

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2002

1. SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation adopted in the preparation of these unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's consolidated financial statements for the year ended 31 December 2001, except for the adoption of the following new and revised SSAPs, which are effective for the first time in the preparation of the unaudited condensed consolidated financial statements for the Period. Their major effects on the Group's accounting policies and the amounts disclosed in these unaudited condensed consolidated financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the Period and the comparative figures have been presented in accordance with SSAP 1 (Revised).

SSAP 11 (Revised) prescribes the basis for translation of foreign currency transactions and financial statements. SSAP 11 (Revised) has had no major impact on these condensed consolidated financial statements.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the Period and the comparative figures have been presented in accordance with SSAP 15 (Revised).

SSAP 33 prescribes the basis for reporting information about discontinuing and discontinued operations. SSAP 33 has had no major impact on these condensed consolidated financial statements.

SSAP 34 prescribes the accounting treatment and disclosure for employee benefits. SSAP 34 has had no major impact on these condensed consolidated financial statements.

Other investments

Investment in debt securities and equity securities, intended to be held for long term purpose, are stated in the balance sheet at cost less any impairment losses, on an individual investment basis.

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Other investments (Cont'd)

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

2. SEGMENT INFORMATION

An analysis of the Group' turnover and profit from operating activities by business activities and by geographical areas is as follows:

	Turnover for the six months ended 30 June		Profit from operating activities for the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
By business activities:				
Manufacture and sale of home and personal care products	163,806	74,665	53,650	17,277
Manufacture and sale of industrial surfactants	79,433	42,659	26,333	14,697
Manufacture and sale of cosmetics and skin care products	36,098	—	20,316	—
	<u>279,337</u>	<u>117,324</u>	<u>100,299</u>	<u>31,974</u>

	Turnover for the six months ended 30 June		Profit from operating activities for the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
By geographical areas:				
Hong Kong SAR	29,144	8,930	3,604	(2,414)
Elsewhere in the People's Republic of China (the "PRC")	250,193	108,394	96,695	34,388
	<u>279,337</u>	<u>117,324</u>	<u>100,299</u>	<u>31,974</u>

3. TURNOVER, OTHER REVENUE AND GAINS

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

An analysis of the Group's turnover, other revenue and gains is as follows:

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover – sale of goods	279,337	117,324
Other revenue:		
Interest income	450	412
Rental income	405	812
Sales of raw materials	—	402
	855	1,626
Gains:		
Gain on disposal of fixed assets	—	190
	855	1,816
	280,192	119,140

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	132,666	69,913
Depreciation	3,764	3,043
Amortisation of intangible assets	1,519	—
Interest on bank loans and overdrafts		
wholly repayable within five years	949	688
Interest on finance leases	57	31
Research and development costs	1,745	1,881

5. TAX

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period provision:		
Hong Kong	—	—
Elsewhere	24,919	4,516
	<u>24,919</u>	<u>4,516</u>
Tax charge for the Period	<u>24,919</u>	<u>4,516</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the Period (2001: Nil). 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.

Deferred tax has not been provided as there were no significant timing differences as at 30 June 2002 (2001: Nil).

6. DIVIDEND

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend of HK3 cents (2001: Nil) per ordinary share	13,872	—

7. 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 Period of HK\$74,374,000 (2001: HK\$26,739,000) and the weighted average number of 359,501,000 (2001: 254,731,000) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the Period of HK\$74,374,000 (2001: HK\$26,739,000) and the weighted average number of 369,464,000 (2001: 260,471,000) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 359,501,000 (2001: 254,731,000) ordinary shares in issue during the Period, as used in the basic earnings per share calculation; the weighted average number of 713,000 (2001: Nil) ordinary shares assumed to have been issued on the full conversion of the convertible bond outstanding during the Period; and the weighted average number of 9,250,000 (2001: 5,740,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the Period. The effect of the warrants outstanding during the Period was anti-dilutive, and accordingly, they had no impact on the calculation of the diluted earnings per share.

8. OTHER INVESTMENTS

During the Period, the Group entered into sale and purchase agreements with certain independent third parties, under which the Group acquired ordinary shares in certain unlisted companies, representing less than 10% equity interests in the respective companies, at the total consideration of HK\$63,100,000, in aggregate.

