

NOTES TO FINANCIAL STATEMENT

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31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investment properties and leasehold land and buildings are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 34 (revised)	: Employee benefits

The adoption of these SSAPs had no significant effect on the accounts of the Group except for reclassification of cash flows presented in the consolidated cash flow statement into operating, investing and financing activities and the presentation of consolidated statement of changes in equity.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(b) **Consolidation** (cont'd)

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date, whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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1. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(d) Intangible assets

(i) Licences

Expenditure on acquired licences is capitalised and amortised using the straight-line method over their licensing periods or estimated useful lives to the Group, whichever is shorter, ranging from 4 to 10 (*2001: 4 to 20*) years.

In the current year, the Directors, taking account of the current business environment and conditions, and the expected pattern of economic benefits from the respective licences, have re-assessed and revised the licences' estimated useful lives accordingly. The aggregate effect of the changes is that amortisation charge for the year has increased by approximately HK\$3,038,000.

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred in development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over the estimated commercial lives of the underlying products of not more than 5 years, commencing from the date when the products are put into commercial production, to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

4 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued by independent valuers at the end of each financial year. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

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

Investment 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.

(ii) Construction in progress

Construction in progress is an investment in land and buildings on which construction work has not been completed and is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any accumulated impairment losses. The construction in progress is reclassified to the appropriate category of fixed assets upon completion.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(e) Fixed assets *(cont'd)*

(iii) Leasehold land and buildings

Leasehold land and buildings are stated at valuation less accumulated depreciation and accumulated impairment losses. Independent valuations are performed on a regular basis. In the intervening years, the directors of the Company review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit.

Leasehold land and buildings are depreciated over the period of the leases or their expected useful lives to the Group, whichever is shorter, to write off their valuation less accumulated impairment losses on a straight-line basis.

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their expected useful lives to the Group on the straight-line basis. The principal annual rates used for this purpose are:

Leasehold improvements	5% or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and computer equipment	20 to 30%
Motor vehicles	20%

6 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) **Fixed assets** (cont'd)

(v) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that any fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(vi) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties and construction in progress is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and shown as a movement in reserves.

(vii) Cost of restoring and improving fixed assets

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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1. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in the long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Club debenture

Club debenture is stated at cost less any provision for impairment losses.

1. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(h) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(i) Inventories

Inventories comprising of raw materials and finished goods are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to eligible employees, the assets of which are held in separate trustee administered funds. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and there are no provisions under these schemes whereby forfeited contributions may be used to reduce future contributions.

(iii) Equity compensation benefits

Share options are granted to the Directors and to the employees of the Group in accordance with the rules of the share option schemes of the Group. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, the discount is recognised in the profit and loss account as a compensation cost and recognised in the balance sheet as an increase in equity. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

(n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

10 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

1. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(o) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, the contingency will then be recognised as a provision.

(p) **Revenue recognition**

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

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

Operating lease rental income is recognised on a straight-line basis over the lease terms.

(q) **Borrowing costs**

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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1. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables, deposits, and prepayments, and mainly exclude investment properties, investment securities, deposit for purchase of land and bank balances and cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets and intangible assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

12 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

2. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Company is engaged in investment holding and its subsidiaries are principally engaged in the manufacturing and trading of home and personal care products, industrial products, cosmetics and skin care products and biotechnology products with medical and cosmetic applications.

Turnover represents the invoiced value of goods sold, net of value added tax, sales returns and discounts. Revenues recognised during the year are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Turnover – sales of goods	674,704	341,041
Other revenues		
Interest income	1,187	628
Rental income	2,924	1,665
Sales of raw materials	—	68
Others	673	245
	4,784	2,606
Total revenues	<u>679,488</u>	<u>343,647</u>

Primary reporting format – business segments

The Group is organised into four main business segments:

- (a) Home and personal care products segment – manufacture of home and personal care products for sale to wholesalers and retailers in the general consumer market;
- (b) Industrial products segment – manufacture of industrial surfactants for sale principally to textile and garment manufacturers and traders;
- (c) Cosmetics and skin care products segment – manufacture of cosmetics and skin care products under the brand name of Marjorie Bertagne for sale to authorised distributors and retailers in the general consumer market; and
- (d) Biotechnology products segment – manufacture of biotechnology products with medical and cosmetic applications.

There are no sales or other transactions between the business segments.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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2. TURNOVER, REVENUES AND SEGMENT INFORMATION *(cont'd)*

Primary reporting format – business segments *(cont'd)*

	Home and personal care products 2002 HK\$'000	Industrial products 2002 HK\$'000	Cosmetics and skin care products 2002 HK\$'000	Bio- technology products 2002 HK\$'000	Consolidated 2002 HK\$'000
Turnover	<u>322,010</u>	<u>202,532</u>	<u>106,547</u>	<u>43,615</u>	<u>674,704</u>
Segment results	<u>97,668</u>	<u>51,560</u>	<u>57,437</u>	<u>22,477</u>	229,142
Interest income and unallocated revenues					4,187
Corporate and unallocated expenses					<u>(18,963)</u>
Operating profit					214,366
Finance costs					<u>(2,690)</u>
Profit before taxation					211,676
Taxation					<u>(67,048)</u>
Profit after taxation					144,628
Minority interests					<u>—</u>
Profit attributable to shareholders					<u>144,628</u>
Segment assets	163,234	129,863	92,847	128,307	514,251
Investment properties					16,000
Deposit for purchase of land					42,056
Investment securities					63,100
Bank balances and cash					163,435
Other unallocated assets					<u>29,211</u>
Total assets					<u>828,053</u>
Segment liabilities	27,783	20,461	6,398	3,454	58,096
Unallocated liabilities					<u>58,998</u>
Total liabilities					<u>117,094</u>
Capital expenditure	42,581	27,111	14,089	5,767	89,548
Depreciation	5,033	3,166	1,665	682	10,546
Amortisation charge	—	—	—	8,671	8,671
Other non-cash expenses	4,623	3,854	—	—	8,477

