

NOTES TO FINANCIAL STATEMENT

31 December 2003

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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, leasehold land and buildings and other investments are stated at fair value.

In the current year, the Group adopted Statements of Standard Accounting Practice ("SSAP") No.12 "Income Taxes" issued by HKSA which is effective for accounting periods commencing on 1 January 2003.

The changes to the Group's accounting policy and the effect of adopting this new policy are set out below.

(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.

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.

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

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

(b) Consolidation *(cont'd)*

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.

(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 years.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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

(d) Intangible assets *(cont'd)*

(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.

(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.

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

31 December 2003

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

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

(i) *Investment properties (cont'd)*

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 realised 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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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%

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

31 December 2003

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.

(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.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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

(f) Assets under leases *(cont'd)*

(i) Finance leases *(cont'd)*

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.

(h) Investment in securities

(i) 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.

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

31 December 2003

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

(h) Investment in securities *(cont'd)*

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(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, deposits held at call with banks and bank overdrafts.

(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)*

31 December 2003

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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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

31 December 2003

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

(n) Deferred taxation *(cont'd)*

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 26 to the accounts, opening retained earnings at 1 January 2002 and 2003 have been increased by approximately HK\$4,752,000 and HK\$5,531,000 respectively, opening investment property revaluation reserves at 1 January 2002 and 2003 have been reduced by approximately HK\$42,000 and HK\$37,000 respectively, and opening assets revaluation reserves at 1 January 2002 and 2003 have been reduced by approximately HK\$3,940,000 and HK\$1,712,000 respectively, which represent the unprovided net deferred tax assets. These changes have resulted in an increase in net deferred tax assets at 31 December 2002 by approximately HK\$3,782,000. The profit and amount credited to equity for the year ended 31 December 2002 have been increased by approximately HK\$779,000 and HK\$2,233,000 respectively.

(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.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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

(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.

(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, deposit for purchase of land, investment securities, other investments, deferred tax assets 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.

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

31 December 2003

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	
	2003 HK\$'000	2002 <i>HK\$'000</i>
Turnover – sales of goods	633,586	674,704
Other revenues		
Bank interest income	1,177	1,187
Other interest income	2,209	—
Rental income	1,680	2,924
Others	1,329	673
	6,395	4,784
Total revenues	639,981	679,488

Primary reporting format – business segments

The Group is organised into the following main business segments:

- Home and personal care products segment – manufacture of home and personal care products for sale to wholesalers and retailers in the general consumer market;
- Industrial products segment – manufacture of industrial surfactants for sale principally to textile and garment manufacturers and traders;
- 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;
- Biotechnology products segment – manufacture of biotechnology products with medical and cosmetic applications; and
- Others – sales of Best Micro-organism System (“BMS”) wastewater and sewage treatment equipment.

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

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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

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

	Home and personal care products	Industrial products	Cosmetics and skin care products	Bio- technology products	Others	Consolidated
	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000
Turnover	<u>276,731</u>	<u>192,922</u>	<u>100,992</u>	<u>53,581</u>	<u>9,360</u>	<u>633,586</u>
Segment results	<u>32,568</u>	<u>23,942</u>	<u>49,356</u>	<u>27,160</u>	<u>4,232</u>	<u>137,258</u>
Interest income and unallocated revenues						6,395
Corporate and unallocated expenses						(19,119)
Operating profit						124,534
Finance costs						(2,304)
Profit before taxation						122,230
Taxation						(31,434)
Profit after taxation						90,796
Minority interests						1,442
Profit attributable to shareholders						<u>92,238</u>
Segment assets	215,424	200,210	75,434	112,894	14,831	618,793
Investment properties						16,000
Deposit for purchase of land						42,056
Investment securities						63,100
Other investments						5,325
Bank balances and cash						420,329
Other unallocated assets						8,967
Total assets						<u>1,174,570</u>
Segment liabilities	34,533	23,292	11,720	4,872	675	75,092
Unallocated liabilities						35,349
Total liabilities						<u>110,441</u>
Capital expenditure	33,670	44,413	36,407	7,659	—	122,149
Depreciation	7,675	5,351	2,801	1,486	259	17,572
Amortisation charge	—	—	—	11,266	—	11,266
Other non-cash expenses	2,462	1,718	5,294	326	—	9,800

