1. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 3 April 2001 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 December 2001, the Company became the holding company of the companies now comprising the Group on 7 November 2001. This was accomplished by the Company acquiring the entire issued share capital of Fiorfie Trading Limited ("Fiorfie"), the then holding company of the other subsidiaries, as set out in note 15 to the financial statements in consideration for the allotment and issue of the Company's shares, credited as fully paid, to the former shareholders of Fiorfie. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 15 and 22 to the financial statements and in the Company's prospectus dated 20 November 2001.

2. CORPORATE INFORMATION

The principal place of business of the Company is located at 29th Floor, Guangdong Finance Building, No. 88 Connaught Road West, Sheung Wan, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

3. IMPACT OF REVISED AND NEW HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

The following recently revised and new SSAPs and Interpretation are effective for the first time for the current year's financial statements:

- SSAP 2.109 (Revised): "Events after the balance sheet date"
- SSAP 2.118 (Revised): "Revenue"
- SSAP 2.126: "Segment reporting"
- SSAP 2.128: "Provisions, contingent liabilities and contingent assets"
- SSAP 2.129: "Intangible assets"
- SSAP 2.130: "Business combinations"
- SSAP 2.131: "Impairment of assets"
- SSAP 2.132: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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

SSAP 2.109 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet.

SSAP 2.118 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 2.109 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. SSAP 2.118 (Revised) has had no major impact on these financial statements.

3. IMPACT OF REVISED AND NEW HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") (Continued)

SSAP 2.126 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 SSAP 2.126 is the inclusion of additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 2.128 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. SSAP 2.128 has had no major impact on these financial statements.

SSAP 2.129 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. SSAP 2.129 has had no major impact on these financial statements.

SSAP 2.130 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. SSAP 2.130 requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 2.130 that permits goodwill on acquisitions which occurred prior to the Group's accounting period beginning 1 July 2001, to remain eliminated against consolidated reserves. Interpretation 13 prescribes the application of SSAP 2.130 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of SSAP 2.130 has not resulted in a prior year adjustment. The required new additional disclosures are included in note 23 to the financial statements.

SSAP 2.131 prescribes the recognition and measurement criteria for impairments of assets. SSAP 2.131 has had no major impact on these financial statements.

SSAP 2.132 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. SSAP 2.132 has had no major impact on these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with 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.

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 7 November 2001. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of its acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the two years ended 30 June 2002 and 2001 include the results of the Company and its subsidiaries with effect from 1 July 2000 or since their respective dates of incorporation/establishment/acquisition, where this is a shorter period. The comparative consolidated balance sheet as at 30 June 2001 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors of the Company, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

The Company was incorporated on 3 April 2001. During the period from 3 April 2001 to 30 June 2001, the Company had no transactions and accordingly, no comparative amounts are presented in respect of the Company's balance sheet at 30 June 2001.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Operating leases

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 lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 2.130 that permits goodwill on acquisitions which occurred prior to the Group's accounting period beginning 1 July 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF 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 MPF Scheme. The assets of the MPF 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 MPF Scheme.

The staff in the Company's subsidiary operating in the People's Republic of China (the "PRC") are members of a retirement benefits scheme (the "PRC RB Scheme") operated by the local municipal government in Tianjin Province, the PRC. The PRC subsidiary is required to contribute to the PRC RB Scheme to fund the retirement benefits. The only obligation of the Group with respect to the PRC RB Scheme is to pay the required contributions under the PRC RB Scheme. Contributions under the PRC RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC RB Scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

In the previous year, the Company and its subsidiaries did not propose or pay any final dividends to shareholders. The revised accounting treatments for dividends resulting from the adoption of SSAP 2.109 (Revised) and SSAP 2.118 (Revised), have therefore not given rise to any prior year adjustments in either the Group's or the Company's financial statements.

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.

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), 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost 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 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.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less any estimated residual value, over the following estimated useful lives:

Plant and machinery	10 years
Leasehold improvements	5 years
Furniture, office equipment and motor vehicles	5 years

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.

Investment in a club membership

Investment in a club membership is stated at cost less any impairment losses. Cost includes fees and expenses directly related to the acquisition of the club membership.