14 **NOTES TO FINANCIAL STATEMENT** (cont'd)

31 December 2002

2. **TURNOVER, REVENUES AND SEGMENT INFORMATION** (cont'd)

Primary reporting format – business segments (cont'd)

	Home and personal care products 2001 HK\$'000	Industrial products 2001 HK\$'000	Cosmetics and skin care products 2001 HK\$'000	Bio- technology products 2001 HK\$'000	Consolidated 2001 HK\$'000
Turnover	238,533	102,508	—	—	341,041
Segment results	70,147	39,448	—	—	109,595
Interest income and unallocated revenues					2,606
Corporate and unallocated expenses					(11,700)
Operating profit					100,501
Finance costs					(1,461)
Profit before taxation					99,040
Taxation					(15,874)
Profit after taxation					83,166
Minority interests					18
Profit attributable to shareholders					83,184
Segment assets	164,783	62,886	—	—	227,669
Investment properties					16,000
Bank balances and cash					85,796
Other unallocated assets					72,637
Total assets					402,102
Segment liabilities	23,934	10,286	—	—	34,220
Unallocated liabilities					71,243
Total liabilities					105,463
Capital expenditure	34,011	5,856	—	—	39,867
Depreciation	4,348	1,868	—	—	6,216
Impairment of fixed assets	2,058	885	—	—	2,943
Other non-cash expenses	915	393	—	—	1,308

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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2. TURNOVER, REVENUES AND SEGMENT INFORMATION *(cont'd)*

Secondary reporting format – geographical segments

The Group operates in two main geographical areas:

The PRC – manufacturing and trading of home and personal care products, industrial products, cosmetics and skin care products and biotechnology products with medical and cosmetic applications.

Hong Kong – trading of home and personal care products, industrial products and cosmetics and skin care products.

The Group's inter-segment transactions mainly consist of trading of home and personal care products, industrial products and cosmetics and skin care products between subsidiaries located in different geographical areas. The transactions were entered into at similar to those terms with independent third parties and were eliminated on consolidation.

	Turnover	Segment	Total	Capital
	2002	results	assets	expenditure
	HK\$'000	2002	2002	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC	617,200	209,475	683,001	82,716
Hong Kong	57,504	19,667	52,741	6,832
	<u>674,704</u>	<u>229,142</u>	735,742	<u>89,548</u>
Investment securities			63,100	
Other unallocated assets			29,211	
Total assets			<u>828,053</u>	

16 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

2. TURNOVER, REVENUES AND SEGMENT INFORMATION (cont'd)

Secondary reporting format – geographical segments (cont'd)

	Turnover	Segment results	Total assets	Capital expenditure
	2001	2001	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The PRC	321,494	119,093	262,687	16,285
Hong Kong	19,547	(9,498)	66,778	23,582
	<u>341,041</u>	<u>109,595</u>	329,465	<u>39,867</u>
Unallocated assets			<u>72,637</u>	
Total assets			<u>402,102</u>	

NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

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3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2002	2001
	HK\$'000	HK\$'000
<u>Crediting</u>		
Gain on disposal of fixed assets	<u>—</u>	<u>190</u>
<u>Charging</u>		
Amortisation of intangible assets (note 11)	8,671	—
Auditors' remuneration	1,405	1,050
Cost of inventories sold	317,080	173,661
Depreciation:		
Owned fixed assets	8,379	5,370
Leased fixed assets	2,167	846
Impairment of fixed assets	—	2,943
Impairment of intangible assets (note 11)	3,854	—
Net exchange losses	205	31
Operating leases of land and buildings	8,574	1,108
Outgoings in respect of investment properties	16	87
Provision for doubtful debts	—	1,308
Provision for deposit for acquisition of technical know-how (note 13)	4,463	—
Provision for impairment in value of club debenture (note 13)	160	—
Research and development costs	5,336	1,276
Staff costs (excluding directors' remuneration) (note 9)	<u>21,278</u>	<u>5,876</u>

18 **NOTES TO FINANCIAL STATEMENT** *(cont'd)*

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4. **FINANCE COSTS**

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	2,419	1,385
Interest on convertible bonds	—	39
Interest on finance leases	271	37
	<u>2,690</u>	<u>1,461</u>

5. **TAXATION**

	Group	
	2002	2001
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	3	2
Overseas taxation	67,045	15,872
	<u>67,048</u>	<u>15,874</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

The overseas tax provision is made in respect of Dongguan Proamine Chemicals Co., Limited ("Dongguan Proamine"), a wholly-owned subsidiary established in the PRC. Dongguan Proamine was exempted 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 was eligible for a 50% relief from PRC corporate income tax for three years up to the year ended 31 December 2001. The applicable tax rate for the year is 24% after the expiry of the tax relief (2001: 12%).

There was no material unprovided deferred taxation for the year which was expected to crystallise in the foreseeable future (2001: Nil).

NOTES TO FINANCIAL STATEMENT (cont'd)

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6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately HK\$39,925,000 (2001: HK\$21,732,000).

7. DIVIDENDS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interim, paid, of HK\$0.03 (2001: Nil) per ordinary share	14,741	—
Final, proposed, of HK\$0.02 (2001: HK\$0.05) per ordinary share	11,995	15,380
	<u>26,736</u>	<u>15,380</u>

At a meeting held on 25 April 2003, the Directors proposed a final dividend of HK\$0.02 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003 (note 25).