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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	Others 2002 HK\$'000	As restated Consolidated 2002 HK\$'000
Turnover	<u>322,010</u>	<u>202,532</u>	<u>106,547</u>	<u>43,615</u>	<u>—</u>	<u>674,704</u>
Segment results	<u>97,668</u>	<u>51,560</u>	<u>57,437</u>	<u>22,477</u>	<u>—</u>	<u>229,142</u>
Interest income and unallocated revenues						4,187
Corporate and unallocated expenses						(18,963)
Operating profit						214,366
Finance costs						(2,690)
Profit before taxation						211,676
Taxation						(66,269)
Profit after taxation						145,407
Minority interests						—
Profit attributable to shareholders						<u>145,407</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						32,993
Total assets						<u>831,835</u>
Segment liabilities	27,783	20,461	6,398	3,454	—	58,096
Unallocated liabilities						58,998
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

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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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 results	Total assets	Capital expenditure
	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000	2003 HK\$'000
The PRC	587,028	147,371	970,832	121,126
Hong Kong	46,558	(10,113)	124,466	1,023
	<u>633,586</u>	<u>137,258</u>	1,095,298	<u>122,149</u>
Investment securities			63,100	
Other unallocated assets			16,172	
Total assets			<u>1,174,570</u>	

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

31 December 2003

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

Secondary reporting format – geographical segments *(cont'd)*

	Turnover 2002 HK\$'000	Segment results 2002 HK\$'000	As restated Total assets 2002 HK\$'000	Capital expenditure 2002 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			32,993	
Total assets			<u>831,835</u>	

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2003 HK\$'000	2002 HK\$'000
<u>Crediting</u>		
Gains on disposal of other investments	296	—
Unrealised gains on other investments	190	—
	<u> </u>	<u> </u>
<u>Charging</u>		
Amortisation of intangible assets (<i>note 11</i>)	11,266	8,671
Auditors' remuneration	3,760	1,405
Cost of inventories sold	347,326	317,080
Depreciation:		
Owned fixed assets	16,106	8,379
Leased fixed assets	1,466	2,167
Impairment of intangible assets	—	3,854
Net exchange losses	553	205
Operating leases of land and buildings	10,041	8,574
Outgoings in respect of investment properties	—	16
Provision for slow moving inventories	6,000	—
Provision for doubtful debts	3,800	—
Provision for deposit for acquisition of technical know-how	—	4,463
Provision for impairment in value of club debenture	—	160
Research and development costs	9,224	5,336
Staff costs (excluding directors' remuneration) (<i>note 9</i>)	28,547	21,278
	<u> </u>	<u> </u>

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

31 December 2003

4. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	1,668	2,419
Interest on finance leases	636	271
	<u>2,304</u>	<u>2,690</u>

5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profit tax rate from 16% to 17.5% for the fiscal year 2003/2004.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries of the Group operate.

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Current taxation:		
Hong Kong profits tax	927	3
Overseas taxation	29,463	67,045
Deferred taxation relating to the origination and reversal of temporary differences (note 27)	(637)	(779)
Deferred taxation resulting from a decrease in tax rate (note 27)	1,681	—
	<u>1,044</u>	<u>(779)</u>
	<u>31,434</u>	<u>66,269</u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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5. TAXATION *(cont'd)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	122,230	211,676
Tax at applicable tax rate <i>(note a)</i>	45,790	73,269
Income not subject to taxation	(52)	(29)
Expenses not deductible for taxation purposes	5,058	1,960
Tax losses not recognised	4,978	1,286
Utilisation of previously unrecognised tax losses	(51)	—
Decrease in opening deferred tax assets resulting from a decrease in tax rate	1,681	—
Preferential tax treatment <i>(note b)</i>	(26,938)	(13,907)
Others	968	3,690
Taxation charge	31,434	66,269

Notes:

- (a) The applicable taxation rates represent the rates of taxation prevailing in the countries in which the group companies operate.
- (b) Overseas tax provision is required to be made in respect of Dongguan Proamine Co., Limited ("Dongguan Proamine"), a wholly owned subsidiary of the Company established in the PRC. In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax rate is 33%. Dongguan Proamine, as a productive foreign investment enterprise in Dongguan, was subject to income tax rate of 27% for the year ended 31 December 2002.

