263	—	—	—	—	—	—	71,263
Share issue expenses	(2,111)	—	—	—	—	—	—	(2,111)
Net profit for the year	—	—	—	—	—	—	21,732	21,732
Proposed final dividend	—	—	—	—	—	—	(15,380)	(15,380)
At 31 December 2001	83,619	89,247	—	—	—	—	6,853	179,719

Notes:

- (a) Under the Companies Law (2001 Revision) of the Cayman Islands, the share premium and capital reserve accounts are 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 its debts as they fall due in the ordinary course of business.
- (b) As at 31 December 2001, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK\$195,099,000, subject to the restrictions stated in note (a) above.
- (c) In accordance with the relevant PRC regulations, Dongguan Proamine, a wholly-foreign-owned enterprise established by the Group in the PRC, is required to transfer a certain percentage of its profit after tax, if any, to the statutory reserve until such reserve reaches 50% of the registered capital of Dongguan Proamine. Subject to certain restrictions set out in the relevant PRC regulations, the statutory reserve may be used to offset any accumulated losses of Dongguan Proamine.
- (d) The capital reserve of the Group represents the difference between the nominal value of the share/registered capital of the subsidiaries acquired pursuant to the Group reorganisation carried on 28 November 2000, over the nominal value of the share capital of the Company issued in exchange therefor.

The capital reserve of the Company arose as a result of the same Group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit from operating activities to net cash inflow from operating activities**

	2001	2000
	HK\$'000	HK\$'000
Profit from operating activities	100,501	64,189
Interest income	(628)	(576)
Gain on disposal of fixed assets	(190)	(12)
Depreciation	6,216	5,436
Impairment of fixed assets	2,943	—
Provision for doubtful debts	1,308	1,717
Increase in deposits, payments in advance and club debenture	(1,205)	—
Increase in inventories	(6,310)	(947)
Increase in trade receivables	(47,294)	(32,570)
Increase in prepayments, deposits and other receivables	(3,137)	(1,552)
Increase/(decrease) in trade and bills payables	(35)	8,252
Increase in accrued liabilities and other payables	4,093	5,805
Increase in trust receipt loans of original maturity greater than three months	1,045	1,505
	57,307	51,247
Net cash inflow from operating activities	57,307	51,247

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)**(b) Acquisition of a subsidiary**

Details of the acquisition of a subsidiary during the year are as follows:

	Group 2001 HK\$'000
Net assets acquired:	
Intangible assets	20,767
Cash and cash equivalents	431
Accrued liabilities, customers' deposits and other payables	(1,198)
	<hr/>
Total net assets acquired	20,000
	<hr/>
Consideration	20,000
	<hr/> <hr/>
Satisfied by:	
Cash	20,000
	<hr/> <hr/>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the above subsidiary is as follows:

	Group 2001 HK\$'000
Cash consideration	20,000
Cash and bank balances acquired	(431)
	<hr/>
	19,569
	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) **Acquisition of a subsidiary** (cont'd)

On 13 November 2001, the Group acquired a 100% equity interest in High Billion from certain independent third parties. High Billion is an intellectual property holding company holding a licence for the manufacture of biotechnology products with cosmetic application. The purchase consideration for the acquisition was in the form of cash, with HK\$3,000,000 being paid on 28 September 2001 as a deposit to the acquisition and the remaining HK\$17,000,000 being paid on 13 November 2001.

The subsidiary acquired during the year ended 31 December 2001 did not make a significant contribution to the Group's net operating cash inflows, net returns on investments and servicing of finance, investing activities and financing activities.

(c) **Analysis of changes in financing during the years**

	Share capital (including share premium) HK\$'000	Bank loans HK\$'000	Convertible bond HK\$'000	Minority interests HK\$'000	Finance lease payables HK\$'000	Due from a related company HK\$'000	Due to a director HK\$'000
Balance as at 1 January 2000	100	6,308	—	—	—	—	7,389
Cash inflow/(outflow) from financing, net	39,367	(963)	—	—	—	(5,317)	(7,389)
Balance as at 31 December 2000 and 1 January 2001	39,467	5,345	—	—	—	(5,317)	—
Cash inflow/(outflow) from financing, net	74,912	14,239	31,824	—	(220)	5,317	—
Capital contribution from minority interests by way of assignment of intangible assets	—	—	—	2,154	—	—	—
Share of loss after tax of a subsidiary	—	—	—	(18)	—	—	—
Inception of finance lease contracts	—	—	—	—	823	—	—
Balance as at 31 December 2001	114,379	19,584	31,824	2,136	603	—	—

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)**(d) Major non-cash transactions**

- (i) During the year, the minority shareholder of a subsidiary of the Group assigned intangible assets as full satisfaction of a capital contribution to a subsidiary of HK\$2,154,000.
- (ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the lease of HK\$823,000.

31. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangement, with original lease negotiated for terms of approximately two years. The terms of the lease provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	833	1,665
In the second to fifth years, inclusive	—	833
	<hr/>	<hr/>
	833	2,498
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2001

31. OPERATING LEASE ARRANGEMENTS (cont'd)**(b) As lessee**

The Group leases certain land and buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Within one year	5,189	—
In the second to fifth years, inclusive	8,373	—
	13,562	—

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease payments receivable under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than the payments to be made during the next year only as was previously required.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 to the financial statements above, the Group had the following commitments at the balance sheet date:

- (i) The Group had committed to provide funding of approximately HK\$9,327,000 to an independent third party in five instalments over a period of ten years for the purpose of financing ongoing and future research and development projects in respect of the Group's products;
- (ii) The Group had outstanding commitments of HK\$346,000 concerning certain research and development projects undertaken by an independent third party in respect of the Group's products. In addition, the Group is also committed to pay annual consultancy fees of HK\$56,000 in aggregate to the independent third party for a period of ten years for the provision of technical support services;
- (iii) The Group had an outstanding investment commitment of HK\$20,000,000 in a subsidiary established in the PRC (*note 19*); and
- (iv) The Group had contracted capital commitments in respect of purchases of fixed assets and technical know-how amounting to HK\$13,145,000 and HK\$3,902,000, respectively.

The Company had no significant commitments as at 31 December 2001 (*2000: Nil*).

33. CONTINGENT LIABILITIES

As at 31 December 2001, the Company had provided corporate guarantees to banks for banking facilities provided to its subsidiaries. These banking facilities had been utilised to the extent of approximately HK\$27,651,000 as at the balance sheet date.

34. RELATED PARTY TRANSACTIONS

During the year, the Group received cash settlement of HK\$5,317,000 from IFL for the balance outstanding as at 31 December 2000, further details of which are as set out in note 18 to the financial statements.

35. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, approximately 49,143,000 additional ordinary shares of the Company were issued in aggregate pursuant to the conversion of the First Tranche Convertible Bond and the exercise of share options, further details of which are set out in notes 27 and 28 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS *(cont'd)*

31 December 2001

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, as explained elsewhere in these financial statements certain comparative amounts have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2002.