Subsidiaries

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. 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 overheads based on a normal level of operating activities. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

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 date 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, if any.

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. Related parties may be individuals or corporate entities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and after elimination of intra-group transactions, during the year.

6. SEGMENT INFORMATION

SSAP 2.126 was adopted during the year, as detailed in note 3 to the financial statements. Segment information is presented by way of two segment formats:

(i) on a primary segment reporting basis, by geographical segment; and

(ii) on a secondary segment reporting basis, by business segment.

The principal activity of the Group is the distribution of packaged food, beverages and household consumable products, which is managed according to the geographical location of customers.

Each of the Group’s geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

6. SEGMENT INFORMATION (Continued)

(a) Geographical segments

During the year, over 90% of the Group's revenue, results, assets and liabilities were attributed to the geographical segment of customers based in the PRC.

(b) Business segments

During the year, over 90% of the Group's revenue, results, assets and liabilities were attributed to the distribution of packaged food, beverages and household consumable products.

7. PROFIT FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	HK$'000
Cost of inventories sold	**418,760**	345,677
Depreciation	**2,108**	1,173
Minimum lease payments under operating leases for leasehold land and buildings	**472**	195
Staff costs (excluding directors' remuneration – *note 8*):		
Wages and salaries	**2,884**	2,675
Retirement benefits scheme contributions	**191**	151
	3,075	2,826
Auditors' remuneration	**950**	800
Interest income	**(714)**	(163)

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

	Group	
	2002	2001
	HK$'000	HK$'000
Fees:		
Executive directors	**–**	–
Non-executive director	**–**	–
Independent non-executive directors	**–**	–
	–	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**1,440**	1,060
Non-executive director	**–**	–
Independent non-executive directors	**–**	–
	1,440	1,060
Retirement benefits scheme contributions:		
Executive directors	**48**	20
Non-executive director	**–**	–
Independent non-executive directors	**–**	–
	48	20
	1,488	1,080

The remuneration of each of the directors fell within the Nil to HK$1,000,000 band for each of the two years ended 30 June 2001 and 2002.

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

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

During the year, 1,500,000 share options were granted to the non-executive director and independent non-executive directors of the Company 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.

The five highest paid employees during the year included three (2001: three) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining two (2001: two) non-director, highest paid employees, which fell within the Nil to HK$1,000,000 band, are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	**855**	855
Retirement benefits scheme contributions	**24**	12
	879	867

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.

9. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest on bank overdrafts and trust receipt loans wholly repayable within five years	**1,076**	171

10. TAX

	Group	
	2002	2001
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**–**	–
Macau	**8,347**	6,559
Tax charge for the year	**8,347**	6,559

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the year (2001: Nil).

Macau Complementary Tax has been calculated at the rate of 15.75% (2001: 15.75%) on the estimated assessable profits of Heng Yui & Associates Limited, a wholly-owned subsidiary of the Company, in respect of the year.

According to the Income Tax Law of the PRC, Kelso Lake (Tianjin) Beverage Co., Ltd. ("Kelso Tianjin"), a subsidiary of the Company, which operates in one of the open coastal areas of the PRC, is exempt from the income tax of the PRC for two years starting from the first profitable year of its operations. This subsidiary is entitled to a 50% relief from the income tax of the PRC for the following three years and the applicable tax rate is 15%. Upon expiry of the tax relief period, this subsidiary will be subject to the income tax rate of 27%, being the preferential tax rate applicable to this subsidiary operating in one of the open coastal areas of the PRC. This subsidiary has not commenced to generate any assessable profits arising in the PRC since the date of its establishment.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2001: 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 period from 3 April 2001 (date of incorporation) to 30 June 2002 was approximately HK$5,146,000.

12. DIVIDENDS

	2002	2001
	HK$'000	HK$'000
Interim	**5,000**	20,000
Proposed final – HK1 cent per ordinary share	**5,005**	–
	10,005	20,000

The proposed final dividend for the year 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 2.109 "Events after the balance sheet date", as detailed in note 3 to the financial statements. The effect of this change in accounting policy as at 30 June 2002, is that the current year's proposed final dividend of HK$5,005,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

The interim dividends declared and paid for the each of the year ended 30 June 2002 and 2001 were paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation, as set out in note 1 to the financial statements.