20 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

8. EARNINGS PER SHARE

The calculation of earnings per share of the Group for the year is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Profit attributable to shareholders	144,628	83,184
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue during the year	500,738,297	324,598,118*
Basic earnings per share	<u>HK\$0.2888</u>	<u>HK\$0.2563</u>
	HK\$'000	HK\$'000
Profit attributable to shareholders	144,628	83,184
Add: Interest on convertible bonds (note below)	<u>—</u>	<u>39</u>
	144,628	83,223
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue during the year	500,738,297	324,598,118*
Add: Number of ordinary shares deemed to be issued on full conversion of the convertible bonds	766,630	1,434,336*
Add: Number of ordinary shares deemed to be issued at no consideration on exercise of all outstanding share options	<u>5,096,311</u>	<u>8,716,124*</u>
	506,601,238	334,748,578
Diluted earnings per share	<u>HK\$0.2855</u>	<u>HK\$0.2486</u>

* The numbers of ordinary shares in issue and deemed to be issued in 2001 have been restated for the effect of a bonus issue as detailed in note 23(d) to the accounts.

NOTES TO FINANCIAL STATEMENT (cont'd)

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8. EARNINGS PER SHARE (cont'd)

No additional interest on convertible bonds has been provided for the year ended 31 December 2002 since interest accrued last year on the converted bonds was forfeited upon early conversion before the interest payment date and such amount is adequate to cover the interest accrued for the outstanding bonds as at 31 December 2002.

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.

9. STAFF COSTS

The staff costs, excluding directors' remuneration, of the Group for the year are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Wages and salaries	20,789	5,625
Pension costs – defined contribution retirement schemes <i>(note below)</i>	388	251
Unutilised annual leave	101	—
	<u>21,278</u>	<u>5,876</u>

Note: Contributions totalling approximately HK\$80,000 (2001: HK\$29,000) were payable under the schemes at the balance sheet date and are included in other payables.

22 NOTES TO FINANCIAL STATEMENT (cont'd)

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10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to Directors of the Company during the year are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees		
Non-executive Director	20	20
Independent Non-executive Directors	40	20
Other emoluments		
Basic salaries and housing allowances	2,997	3,380
Contributions to pension schemes	49	60
Compensation for loss of office as director	1,280	—
	4,386	3,480

Other than the directors' fees disclosed above, there were no other emoluments payable to the Independent Non-executive Directors for the year (2001: Nil).

The emoluments of the Directors fell within the following bands:

	Number of Directors	
	2002	2001
Emolument bands		
Nil – HK\$1,000,000	6	8
HK\$1,000,001 – HK\$1,500,000	2	—
	2	8

During the year, there were no (2001: 18,425,000) share options granted to the Directors in respect of their services to the Group. The benefits from the exercise of share options granted to the Directors amounted to approximately HK\$6,337,000 (2001: HK\$1,693,000). Details of the total share options exercised by the Directors during the year are set out in the Report of the Directors.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(cont'd)*

(a) Directors' emoluments *(cont'd)*

No Directors have waived emoluments for the years ended 31 December 2002 and 2001.

During the year, no amounts have been paid by the Group to the Directors as an inducement to join the Group (*2001: Nil*) and HK\$1,280,000 has been paid as compensation for loss of office to a Director (*2001: Nil*).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (*2001: four*) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (*2001: one*) individual during the year are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Basic salary and housing allowance	1,507	650
Contributions to pension scheme	12	12
	<u>1,519</u>	<u>662</u>

The emoluments of the individual fell within the following bands:

	Number of Directors	
	2002	2001
Emolument bands		
Nil – HK\$1,000,000	—	1
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>—</u>

During the year, there were no (*2001: 3,905,000*) share options granted to the highest paid non-director employee in respect of her services to the Group. The benefits arising from the exercise of share options granted to the highest paid non-director employee during 2001 amounted to approximately HK\$1,367,000.

24 **NOTES TO FINANCIAL STATEMENT** *(cont'd)*

31 December 2002

11. INTANGIBLE ASSETS

Group

	Licences <i>HK\$'000</i>	Deferred development costs <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2002	81,515	3,525	85,040
Additions	—	329	329
Impairment charge (<i>note 3</i>)	—	(3,854)	(3,854)
At 31 December 2002	81,515	—	81,515
Accumulated amortisation			
At 1 January 2002	—	—	—
Amortisation charge (<i>note 3</i>)	8,671	—	8,671
At 31 December 2002	8,671	—	8,671
Net book value			
At 31 December 2002	72,844	—	72,844
At 31 December 2001	81,515	3,525	85,040

Licences comprise licence rights acquired from independent third parties during 2001 to exploit technical know-how for the manufacture of certain biotechnology products with medical and cosmetic applications. As at 31 December 2002, the underlying products relating to the licences acquired have been put into commercial production. Amortisation on the cost of licences has been provided on a straight-line basis over their estimated useful lives to the Group.

Deferred development costs represented the cost of technical know-how and expenses incurred for the development of large-scale production processes for certain industrial enzymes to be used in the Group's industrial products segment. Full impairment charges for the deferred development costs have been made in the accounts since the future economic benefits attributable to such technical know-how are uncertain.

NOTES TO FINANCIAL STATEMENT *(cont'd)* 25

31 December 2002

12. FIXED ASSETS

(a) Fixed assets – Group

[illegible]

26 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

12. FIXED ASSETS *(cont'd)*

(a) Fixed assets – Group *(cont'd)*

The Group's interests in investment properties and leasehold land and buildings at their net book value are analysed as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<u>61,000</u>	<u>55,659</u>

The investment properties and leasehold land and buildings were revalued at 31 December 2002 on the basis of their open market value by AA Property Services Limited, an independent firm of chartered surveyors. The deficits on revaluation of approximately HK\$17,000 and HK\$8,251,000 were recognised in the investment properties revaluation reserve and assets revaluation reserve respectively (*note 25*). The revaluations do not constitute a timing difference for tax purposes.

The carrying amount of the leasehold land and buildings would be HK\$39,032,000 (2001: HK\$25,176,000) had they been stated at cost less accumulated depreciation.