9. 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 30 June 2002, based on invoice date, are analysed as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current to 30 days	67,509	74,334
31 days to 60 days	21,733	19,916
61 days to 90 days	8,384	3,562
91 days to 180 days	1,425	3,058
181 days to 360 days	467	894
	99,518	101,764
Provision	(3,180)	(3,180)
Total after provision	96,338	98,584

10. TRADE AND BILLS PAYABLES

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Trade payables	27,625	10,349
Bills payables	—	1,624
	27,625	11,973

10. TRADE AND BILLS PAYABLES (Cont'd)

The ages of the Group's trade and bills payables as at 30 June 2002, based on invoice date, are analysed as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Current to 30 days	24,623	6,080
31 days to 60 days	1,069	2,078
61 days to 90 days	788	1,161
91 days to 180 days	627	685
181 days to 360 days	518	1,969
	27,625	11,973

11. SHARE CAPITAL

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Authorised: 2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid: 406,843,340 (2001: 307,603,625) ordinary shares of HK\$0.10 each	40,684	30,760

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

	Ordinary shares in issue (Unaudited) Number of shares	Share capital (Unaudited) HK\$'000
At 1 January 2002	307,603,625	30,760
Exercise of share options	75,328,000	7,533
Conversion of convertible bond	23,911,715	2,391
At 30 June 2002	406,843,340	40,684

12. OPERATING LEASE ARRANGEMENTS

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 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Within one year	7,735	5,189
In the second to fifth years, inclusive	7,535	8,373
	<u>15,270</u>	<u>13,562</u>

13. COMMITMENTS

In addition to the operating lease commitments detailed in note 12 to the condensed consolidated financial statements above, the Group had the following material commitments as at 30 June 2002:

- (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 an outstanding investment commitment of HK\$20,000,000 in a subsidiary established in the PRC; and
- (iii) The Group had contracted capital commitments in respect of purchases of fixed assets and technical know-how amounting to HK\$11,378,000 and HK\$3,902,000, respectively.

14. CONTINGENT LIABILITIES

At 30 June 2002, the Company had executed corporate guarantees to banks for banking facilities granted to certain subsidiaries of the Company. These banking facilities has been utilised to the extent of approximately HK\$37,715,000 as at 30 June 2002.

15. POST BALANCE SHEET EVENTS

- (i) On 9 July 2002, pursuant to a subscription agreement (the “Subscription Agreement”) entered into between Credit Suisse First Boston (Hong Kong) Limited (“CSFB”) and the Company dated 13 December 2001 as amended by a subsequent subscription agreement dated 9 April 2002, the Company exercised the call option under the Subscription Agreement and the Company issued and CSFB subscribed for an additional convertible bond (the “Second Tranche Convertible Bond”) of US\$3,840,000 (equivalent to approximately HK\$29,952,000).

The Second 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 Second 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\$2.6944 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 Second Tranche Convertible Bond is convertible at any time up to the day falling one week prior to its maturity date on 13 December 2004. The conversion in full of the entire principal of the Second Tranche Convertible Bond at the Fixed Conversion Price of HK\$2.6944 per share would, under the present capital structure of the Company, result in the issue of approximately 11,116,000 additional ordinary shares of the Company, representing approximately 2.7% of the issued share capital of the Company as enlarged by such issue.

Any outstanding Second Tranche Convertible Bond will be repaid by the Company at their principal amount 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 9 July 2002.

- (ii) On 17 July 2002, in a top-up subscription, Motivated Workforce Consultants Limited (“MWC”) and Inviting Finance Limited (“IFL”), each a substantial shareholder of the Company, placed an aggregate of 54,000,000 existing ordinary shares of the Company at HK\$2.10 per share to certain independent investors. MWC and IFL then subscribed for an aggregate of 54,000,000 new ordinary shares of the Company, ranking *pari passu* in all respects with the existing ordinary shares of the Company, at HK\$2.10 per share.
- (iii) On 29 July 2002, pursuant to the share option scheme adopted by the Company on 20 December 2001, the Company granted 40,680,000 share options to certain eligible participants at a nominal consideration of HK\$1 in total per grantee for the subscription of the ordinary shares of the Company at an exercise price of HK\$1.80 per share. The share options granted are exercisable during the period from 29 July 2002 to 28 July 2005.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period’s presentation.