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 approximately HK$38,408,000 (2001: HK$31,455,000) and the pro forma weighted average number of 458,630,137 (2001: 400,000,000) ordinary shares in issue during the year.

The weighted average number of ordinary shares used to calculate the earnings per share for the year ended 30 June 2001 includes the pro forma issued share capital of the Company, comprising 10,000,000 ordinary shares issued nil paid on 6 April 2001 and sub-divided, 10,000,000 ordinary shares issued for the acquisition of the entire issued share capital of Fiorfie and the capitalisation issue of 380,000,000 ordinary shares, as further detailed in note 23 to the financial statements. The weighted average number of ordinary shares used to calculate the earnings per share for the year ended 30 June 2002 includes the additional 100,000,000 ordinary shares issued upon the listing of the Company's shares on the Stock Exchange on 3 December 2001.

The calculation of diluted earnings per share for the year ended 30 June 2002 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK$38,408,000. The weighted average number of ordinary shares used in the calculation is 458,630,137 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 68,833 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

There were no potential dilutive ordinary shares in existence for the year ended 30 June 2001 and, accordingly, no diluted earnings per share amount has been presented for that year.

14. FIXED ASSETS

Group

	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost:				
At 1 July 2001	12,612	301	882	13,795
Additions	–	8,372	386	8,758
At 30 June 2002	12,612	8,673	1,268	22,553
Accumulated depreciation and impairment:				
At 1 July 2001	1,251	182	520	1,953
Provided during the year	1,261	608	239	2,108
At 30 June 2002	2,512	790	759	4,061
Net book value:				
At 30 June 2002	10,100	7,883	509	18,492
At 30 June 2001	11,361	119	362	11,842

15. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000
Unlisted shares, at cost	**47,780**
Due from subsidiaries	**24,488**
	72,268

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

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Directly held				
Fiorfie	British Virgin Islands ("BVI")	Ordinary US$1,000	100	Investment holding
Indirectly held				
Alfe Trading Limited	Hong Kong	Ordinary HK$2	100	Debenture holding
Amazing Team Limited	BVI	Ordinary US$1	100	Investment holding
Deal Time Holdings Limited	BVI	Ordinary US$1	100	Investment holding

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
Golden Sector Limited	Hong Kong	Ordinary HK$10,000	100	Distribution of packaged food, beverages and household consumable products
Heng Tai Consumables Group (New Zealand) Limited	New Zealand	NZD10,000	100	Provision of procurement services
Heng Yui & Associates Limited	BVI	Ordinary US$1	100	Distribution of packaged food, beverages and household consumable products
Heng Yui (Macao) Commercial Offshore Limited	Macau	MOP100,000	100	Distribution of packaged food, beverages and household consumable products

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
Hurdle Limited	BVI/PRC	Ordinary US$1	100	Provision of quality control services
Jigsaw Group Limited	BVI/PRC	Ordinary US$1	100	Provision of marketing services
Kelso Lake International Limited	BVI	Ordinary US$500,000	100	Investment holding
Kelso Tianjin	PRC	US$100,000*	100	Manufacture and sale of non-carbonated beverages
Step First Ltd.	BVI	Ordinary US$1	100	Trademark holding
Sui Tai & Associates Limited	Hong Kong	Ordinary HK$10,000	100	Provision of administrative services
Yi Hin Limited	BVI/PRC	Ordinary US$1	100	Provision of procurement services

* Kelso Tianjin is a wholly foreign-owned enterprise established in the PRC for an operating period of 20 years commencing from its date of establishment on 9 November 1999. The registered capital of Kelso Tianjin of US$100,000 has been fully paid up by the Group.

16. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**212**	131
Finished goods	**40,238**	27,655
	40,450	27,786

None of the inventories were stated at net realisable value as at 30 June 2002 (2001: Nil).

17. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 15 to 90 days. 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
1 – 30 days	**40,395**	28,312
31 – 60 days	**13,226**	5,068
61 – 90 days	**1,384**	623
	55,005	34,003

18. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Group		Company
	2002	2001	**2002**
	HK$'000	HK$'000	**HK$'000**
Cash and bank balances	**44,418**	12,121	**21**
Bank deposits	**16,068**	3,000	**9,002**
	60,486	15,121	**9,023**
Less: Pledged bank deposits for banking facilities – *note 20*	**(5,066)**	(3,000)	**–**
Cash and cash equivalents	**55,420**	12,121	**9,023**

19. INTEREST-BEARING BANK BORROWINGS, SECURED

	Group	
	2002	2001
	HK$'000	HK$'000
Bank overdrafts	**1,009**	–
Trust receipt loans	**31,428**	10,392
	32,437	10,392

20. BANKING FACILITIES

At 30 June 2002, the Group's banking facilities were secured by the following:

(i) bank deposits of approximately HK$5,066,000 of the Group – note 18; and

(ii) corporate guarantees given by the Company and certain subsidiaries of the Company.

21. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
1 – 30 days	**7,626**	11,500
31 – 60 days	**1,828**	2,649
61 – 90 days	**762**	1,184
	10,216	15,333

22. SHARE CAPITAL

Shares

	2002
	HK$'000
Authorised:	
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**
Issued and fully paid:	
500,000,000 ordinary shares of HK$0.01 each	**5,000**

The following changes in the Company's authorised and issued share capital took place during the period from 3 April 2001 (date of incorporation) to 30 June 2002:

(i) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each, all of which were allotted and issued nil paid on 6 April 2001.

(ii) On 7 November 2001, each of the then issued ordinary shares in the share capital of the Company, having a par value of HK$0.10 each, was sub-divided into ten ordinary shares of HK$0.01 each, and the authorised share capital of the Company was increased to HK$200,000 by the creation of a further 10,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the existing share capital of the Company.

(iii) On 7 November 2001, as part of the Group Reorganisation, the Company issued an aggregate of 10,000,000 ordinary shares of HK$0.01 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Fiorfie. The excess of the fair value of the ordinary shares of Fiorfie, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's ordinary shares issued and credited as fully paid in exchange therefor, amounting to HK$47,580,000, was credited to the Company's share premium account as set out in note 23 to the financial statements.

22. SHARE CAPITAL (Continued)

Shares (Continued)

(iv) On 7 November 2001, an amount of HK$100,000, being a portion of the amount credited to the share premium account of the Company on the issue of ordinary shares in exchange for the ordinary shares of Fiorfie as set out in (iii) above, was applied to pay up, in full at par value, the 10,000,000 sub-divided ordinary shares issued and allotted nil paid on 6 April 2001.

(v) On 7 November 2001, the authorised share capital of the Company was increased from HK$200,000 to HK$20,000,000 by the creation of a further 1,980,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the existing share capital of the Company.

(vi) On 7 November 2001, a total of 380,000,000 ordinary shares of HK$0.01 each were allotted and issued as fully paid at par to the holders of the ordinary shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, by way of the capitalisation of the sum of HK$3,800,000 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"), conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public on 3 December 2001 as detailed in (vii) below.

(vii) On 3 December 2001, a total of 100,000,000 ordinary shares of HK$0.01 each were issued at HK$0.40 each to the public for a total cash consideration, before the related issue expenses, of HK$40,000,000 (the "New Issue").

22. SHARE CAPITAL (Continued)

Shares (Continued)

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

	NOTES	Number of shares issued	Nominal value of shares issued
		'000	HK$'000
Shares allotted and issued nil paid on 6 April 2001	(i)	1,000	–
Sub-division of each of the shares of the Company into ten shares	(ii)	10,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of Fiorfie pursuant to the Group Reorganisation	(iii)	10,000	100
Application of share premium account to pay up nil paid shares issued on 6 April 2001	(iv)	–	100
Pro forma share capital as at 30 June 2001		20,000	200
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the New Issue	(vi)	380,000	3,800
New Issue	(vii)	100,000	1,000
Share capital as at 30 June 2002		500,000	5,000

22. SHARE CAPITAL (Continued)

Share options

The Company operates a share option scheme (the "SO Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

On 30 April 2002, the Company granted a total of 1,500,000 share options under the SO Scheme to the non-executive director and independent non-executive directors of the Company for a nominal consideration of HK$1 in total per grantee. The share options granted entitled the holders to subscribe for a total of 1,500,000 ordinary shares of HK$0.01 each in the Company at exercise price of HK$0.335 per ordinary share, subject to adjustment, at any time during the period from 1 May 2002 to 30 April 2012, both days inclusive. At 30 June 2002, all of these share options remained outstanding.