On 30 May 2003, Dongguan Proamine was accredited by the Department of Science and Technology of Guangdong Province as a Hi-Tech Enterprise of Guangdong Province. On 16 January 2004, Dongguan Proamine received a written confirmation from Dongguan Local Tax Bureau that it is entitled to a reduced income tax rate of 15% for the period from 1 January 2003 to 31 December 2005.

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

31 December 2003

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\$29,965,000 (2002: HK\$39,925,000).

7. DIVIDENDS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interim, paid, of HK\$0.02 (2002: HK\$0.03) per ordinary share	16,664	14,741
Final, proposed, of HK\$0.02 (2002: HK\$0.02) per ordinary share	16,722	11,995
	<u>33,386</u>	<u>26,736</u>

At a meeting held on 23 April 2004, 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 2004 (note 26).

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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8. EARNINGS PER SHARE

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

	Group	
	2003	As restated
	HK\$'000	2002
		HK\$'000
Profit attributable to shareholders	92,238	145,407
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue during the year	746,035,823	500,738,297
Basic earnings per share	HK\$0.1236	HK\$0.2904
	HK\$'000	HK\$'000
Profit attributable to shareholders	92,238	145,407
	No. of shares	No. of shares
Weighted average number of ordinary shares in issue during the year	746,035,823	500,738,297
Add: Number of ordinary shares deemed to be issued on full conversion of the convertible bonds	18,909	766,630
Add: Number of ordinary shares deemed to be issued at no consideration on exercise of all outstanding share options	13,649,647	5,096,311
	759,704,379	506,601,238
Diluted earnings per share	HK\$0.1214	HK\$0.2870

Note: 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.

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

31 December 2003

9. STAFF COSTS

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Wages and salaries	27,816	20,789
Pension costs – defined contribution retirement schemes (<i>note below</i>)	507	388
Unutilised annual leave	224	101
	28,547	21,278

Note: Contributions totalling approximately HK\$27,000 (2002: HK\$80,000) were payable under the schemes at the balance sheet date and are included in other payables.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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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	
	2003 HK\$'000	2002 HK\$'000
Fees		
Non-executive Director	20	20
Independent Non-executive Directors	40	40
Other emoluments		
Basic salaries and housing allowances	4,698	2,997
Contributions to pension schemes	48	49
Compensation for loss of office as director	—	1,280
	<u>4,806</u>	<u>4,386</u>

Other than the directors' fees disclosed above, there were no other emoluments payable to the Independent Non-executive Directors for the year (2002: Nil).

The emoluments of the Directors fell within the following bands:

	Number of Directors	
	2003	2002
Emolument bands		
Nil – HK\$1,000,000	6	6
HK\$1,000,001 – HK\$1,500,000	—	2
HK\$2,000,001 – HK\$2,500,000	1	—
	<u>7</u>	<u>8</u>

During the year, no share options have been granted to the Directors in respect of their services to the Group (2002: Nil). The benefits arising from the exercise of share options granted to the Directors amounted to approximately HK\$969,000 (2002: HK\$6,337,000). Details of the total share options exercised by the Directors during the year are set out in the Report of the Directors.

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

31 December 2003

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 2003 and 2002.

During the year, no amounts have been paid by the Group to the Directors as an inducement to join the Group (2002: Nil) and no amounts have been paid as compensation for loss of office to the Directors (2002: HK\$1,280,000).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2002: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2002: one) individual during the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Basic salary and housing allowance	1,350	1,507
Contributions to pension scheme	12	12
	<u>1,362</u>	<u>1,519</u>

The emoluments of the individual fell within the following bands:

	Number of Directors	
	2003	2002
Emolument bands		
HK\$1,000,001 – HK\$1,500,000	1	—
HK\$1,500,001 – HK\$2,000,000	<u>—</u>	<u>1</u>

During the year, there were 1,000,000 share options granted to the highest paid non-director employee in respect of her services to the Group (2002: Nil). The benefits arising from the exercise of share options granted to the highest paid non-director employee during 2003 amounted to approximately HK\$250,000 (2002: Nil).