At 31 December 2002, the net book value of fixed assets pledged as security for the Group's long-term liabilities amounted to HK\$40,000,000 (2001: Nil) (*note 21(a)*).

(b) Deposit for purchase of land

On 16 December 2002, a wholly owned subsidiary of the Group entered into a sale and purchase agreement with the provincial government of Dongguan in the PRC to purchase a piece of land with a lease term of 50 years at a consideration of Renminbi 60 million (equivalent to approximately HK\$56,075,000). The subsidiary is in the process of applying for the transfer of ownership of the land. Up to 31 December 2002, a deposit of Renminbi 45 million (equivalent to approximately HK\$42,056,000) was paid to the vendor. The remaining balance of Renminbi 15 million (equivalent to approximately HK\$14,019,000) will be paid upon the successful transfer of ownership of the land to the subsidiary and it is disclosed as a capital commitment as at the balance sheet date (*note 28*).

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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12. FIXED ASSETS *(cont'd)*

(c) Deposits for purchases of other fixed assets

At 31 December 2002, the Group paid a total sum of approximately HK\$64,488,000 (2001: HK\$4,860,000) as deposits for the acquisition of certain fixed assets, which comprise mainly of plant and machinery used in the manufacturing operations of the Group. The deposits and further contract sums will be capitalised as fixed assets upon subsequent delivery of the fixed assets to the Group. The depreciation for these fixed assets will commence when they are ready for use. Capital commitments of the Group in respect of the remaining unpaid balances of HK\$16,834,000 for these purchases are disclosed in note 28 to the accounts.

13. OTHER DEPOSITS AND CLUB DEBENTURE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Rental deposits	2,050	1,205
Deposit for acquisition of technical know-how	4,463	4,463
Club debenture	350	350
	<u>6,863</u>	<u>6,018</u>
Less: provision for deposit for acquisition of technical know-how (note 3)	(4,463)	—
Less: provision for impairment in value of club debenture (note 3)	(160)	—
	<u>2,240</u>	<u>6,018</u>

28 NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

14. INVESTMENT SECURITIES

		Group	
		2002	2001
		HK\$'000	HK\$'000
Unlisted equity securities, at cost		63,100	—

Name	Place of incorporation and operation	Principal activities	Percentage of interest	Investment cost HK\$'000
Golden Idea Bio-Technology Engineering Group Limited	The British Virgin Islands/The PRC	Investment holding company whose subsidiaries are principally engaged in providing management services for wastewater and sewage treatment projects	8.0%	31,600
Bio-Tech Pharm Group Limited	The British Virgin Islands/The PRC	Investment holding company whose subsidiaries are principally engaged in research and development, manufacture and trading of biotechnology products	4.5%	31,500

15. INVESTMENT IN SUBSIDIARIES

	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	89,402	89,348
Amounts due from subsidiaries <i>(note b)</i>	445,357	141,200
	534,759	230,548

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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15. INVESTMENT IN SUBSIDIARIES *(cont'd)*

(a) The following is a list of the significant subsidiaries at 31 December 2002:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital	Interest held
Global Success Properties Limited	The British Virgin Islands	Investment holding/ Hong Kong	200 ordinary shares of US\$1 each	*100%
Global Bio-Engineering Limited	Hong Kong	Provision of sewage treatment services/ Hong Kong	2 ordinary shares of HK\$1 each	*100%
Global Chemicals (China) Company Limited <i>(note (i))</i>	Hong Kong	Trading of home and personal care products, industrial products and cosmetics and skin care products/Hong Kong	10,000 ordinary shares of HK\$1 each and 1,000,000 non-voting deferred ordinary shares of HK\$1 each	100%
Dongguan Proamine Chemicals Co., Limited <i>(notes (ii) and (iii))</i>	The PRC	Manufacture and sale of home and personal care products, industrial products, cosmetics and skin care products and biotechnology products/ The PRC	HK\$67,000,000	100%
High Billion Investment Limited <i>(note (iii))</i>	Hong Kong	Holding of licence/ Hong Kong	10,000 ordinary shares of HK\$1 each	100%
Enzymes Technology Limited	Hong Kong	Development of large-scale production process for industrial enzymes/ Hong Kong	6,153,846 ordinary shares of HK\$1 each	65%

* Shares held directly by the Company.

30 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

15. INVESTMENT IN SUBSIDIARIES *(cont'd)*

(a) *(cont'd)*

Notes:

- (i) 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 Global Chemicals (China) Company Limited ("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 winding-up).
- (ii) Dongguan Proamine Chemicals Co., Limited ("Dongguan Proamine") is a foreign wholly-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 and 2002.
- (iii) The statutory accounts of these subsidiaries are not audited by PricewaterhouseCoopers. For the purpose of this report, we have carried out an independent audit of the accounts of the Group for the year ended 31 December 2002 in accordance with Statements of Auditing Standards issued by the HKSA.

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for 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.

(b) Amounts due from subsidiaries

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

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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16. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	44,272	13,459
Finished goods	27,353	10,160
	<u>71,625</u>	<u>23,619</u>

At 31 December 2002, no inventories were carried at net realisable value (2001: Nil).

17. TRADE RECEIVABLES

At 31 December 2002, the ageing analysis of the trade receivables was analysed as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 30 days	58,673	74,334
31 – 60 days	52,109	19,916
61 – 90 days	43,033	3,562
Over 90 days	9,852	3,952
Less: provision	<u>(3,180)</u>	<u>(3,180)</u>
	<u>160,487</u>	<u>98,584</u>

The normal credit period granted to the customers of the Group is 30 to 90 days.