The exercise in full of the outstanding share options of 1,500,000 as at 30 June 2002 would, under the present capital structure of the Company, result in the issue of 1,500,000 additional ordinary shares and cash proceeds of HK$502,500, before related issue expenses, to the Company.

23. RESERVES

	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
Group			
At 1 July 2000	–	29,008	29,008
Net profit for the year	–	31,455	31,455
Interim dividend – *note 12*	–	(20,000)	(20,000)
At 30 June 2001 and 1 July 2001	–	40,463	40,463
New Issue – *note 22*	39,000	–	39,000
Capitalisation Issue – *note 22*	(3,800)	–	(3,800)
Share issue expenses	(10,698)	–	(10,698)
Net profit for the year	–	38,408	38,408
Interim dividend – *note 12*	–	(5,000)	(5,000)
Proposed final dividend – *note 12*	–	(5,005)	(5,005)
At 30 June 2002	24,502	68,866	93,368

The amount of goodwill, arising from the acquisition of a subsidiary prior to the Group's accounting period beginning 1 July 2001 and remained eliminated against retained profits as at 30 June 2002, was approximately HK$353,000. The goodwill was stated at its cost.

23. RESERVES (Continued)

	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
Company			
Arising on acquisition of Fiorfie and applied in payment of 10,000,000 ordinary shares allotted nil paid on 6 April 2001	47,580	–	47,580
New Issue – *note 22*	39,000	–	39,000
Capitalisation Issue – *note 22*	(3,800)	–	(3,800)
Share issue expenses	(10,698)	–	(10,698)
Net profit for the period – *note 11*	–	5,146	5,146
Proposed final dividend – *note 12*	–	(5,005)	(5,005)
At 30 June 2002	72,082	141	72,223

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 22 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the Capitalisation Issue during the year; and (iii) the premium arising from the New Issue during the year.

The share premium account of the Company includes: (i) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 22 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the Capitalisation Issue during the year; and (iii) the premium arising from the New Issue during the year.

In accordance with the Companies Law (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. The share premium account may also be distributed in the form of fully paid bonus shares.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002	2001
	HK$'000	HK$'000
Profit from operating activities	**47,831**	38,185
Interest income	**(714)**	(163)
Depreciation	**2,108**	1,173
Increase in prepayments, deposits and other receivables	**(2,391)**	(2,917)
Increase in inventories	**(12,664)**	(3,587)
Increase in trade receivables	**(21,002)**	(6,488)
Increase in trust receipt loans with original maturity of over three months when acquired	**14,525**	–
Decrease in trade payables	**(5,117)**	(439)
Increase in other payables and accruals	**87**	644
Net cash inflow from operating activities	**22,663**	26,408

(b) Analysis of changes in financing activities during the years

	Issued capital and share premium account
	HK$'000
At 1 July 2000, 30 June 2001 and 1 July 2001	200
Cash inflow from financing activities, net	29,302
At 30 June 2002	29,502

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Major non-cash transaction

The Group Reorganisation in preparation for the public listing of the Company's shares involved the acquisition of Fiorfie by the issue of ordinary shares of the Company, further details of which are set out in notes 1 and 22 to the financial statements.

25. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2001: Nil).

At 30 June 2002, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries. These banking facilities had been utilised to the extent of approximately HK$32,437,000 as at the balance sheet date.

26. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings range from 2 to 3 years.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases for leasehold land and buildings falling due as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**560**	456
In the second to fifth years, inclusive	**–**	560
	560	1,016

The Company did not have any operating lease arrangements as at 30 June 2002 (2001: Nil).

27. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events occurred:

(a) On 11 July 2002, 500,000 share options under the SO Scheme were exercised; and

(b) On 20 September 2002, the Company proposed to declare a final dividend of HK1 cent per ordinary share to its shareholders whose names appeared on the register of members of the Company on 31 October, 2002, as detailed in note 12 to the financial statements.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 September 2002.