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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11. INTANGIBLE ASSETS

Group

	Licences and total HK\$'000
Cost	
At 1 January 2003 and 31 December 2003	81,515
Accumulated amortisation	
At 1 January 2003	8,671
Amortisation charge (<i>note 3</i>)	11,266
At 31 December 2003	19,937
Net book value	
At 31 December 2003	61,578
At 31 December 2002	72,844

Licences comprise licence rights acquired from independent third parties to exploit technical know-how for the manufacture of certain biotechnology products with medical and cosmetic applications. 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.

60 NOTES TO FINANCIAL STATEMENT (cont'd)

31 December 2003

12. FIXED ASSETS

(a) Fixed assets – Group

	Investment properties HK\$'000	Construction in progress HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:								
At 1 January 2003	16,000	—	45,000	14,800	88,588	17,302	3,524	185,214
Additions	—	14,544	—	3,022	102,049	2,241	293	122,149
Revaluation (note 26)	—	—	1,000	—	—	—	—	1,000
At 31 December 2003	16,000	14,544	46,000	17,822	190,637	19,543	3,817	308,363
Accumulated depreciation and impairment:								
At 1 January 2003	—	—	—	1,531	20,020	8,656	1,506	31,713
Charge for the year	—	—	1,154	2,258	11,821	1,610	729	17,572
Revaluation (note 26)	—	—	(1,154)	—	—	—	—	(1,154)
At 31 December 2003	—	—	—	3,789	31,841	10,266	2,235	48,131
Net book value:								
At 31 December 2003	16,000	14,544	46,000	14,033	158,796	9,277	1,582	260,232
At 31 December 2002	16,000	—	45,000	13,269	68,568	8,646	2,018	153,501
The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:								
At cost	—	14,544	—	17,822	190,637	19,543	3,817	246,363
At valuation	16,000	—	46,000	—	—	—	—	62,000
	16,000	14,544	46,000	17,822	190,637	19,543	3,817	308,363
The analysis of the cost or valuation at 31 December 2002 of the above assets is as follows:								
At cost	—	—	—	14,800	88,588	17,302	3,524	124,214
At valuation	16,000	—	45,000	—	—	—	—	61,000
	16,000	—	45,000	14,800	88,588	17,302	3,524	185,214
Net book value of leased assets								
At 31 December 2003	—	—	—	—	12,203	—	440	12,643
At 31 December 2002	—	—	—	—	8,840	—	643	9,483

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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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	
	2003 HK\$'000	2002 HK\$'000
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<u>62,000</u>	<u>61,000</u>

The investment properties and leasehold land and buildings were revalued at 31 December 2003 on the basis of their open market value by AA Property Services Limited, an independent firm of chartered surveyors. The surplus on revaluation of leasehold land and buildings of approximately HK\$2,154,000 was recognised in the asset revaluation reserves (*note 26*).

The carrying amount of the leasehold land and buildings would be approximately HK\$38,143,000 (2002: HK\$39,032,000) had they been stated at cost less accumulated depreciation.

At 31 December 2003, the net book value of fixed assets with the amount of approximately HK\$29,065,000 (2002: HK\$40,000,000) was pledged as security for the Group's long-term liabilities (*note 22(a)*).

(b) Deposit for purchase of land

On 16 December 2002, Dongguan Proamine 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 RMB 60 million (equivalent to approximately HK\$56,075,000). As at 31 December 2002 and 2003, a deposit of RMB 45 million (equivalent to approximately HK\$42,056,000) was paid to the vendor. Pursuant to the sale and purchase agreement, the remaining balance of RMB 15 million (equivalent to approximately HK\$14,019,000) (*note 30*) will be paid upon the successful transfer of ownership of the land to Dongguan Proamine. In case the transfer of ownership cannot be successfully completed due to the change of the local government policy, Dongguan Proamine is entitled to obtain the refund of the full amount of deposit paid.

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

31 December 2003

12. FIXED ASSETS *(cont'd)*

(b) Deposit for purchase of land *(cont'd)*

According to the latest legal opinion obtained in March 2004 by the Group from the legal representative in the PRC, there are certain changes of the land development policy of Dongguan area in the PRC which may restrict Dongguan Proamine to complete the transfer of ownership of land in accordance with the original plan. In view of that, the Directors of the Company have decided not to proceed for the purchase of land from the vendor. The Directors are of the opinion that this decision is in the best interest to the Company and as such Dongguan Proamine has sought for refund of the deposit paid of RMB 45 million from the vendor. On 16 April 2004, Dongguan Proamine entered into a refund agreement with the vendor that the vendor agreed to refund the deposit of RMB 45 million to Dongguan Proamine. The amount has been subsequently received by Dongguan Proamine since then.