32 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

18. AMOUNTS DUE FROM RELATED COMPANIES

The information in relation to the amounts due from related companies disclosed pursuant to section 161B of the Hong Kong Companies Ordinances is as follows:

Name	Balance at 1 January 2002 <i>HK\$'000</i>	Balance at 31 December 2002 <i>HK\$'000</i>	Maximum amount outstanding during the year <i>HK\$'000</i>
北京博康健基因科技有限公司	—	4,568	4,568
深圳華生元基因工程發展有限公司	—	2,490	2,490
創思生物技術工程（東莞）有限公司	—	2,520	2,520
	<u>—</u>	<u>9,578</u>	

The above balances are unsecured, interest-free and repayable on demand. No provision was made against the balances at 31 December 2002 (2001: Nil).

Details of relationships and transactions with these companies are set out in note 30 to the accounts.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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19. TRADE AND BILLS PAYABLE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trade payables	17,866	10,349
Bills payable	2,901	1,624
	<u>20,767</u>	<u>11,973</u>

At 31 December 2002, the ageing analysis of the trade and bills payable was analysed as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 30 days	9,975	6,080
31 – 60 days	5,565	2,078
61 – 90 days	1,164	1,161
Over 90 days	4,063	2,654
	<u>20,767</u>	<u>11,973</u>

34 **NOTES TO FINANCIAL STATEMENT** (cont'd)

31 December 2002

20. LONG-TERM LIABILITIES

		Group	
	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Secured bank loans repayable:	<i>21</i>		
Within one year		12,333	15,300
In the second year		11,951	2,332
In the third to fifth year		5,200	1,952
		<hr/>	<hr/>
Total secured bank loans		29,484	19,584
		<hr/>	<hr/>
Obligations under finance leases repayable:	<i>(a)</i>		
Within one year		3,114	205
In the second year		3,114	205
In the third to fifth year		2,829	258
Less: future finance charges on finance leases		(804)	(65)
		<hr/>	<hr/>
Present value of obligations under finance leases		8,253	603
		<hr/>	<hr/>
Total long-term liabilities		37,737	20,187
		<hr/>	<hr/>
Current portion of long-term liabilities		(15,040)	(15,475)
		<hr/>	<hr/>
		22,697	4,712
		<hr/>	<hr/>

(a) The present value of obligations under finance leases is as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	2,707	195
In the second year	2,850	186
In the third to fifth year	2,696	222
	<hr/>	<hr/>
	8,253	603
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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21. BANKING FACILITIES

- (a) Included in the long-term bank loans (*note 20*) is a balance of approximately HK\$14,800,000 (*2001: Nil*) which is secured by the fixed assets of the Group (*note 12(a)*).
- (b) The remaining long-term bank loans (*note 20*) of approximately HK\$14,684,000 (*2001: HK\$19,584,000*), together with the short term bank loans of approximately HK\$8,569,000 (*2001: HK\$2,353,000*), are secured by fixed deposits of the Group of approximately HK\$12,157,000 (*2001: HK\$8,539,000*), of which approximately HK\$3,032,000 (*2001: HK\$500,000*) represented pledged bank deposits of the Company.
- (c) At 31 December 2002 and 2001, all banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Company.

22. CONVERTIBLE BONDS

Pursuant to an agreement entered into between Credit Suisse First Boston (Hong Kong) Limited ("CSFB") and the Company on 13 December 2001 (the "2001 Subscription Agreement"):

- (i) the Company agreed to issue convertible bonds of US\$4,080,000 (*equivalent to approximately HK\$31,824,000*) (the "Original Tranche 1 Bonds") to CSFB;
- (ii) the Company conditionally granted to CSFB an additional option (the "Additional Option") giving CSFB the right to subscribe for additional convertible bonds 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 additional convertible bonds 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 Original Tranche 1 Convertible Bonds, 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 13 December 2004 (both dates inclusive).

36 NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

22. CONVERTIBLE BONDS *(cont'd)*

The convertible bonds bear 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. Each bond will cease to bear interest on conversion or from the due date for redemption. If converted, interest accrued on the converted bonds from the last interest payment date will be forfeited upon conversion.

The convertible bonds are convertible 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) for the bonds issued and to be issued under the Original Tranche 1 Bonds and the Additional Option: HK\$2.1623 per share; or for the Tranche 2 Bonds (as defined below): HK\$2.6944 per share; both are subject to adjustment on account of dilutive events (the "Fixed Conversion Price"); or
- (ii) 93% of the average of any 5 consecutive closing prices per ordinary share of the Company as selected by the converting bondholder during the period of 30 consecutive business days immediately prior to the date of conversion (the "Floating Conversion Price"),

provided that the conversion price shall not be less than the par value of the shares of the Company of HK\$0.10 unless permitted by law and in compliance with all applicable rules and regulations.

Up to 9 April 2002, the Original Tranche 1 Bonds in the aggregate principal amount of US\$2,300,000 (*equivalent to approximately HK\$17,940,000*) were converted into 14,371,988. The Company issued a new Tranche 1 convertible bonds (the "New Tranche 1 Bonds") in the aggregate principal amount of US\$1,780,000 (*equivalent to approximately HK\$13,884,000*) as at 9 April 2002 to CSFB pursuant to another subscription agreement entered into between CSFB and the Company at the same date (the "2002 Subscription Agreement"). According to the 2002 Subscription Agreement, the New Tranche 1 Bonds was applied to redeem the outstanding principal amount of the Original Tranche 1 Bonds of US\$1,780,000 as at 9 April 2002.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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22. CONVERTIBLE BONDS *(cont'd)*

On 9 July 2002, the Company exercised the Call Option and new bonds of US\$3,840,000 (*equivalent to approximately HK\$29,952,000*) were issued (the "Tranche 2 Bonds") with identical terms as the Original Tranche 1 Bonds according to the 2001 Subscription Agreement. Up to 31 December 2002, the Tranche 2 Bonds in the aggregate principal amount of US\$3,400,000 (*equivalent to approximately HK\$26,520,000*) has been converted into 17,034,424 ordinary shares of the Company.

Subsequent to the balance sheet date, the remaining Tranche 2 Bonds of US\$440,000 (*equivalent to approximately HK\$3,432,000*) were converted into 3,059,561 ordinary shares of the Company.

As at the report date, the Additional Option and the Subscription Option were 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 0.5% of the issued share capital of the Company as enlarged by such issue.

Any outstanding convertible bonds will be repaid by the Company at par as at the maturity date on 13 December 2004.

23. SHARE CAPITAL

	2002 HK\$'000	2001 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>		
599,741,366 (2001: 307,603,625) ordinary shares of HK\$0.10 each	<u>59,974</u>	<u>30,760</u>

38 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

23. SHARE CAPITAL (cont'd)

	<i>Note</i>	Number of shares	Share capital HK\$'000
At 1 January 2001		250,000,000	25,000
Exercise of share options		10,603,625	1,060
Placement of shares		47,000,000	4,700
<hr/>			
At 31 December 2001 and at 1 January 2002		307,603,625	30,760
Exercise of share options	(a)	98,921,375	9,892
Conversion of convertible bonds	(b)	40,946,139	4,095
Placement of shares	(c)	54,000,000	5,400
Bonus issue of shares	(d)	98,270,227	9,827
<hr/>			
At 31 December 2002		<u>599,741,366</u>	<u>59,974</u>

Note:

- (a) During the year, 14,611,375 and 84,310,000 ordinary shares of HK\$0.10 each of the Company were issued under the Old Scheme and the New Scheme (as defined in note 24(a)) respectively to the share option holders on the exercise of their share options at a total cash consideration of approximately HK\$143,465,000. A summary of the Company's share options schemes is set out in note 24(a) to the accounts.
- (b) During the year, 23,911,715 and 17,034,424 ordinary shares of HK\$0.10 each of the Company were issued upon the conversions of the Original Tranche 1 Bonds and the Tranche 2 Bonds respectively (note 22). The share capital and share premium of the Company have been increased by approximately HK\$4,095,000 and HK\$54,249,000 (note 25) respectively following the said conversions.
- (c) On 17 July 2002, two substantial shareholders of the Company placed in aggregate 54,000,000 existing ordinary shares of HK\$0.10 each to certain independent third parties, at a price of HK\$2.1 per share, for a total cash consideration of HK\$113,400,000 and the substantial shareholders subscribed for 54,000,000 new shares of the Company at the same price.
- (d) On 27 August 2002, the Board of Directors of the Company resolved that a bonus issue of ordinary shares to shareholders of the Company on the basis of one bonus share for every five ordinary shares of HK\$0.10 each held by members of the Company whose name appear on the register of members of the Company at the close of business on 18 October 2002 and as such 98,270,227 ordinary shares of HK\$0.10 each of the Company were issued.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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24. SHARE OPTIONS AND WARRANTS

(a) Share options

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 20 December 2001, the share option scheme adopted by the Company on 28 November 2000 (the "Old Scheme") was terminated and another share option scheme (the "New Scheme") was adopted. Upon termination of the Old Scheme, no further options can be granted thereunder but in all other respects, the provisions of the Old Scheme remained in force and all share options granted prior to such termination continued to be valid and exercisable in accordance therewith. Under the share option schemes, the Directors of the Company may, at their discretion, invite eligible participants, to take up options to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated therein.

Movements in the number of share options outstanding during the year are as follows:

	4 January 2001	5 January 2001	16 November 2001	24 December 2001	22 March 2002	29 July 2002	
Date of grant	2001	2001	2001	2001	2002	2002	
Exercise price*	HK\$0.67	HK\$0.68	HK\$1.08	HK\$1.17	HK\$1.33	HK\$1.50	Total
No. of share options	In '000	In '000	In '000	In '000	In '000	In '000	In '000
At 1 January 2002	14,196	200	4,700	30,760	—	—	49,856
Granted during the year	—	—	—	—	35,400	40,680	76,080
Exercised during the year	(9,711)	(200)	(4,700)	(30,760)	(33,400)	(20,150)	(98,921)
Bonus issue during the year	921	—	—	—	400	6,106	7,427
At 31 December 2002	<u>5,406</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,400</u>	<u>26,636</u>	<u>34,442</u>

* The exercise price has been adjusted following the bonus issue as described in note 23(d) to the accounts.

40 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

24. SHARE OPTIONS AND WARRANTS *(cont'd)*

(a) Share options *(cont'd)*

The share options outstanding as at 31 December 2002 are exercisable in 3 years from the date of grant as determined by the Directors and therefore they will expire in the period from 3 January 2004 to 28 July 2005. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of approximately 34,442,000 additional ordinary shares and cash proceeds to the Company of approximately HK\$46,738,000 before the related share issue expenses.

Subsequent to the balance sheet date, the Company granted 59,974,000 share options to subscribe for the shares of the Company at a subscription price of HK\$1.23 each at any time during the period from 8 January 2003 to 7 January 2006. Included in the share options granted are 29,932,000 to the employees of the Group and 30,042,000 to the suppliers and customers of the Group. An aggregate of 57,145,900 ordinary shares was issued subsequent to the balance sheet date upon the exercise of the outstanding share options at an average exercise price of HK\$1.29 each. Total cash proceeds received thereon, before any related expenses, was approximately HK\$73,970,000.

(b) 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 for any dilutive effects, 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 issued and fully paid ordinary shares on the relevant subscription date.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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24. SHARE OPTIONS AND WARRANTS *(cont'd)*

(b) Warrants *(cont'd)*

No warrants were exercised during the year. The number of outstanding warrants and the subscription price have been adjusted to 66,000,884 and HK\$2.05 per ordinary share respectively to reflect the dilutive effects of the issue of convertible bonds and bonus issue as detailed in note 22 and note 23(d) to the accounts. The exercise in full of the outstanding warrants at the adjusted subscription price of HK\$2.05 per ordinary share at the balance sheet date would, under the present capital structure of the Company, result in the issue of approximately 66,000,884 additional ordinary shares of the Company and the cash proceeds to the Company of approximately HK\$135,302,000, before any related expenses.

25. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserves HK\$'000	Assets revaluation reserves HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2001	14,467	900	154	11,001	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	—	—	—	3,597	—	—	—	3,597
Profit for the year	—	—	—	—	—	—	83,184	83,184
Transfer to statutory reserve	—	—	—	—	3,509	—	(3,509)	—
At 31 December 2001	<u>83,619</u>	<u>900</u>	<u>154</u>	<u>14,598</u>	<u>17,509</u>	<u>212</u>	<u>146,751</u>	<u>263,743</u>
Representing:								
2001 final dividend proposed							15,380	15,380
Others							131,371	248,363
Retained earnings at 31 December 2001							<u>146,751</u>	<u>263,743</u>

42 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

25. RESERVES (cont'd)

Group (cont'd)

	Share premium HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserves HK\$'000	Assets revaluation reserves HK\$'000	Statutory reserves HK\$'000	Exchange fluctuation reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2002	83,619	900	154	14,598	17,509	212	146,751	263,743
Issue of shares	241,573	—	—	—	—	—	—	241,573
Conversion of convertible bonds into shares	54,249	—	—	—	—	—	—	54,249
Bonus issue of shares	(9,827)	—	—	—	—	—	—	(9,827)
Share issue expenses	(3,853)	—	—	—	—	—	—	(3,853)
Deficits on revaluation (note 12)	—	—	(17)	(8,251)	—	—	—	(8,268)
Profit for the year	—	—	—	—	—	—	144,628	144,628
Transfer to statutory reserve (note (c))	—	—	—	—	17,032	—	(17,032)	—
2001 final dividend paid	—	—	—	—	—	—	(15,380)	(15,380)
2001 additional final dividend paid	—	—	—	—	—	—	(3,275)	(3,275)
2002 interim dividend paid	—	—	—	—	—	—	(14,741)	(14,741)
At 31 December 2002	<u>365,761</u>	<u>900</u>	<u>137</u>	<u>6,347</u>	<u>34,541</u>	<u>212</u>	<u>240,951</u>	<u>648,849</u>
Representing:								
2002 final dividend proposed							11,995	11,995
Others							228,956	636,854
Retained earnings at 31 December 2002							<u>240,951</u>	<u>648,849</u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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25. RESERVES *(cont'd)*

Company

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment property revaluation reserves <i>HK\$'000</i>	Assets revaluation reserves <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Exchange fluctuation reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)
Profit for the year	—	—	—	—	—	—	21,732	21,732
At 31 December 2001	<u>83,619</u>	<u>89,247</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>22,233</u>	<u>195,099</u>
Representing:								
2001 final dividend proposed							15,380	15,380
others							<u>6,853</u>	<u>179,719</u>
Retained earnings at 31 December 2001							<u>22,233</u>	<u>195,099</u>

44 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

25 RESERVES (cont'd)

Company (cont'd)

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Investment property revaluation reserves <i>HK\$'000</i>	Assets revaluation reserves <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Exchange fluctuation reserves <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	83,619	89,247	—	—	—	—	22,233	195,099
Issue of shares	241,573	—	—	—	—	—	—	241,573
Conversion of convertible bonds into shares	54,249	—	—	—	—	—	—	54,249
Bonus issue of shares	(9,827)	—	—	—	—	—	—	(9,827)
Share issue expenses	(3,853)	—	—	—	—	—	—	(3,853)
Profit for the year	—	—	—	—	—	—	39,925	39,925
2001 final dividend paid	—	—	—	—	—	—	(15,380)	(15,380)
2001 additional final dividend paid	—	—	—	—	—	—	(3,275)	(3,275)
2002 interim dividend paid	—	—	—	—	—	—	(14,741)	(14,741)
At 31 December 2002	<u>365,761</u>	<u>89,247</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>28,762</u>	<u>483,770</u>
Representing:								
2002 final dividend proposed							11,995	11,995
Others							16,767	471,775
Retained earnings at 31 December 2002							<u>28,762</u>	<u>483,770</u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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25 RESERVES *(cont'd)*

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 2002, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$483,770,000 (2001: 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 therefore.

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 therefore.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Operating profit	214,366	100,501
Interest income	(1,187)	(628)
Gain on disposal of fixed assets	—	(190)
Amortisation of intangible assets	8,671	—
Depreciation	10,546	6,216
Impairment of fixed assets	—	2,943
Impairment of intangible assets	3,854	—
Provision for doubtful debts	—	1,308
Provision for deposit for acquisition of technical know-how	4,463	—
Provision for impairment in value of club debenture	160	—
Increase other deposits and club debenture	(845)	(1,205)
Increase in inventories	(48,006)	(6,310)
Increase in trade receivables	(61,903)	(47,294)
Increase in prepayments, deposits and other receivables	(5,992)	(3,137)
(Increase)/decrease in amounts due from related companies	(9,578)	5,317
Decrease in pledged bank deposits to secure short term bank loans	483	5,475
Increase/(decrease) in trade and bills payable	8,794	(35)
Increase in accrued liabilities and other payables	4,597	4,093
Increase in short term bank loans of maturity greater than three months	4,676	1,045
Net cash inflow generated from operations	<u><u>133,099</u></u>	<u><u>68,099</u></u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Long-term bank loans HK\$'000	Convertible bonds HK\$'000	Minority interests HK\$'000	Finance lease payables HK\$'000
At 1 January 2001	39,467	5,345	—	—	—
Cash inflow/(outflow) from financing, net	74,912	14,239	31,824	—	(220)
Capital contribution from minority interests by way of intangible assets	—	—	—	2,154	—
Share of loss of a subsidiary	—	—	—	(18)	—
Inception of finance lease contracts	—	—	—	—	823
At 31 December 2001 and 1 January 2002	114,379	19,584	31,824	2,136	603
Cash inflow/(outflow) from financing, net	253,012	9,900	29,952	—	(1,421)
Conversion of convertible bonds into shares (note (c)(i))	58,344	—	(58,344)	—	—
Inception of finance lease contracts (note (c)(ii))	—	—	—	—	9,071
At 31 December 2002	425,735	29,484	3,432	2,136	8,253

(c) Major non-cash transactions

- (i) During the year, the balance of convertible bonds of approximately HK\$58,344,000 has been converted into ordinary shares of the Company as detailed in note 22 to the accounts.
- (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 approximately HK\$9,071,000.