(c) Deposits for purchases of other fixed assets

At 31 December 2003, the Group paid a total sum of approximately HK\$92,134,000 (2002: HK\$64,488,000) 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 approximately HK\$23,638,000 for these purchases are disclosed in note 30 to the accounts.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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13. OTHER DEPOSITS AND CLUB DEBENTURE

	Group	
	2003 HK\$'000	2002 HK\$'000
Rental deposits	360	2,050
Deposit for acquisition of technical know-how	—	4,463
Club debenture	460	350
	820	6,863
Less: provision for deposit for acquisition of technical know-how	—	(4,463)
Less: provision for impairment in value of club debenture	(160)	(160)
	<u>660</u>	<u>2,240</u>

14. INVESTMENT SECURITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity securities, at cost	<u>63,100</u>	<u>63,100</u>

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

31 December 2003

14. INVESTMENT SECURITIES *(cont'd)*

Name	Place of incorporation and operation	Principal activities	Percentage of interest	Investment cost HK\$'000
Bio-Treat Technology Limited	Bermuda / The PRC	Investment holding company whose subsidiaries are principally engaged in the provision of wastewater treatment services and the development, manufacture and sale of wastewater treatment and waste management products	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

- (a) As at 31 December 2002, the investment securities of HK\$31,600,000 represented 8% interest of Golden Idea Bio-Technology Engineering Group Limited ("GI Group") held by the Group.

On 30 October 2003, GI Group, the shareholders of GI Group and Bio-Treat Technology Limited ("Bio-Treat") entered into a share swap agreement pursuant to which Bio-Treat acquired from GI Group the entire issued and paid-up capital of Ocean Force International Limited ("Ocean Force"), a wholly owned subsidiary of GI Group which holds the interests of all other subsidiaries of GI Group, under the Restructuring Exercise prior to the initial listing of shares of Bio-Treat on the Singapore Exchange Securities Trading Limited ("SGX-ST"). Upon conclusion of the share swap agreement, the Group effectively owns 8% equity interest of Bio-Treat.

In February 2004, Bio-Treat was successfully listed on SGX-ST. After the invitation by Bio-Treat to the public to subscribe its new shares, the Group's equity interest in Bio-Treat changed from 8% (being 49,360,000 shares out of the total issued shares of 617,000,000 before the invitation) to 6.39% (being 49,360,000 shares out of the total issued shares of 773,000,000 after the invitation).

The initial public offer share price of Bio-Treat was Singapore dollar 0.46 per ordinary share (approximately HK\$2.14 per ordinary share).

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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15. INVESTMENT IN SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	89,402	89,402
Amounts due from subsidiaries (<i>note b</i>)	708,336	445,357
	797,738	534,759

(a) The following is a list of the significant subsidiaries at 31 December 2003:

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% ⁽¹⁾
Global Bio- Engineering Limited	Hong Kong	Trading of wastewater and sewage treatment equipment / Hong Kong	2 ordinary shares of HK\$1 each	100% ⁽¹⁾
GCC Finance Company Limited	Hong Kong	Money lending / Hong Kong	2 ordinary shares of HK\$1 each	100% ⁽¹⁾
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	approximately HK\$111,319,000	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%

⁽¹⁾ Shares held directly by the Company.

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

31 December 2003

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 is a foreign wholly owned enterprise established by the Company 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\$112,000,000 on 21 June 2002, of which approximately HK\$111,319,000 was paid up by the Group as at 31 December 2003 (2002: HK\$67,000,000).
- (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 2003 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 and interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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16. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	45,581	44,272
Finished goods	15,672	27,353
	61,253	71,625
Less: Provision	(6,000)	—
	<u>55,253</u>	<u>71,625</u>

At 31 December 2003, no inventories were carried at net realisable value (2002: Nil).