48 **NOTES TO FINANCIAL STATEMENT** *(cont'd)*

31 December 2002

27. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties under an operating lease negotiated for a term of four years. The terms of the lease provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had future aggregate minimum lease receipts under the non-cancellable operating lease as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Not later than one year	1,680	833
Later than one year and not later than five years	2,520	—
	<u>4,200</u>	<u>833</u>

(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 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Not later than one year	9,058	5,189
Later than one year and not later than five years	9,493	8,373
	<u>18,551</u>	<u>13,562</u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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28. CAPITAL AND OTHER COMMITMENTS

At 31 December 2002, the Group had the following commitments in addition to the operating lease commitments as detailed in note 27:

		Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Capital commitments – contracted but not provided for:			
Purchase of land	12(b)	14,019	—
Purchases of other fixed assets	12(c)	16,834	13,145
Acquisition of technical know-how		3,903	3,903
		<u>34,756</u>	<u>17,048</u>
Other commitments for:			
Research and development projects undertaken by an independent third party in respect of the Group's products		9,673	9,673
Technical support services contract with an independent third party		560	560
Investment commitment of a subsidiary	15	20,000	20,000
		<u>30,233</u>	<u>30,233</u>

The Company did not have any other major commitments at 31 December 2002 (2001: Nil).

29. CONTINGENT LIABILITIES

At 31 December 2002, 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\$45,094,000 (2001: HK\$27,651,000) as at the balance sheet date.

50 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2002

30. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following significant related party transactions in its ordinary course of business and on terms mutually agreed between the relevant parties:

- (a) Global Bio-Engineering Limited (“Global Bio-Eng”), a wholly owned subsidiary of the Company, has entered into a tenancy agreement with Oriental Fame Investments Limited (“Oriental Fame”), in which Mr. Choi Woon Man, a Director of the Company, has a controlling interest. The tenancy agreement is entered into for a term of one year commencing from 1 March 2002 at a monthly rental of HK\$83,000. Rental deposit and rental expenses paid to Oriental Fame during the year amounted to HK\$166,000 and HK\$830,000 respectively. The commitment under the operating lease as at the balance sheet date has been included in note 27 to the accounts.
- (b) Chan, Yip, So & Partners, an associate of Mr. Yip Wai Leung, Jerry, an Independent Non-executive Director of the Company, rendered services to the Group in return for professional fees of approximately HK\$524,000 during the year.
- (c) Global Bio-Eng has purchased certain sewage treatment equipment from Shanghai Gi Biotechnology Engineering Co. Ltd. (“Shanghai Gi”) at a total contract sum of HK\$2,500,000. Shanghai Gi is a subsidiary of Golden Idea Bio-Technology Engineering Group Limited (“Golden Idea”) in which the Group has an equity interest of 8%. As at 31 December 2002, a deposit of HK\$1,887,000, was paid to Shanghai Gi and the remaining balance is disclosed under capital commitments in note 28 to the accounts.
- (d) During the year, the Group has purchased certain plant and equipment with the amount of approximately HK\$2,066,000 on behalf of 北京博康健基因科技有限公司 (“北京博康健”), a wholly owned subsidiary of Bio-Tech Pharm Group Limited (“Bio-Tech Pharm”), in which the Group has an equity interest of 4.5%. The entire amount is recorded as an amount due from a related party and is unsecured, interest-free and repayable on demand.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2002

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30. RELATED PARTY TRANSACTIONS *(cont'd)*

- (e) 北京博康健 is also a customer of Dongguan Proamine Chemicals Co., Ltd. ("Dongguan Proamine"), a wholly owned subsidiary of the Company. Income recognised from the sales of goods, mainly biotechnology products, to 北京博康健 for the year amounted to approximately HK\$18,204,000. The trade receivable from 北京博康健 as at 31 December 2002 was approximately HK\$2,502,000. The balance is unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers.
- (f) Dongguan Proamine has sales of biotechnology products totalling approximately HK\$14,981,000 to 深圳華生元基因工程發展有限公司 ("深圳華生元"). 深圳華生元 is another wholly owned subsidiary of Bio-Tech Pharm. The trade receivable from 深圳華生元 as at 31 December 2002 was approximately HK\$2,490,000. The balance is unsecured and interest-free and will become due in accordance with normal credit terms granted to other customers.
- (g) On 30 June 2001, Dongguan Proamine entered into a tenancy agreement with 創思生物技術工程 (東莞) 有限公司 ("創思"), a wholly owned subsidiary of Golden Idea. Dongguan Proamine leases its investment properties located in the PRC to 創思. Rental income recognised during the year amounted to HK\$2,520,000. At 31 December 2002, the balance due from 創思 was HK\$2,520,000 and is unsecured, interest-free and repayable on demand. The future aggregate minimum lease receipts under the operating lease as at the balance sheet date are set out in note 27 to the accounts.

31. SUBSEQUENT EVENTS

Except for the conversion of convertible bonds and the grant and exercise of share options subsequent to the balance sheet date as detailed in notes 22 and 24(a) to the accounts, the Group has no other significant subsequent events.

32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25 April 2003.