17. TRADE RECEIVABLES

At 31 December 2003, the ageing analysis of the trade receivables was analysed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	67,676	58,673
31 – 60 days	38,189	52,109
61 – 90 days	19,637	43,033
Over 90 days	13,171	9,852
Less: provision	(6,980)	(3,180)
	<u>131,693</u>	<u>160,487</u>

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

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

31 December 2003

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 2003 <i>HK\$'000</i>	Balance at 31 December 2003 <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	4,597	4,597
深圳華生元基因工程發展有限公司	2,490	4,716	4,716
Golden Idea Bio-Engineering (Dongguan) Co., Ltd.	2,520	840	2,520
	<u>9,578</u>	<u>10,153</u>	

The above balances are unsecured, interest-free and repayable on demand. No provision was made against the balances at 31 December 2003 (2002: Nil).

Details of relationships and transactions with these companies are set out in note 32 to the accounts.

19. OTHER INVESTMENTS

	Group 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Equity securities listed outside Hong Kong, at market value	<u>5,325</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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20. TRADE AND BILLS PAYABLE

	Group	
	2003 HK\$'000	2002 HK\$'000
Trade payables	27,644	17,866
Bills payable	10,190	2,901
	<u>37,834</u>	<u>20,767</u>

At 31 December 2003, the ageing analysis of the trade and bills payable was analysed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 30 days	29,021	9,975
31 – 60 days	2,106	5,565
61 – 90 days	1,600	1,164
Over 90 days	5,107	4,063
	<u>37,834</u>	<u>20,767</u>

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

31 December 2003

21. LONG-TERM LIABILITIES

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Secured bank loans repayable:	22		
Within one year		8,155	12,333
In the second year		—	11,951
In the third to fifth year		—	5,200
Total secured bank loans		8,155	29,484
Obligations under finance leases repayable:	(a)		
Within one year		7,566	3,114
In the second year		137	3,114
In the third to fifth year		—	2,829
Less: future finance charges on finance leases		(444)	(804)
Present value of obligations under finance leases		7,259	8,253
Total long-term liabilities		15,414	37,737
Current portion of long-term liabilities		(15,304)	(15,040)
		110	22,697

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	7,149	2,707
In the second year	110	2,850
In the third to fifth year	—	2,696
	7,259	8,253

Included in the present value of obligation under finance leases that is repayable within one year, approximately HK\$2,963,000 and HK\$205,000 are originally repayable in the second year and in the third to fifth year respectively, but are reclassified as balances repayable within one year as balances are subsequently repaid by February 2004.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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22. BANKING FACILITIES

- (a) Included in the long-term bank loans (*note 21*) is a balance of approximately HK\$7,455,000 (*2002: HK\$14,800,000*) which is secured by the fixed assets of the Group (*note 12(a)*).
- (b) The remaining long-term bank loans (*note 21*) of approximately HK\$700,000 (*2002: HK\$14,684,000*), together with the short term bank loans of approximately HK\$168,000 (*2002: HK\$8,569,000*), are secured by fixed deposits of the Group of approximately HK\$5,113,000 (*2002: HK\$12,157,000*), of which approximately HK\$3,080,000 (*2002: HK\$3,032,000*) represented pledged bank deposits of the Company.
- (c) At 31 December 2003 and 2002, all banking facilities of the Group were secured by corporate guarantees executed by the Company and certain subsidiaries of the Company.

23. 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).

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

31 December 2003

23. 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.

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.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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23. CONVERTIBLE BONDS *(cont'd)*

On 13 January 2003, 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.

On 30 January 2004, CSFB exercised the Additional Option and new bonds of US\$4,080,000 (equivalent to approximately HK\$31,824,000) were issued (the "Additional Tranche 1 Bonds") with identical terms as the Original Tranche 1 Bonds according to the 2001 Subscription Agreement. Up to the date of the report, the Additional Tranche 1 Bonds in the aggregate principal amount of US\$1,500,000 (equivalent to approximately HK\$11,700,000) has been converted into 9,485,521 ordinary shares of the Company. On the same date, the Board of Directors resolved that the fixed conversion price of the Additional Tranche 1 Bonds was changed from HK\$2.1623 per share to HK\$1.8019 per share as a result of the bonus issue of shares of the Company resolved by the Board of Directors on 27 August 2002. The adjustment of conversion price for dilutive effects is required by the terms of the 2001 Subscription Agreement.

As at the date of the report, the Subscription Option was not exercised by CSFB. The exercise of the Subscription Option would, under the present capital structure of the Company, result in the issue of approximately, 3,000,000 additional ordinary shares of the Company, representing approximately 0.4% 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.

24. SHARE CAPITAL

	2003 HK\$'000	2002 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>		
836,076,914 (2002: 599,741,366) ordinary shares of HK\$0.10 each	<u>83,608</u>	<u>59,974</u>

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

31 December 2003

24. SHARE CAPITAL *(cont'd)*

	Note	Number of shares	Share Capital HK\$'000
At 1 January 2002		307,603,625	30,760
Exercise of share options		98,921,375	9,892
Conversion of convertible bonds		40,946,139	4,095
Placement of shares		54,000,000	5,400
Bonus issue of shares		98,270,227	9,827
At 31 December 2002 and at 1 January 2003		599,741,366	59,974
Exercise of share options	(a)	133,275,500	13,328
Conversion of convertible bonds	(b)	3,059,561	306
Placement of shares	(c)	100,000,000	10,000
Exercise of warrants	(d)	487	—
At 31 December 2003		836,076,914	83,608

Note:

- (a) During the year, 1,499,000 and 131,776,500 ordinary shares of HK\$0.10 each of the Company were issued under the Old Scheme and the New Scheme (as defined in note 25(a)) respectively to the share option holders on the exercise of their share options at a total cash consideration of approximately HK\$162,744,000. A summary of the Company's share option schemes is set out in note 25(a) to the accounts.
- (b) During the year, 3,059,561 ordinary shares of HK\$0.10 each of the Company were issued upon the conversions of the Tranche 2 Bonds (note 23). The share capital and share premium of the Company have been increased by approximately HK\$306,000 and HK\$3,126,000 (note 26) respectively following the said conversion.
- (c) On 6 May 2003, two substantial shareholders of the Company placed in aggregate 100,000,000 existing ordinary shares of HK\$0.10 each to certain independent third parties, at a price of HK\$1.28 per share, for a total cash consideration of HK\$128,000,000 and the two substantial shareholders subscribed for 100,000,000 new shares of the Company at the same price.
- (d) On 16 December 2003, 487 ordinary shares of HK\$0.10 each of the Company were issued to a warrants holder on the exercise of his warrants at a total cash consideration of approximately HK\$1,000. A summary of the Company's warrants is set out in note 25(b) to the accounts.
- (e) Subsequent to the balance sheet date, 3,878,200 ordinary shares of HK\$0.10 each of the Company were issued under the New Scheme to the share option holders on the exercise of their share options (note 25(a)). 9,485,521 ordinary shares of HK\$0.10 each of the Company were issued upon the conversions of the Additional Tranche 1 Bonds (note 23). The share capital of the Company has been increased by approximately HK\$388,000 and HK\$949,000 respectively following the exercise of share options and the conversions.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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25. 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	22 March 2002	29 July 2002	8 January 2003	9 June 2003	
Date of grant	HK\$0.67	HK\$1.33	HK\$1.50	HK\$1.23	HK\$1.15	Total
Exercise price	In '000	In '000	In '000	In '000	In '000	In '000
No. of share options						
At 1 January 2003	5,406	2,400	26,636	—	—	34,442
Granted during the year	—	—	—	59,974	75,996	135,970
Exercised during the year	(1,499)	(1,200)	(16,336)	(53,594)	(60,647)	(133,276)
At 31 December 2003	3,907	1,200	10,300	6,380	15,349	37,136

The share options outstanding as at 31 December 2003 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 8 June 2006. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of approximately 37,136,000 additional ordinary shares and cash proceeds to the Company of approximately HK\$45,150,000 before the related share issue expenses.

An aggregate of 3,878,200 ordinary shares were issued subsequent to the balance sheet date upon the exercise of the outstanding share options at an average exercise price of HK\$0.67 each. Total cash proceeds received thereon before any related expenses was approximately HK\$2,585,000.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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

(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.

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 during 2002.

During the year, 487 warrants out of the outstanding warrants of 66,000,884 brought forward from last year were exercised and 487 ordinary shares of HK\$0.10 each of the Company were issued for the cash proceeds of approximately HK\$1,000.

The remaining 66,000,397 warrants were lapsed on 30 December 2003 upon expiry of the exercisable period.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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26. 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 2002	83,619	900	154	14,598	17,509	212	146,751	263,743
Changes in accounting policy - provision of net deferred tax assets (note 1(n))	—	—	(42)	(3,940)	—	—	4,752	770
At 1 January 2002, as restated	83,619	900	112	10,658	17,509	212	151,503	264,513
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)
Deficit on revaluation	—	—	(17)	(8,251)	—	—	—	(8,268)
Movements of deferred taxes	—	—	5	2,228	—	—	—	2,233
Profit for the year	—	—	—	—	—	—	145,407	145,407
Transfer to statutory reserve	—	—	—	—	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>100</u>	<u>4,635</u>	<u>34,541</u>	<u>212</u>	<u>246,482</u>	<u>652,631</u>
Representing:								
2002 final dividend proposed							11,995	11,995
Others							234,487	640,636
Retained earnings at 31 December 2002							<u>246,482</u>	<u>652,631</u>

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

31 December 2003

26. 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 2003	365,761	900	137	6,347	34,541	212	240,951	648,849
Changes in accounting policy - provision of net deferred tax assets (note 1(n))	—	—	(37)	(1,712)	—	—	5,531	3,782
At 1 January 2003, as restated	365,761	900	100	4,635	34,541	212	246,482	652,631
Issue of shares	267,417	—	—	—	—	—	—	267,417
Conversion of convertible bonds into shares	3,126	—	—	—	—	—	—	3,126
Share issue expenses	(5,415)	—	—	—	—	—	—	(5,415)
Surplus on revaluation (note 12)	—	—	—	2,154	—	—	—	2,154
Movements of deferred taxes	—	—	16	439	—	—	—	455
Profit for the year	—	—	—	—	—	—	92,238	92,238
Transfer to statutory reserve (note (c))	—	—	—	—	13,230	—	(13,230)	—
2002 final dividend paid	—	—	—	—	—	—	(11,995)	(11,995)
2002 additional final dividend paid	—	—	—	—	—	—	(4,120)	(4,120)
2003 interim dividend paid	—	—	—	—	—	—	(16,664)	(16,664)
At 31 December 2003	630,889	900	116	7,228	47,771	212	292,711	979,827
Representing:								
2003 final dividend proposed							16,722	16,722
Others							275,989	963,105
Retained earnings at 31 December 2003							292,711	979,827

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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26. 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 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	365,761	89,247	—	—	—	—	28,762	483,770
Representing:								
2002 final dividend proposed							11,995	11,995
Others							16,767	471,775
Retained earnings at 31 December 2002							28,762	483,770
At 1 January 2003	365,761	89,247	—	—	—	—	28,762	483,770
Issue of shares	267,417	—	—	—	—	—	—	267,417
Conversion of convertible bonds into shares	3,126	—	—	—	—	—	—	3,126
Share issue expenses	(5,415)	—	—	—	—	—	—	(5,415)
Profit for the year	—	—	—	—	—	—	29,965	29,965
2002 final dividend paid	—	—	—	—	—	—	(11,995)	(11,995)
2002 additional final dividend paid	—	—	—	—	—	—	(4,120)	(4,120)
2003 interim dividend paid	—	—	—	—	—	—	(16,664)	(16,664)
At 31 December 2003	630,889	89,247	—	—	—	—	25,948	746,084
Representing:								
2003 final dividend proposed							16,722	16,722
Others							9,226	729,362
Retained earnings at 31 December 2003							25,948	746,084

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

31 December 2003

26. 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 2003, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$746,084,000 (2002: HK\$483,770,000), subjected 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 2003

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27. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax assets account is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
At 1 January	(3,782)	(770)
Deferred taxation charged to/(credited from) consolidated profit and loss account (note 5)	1,044	(779)
Taxation credited from equity	(455)	(2,233)
At 31 December	<u>(3,193)</u>	<u>(3,782)</u>

The deferred taxation credited from equity during the year is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Fair value reserves in shareholders' equity – properties (note 26)	<u>(455)</u>	<u>(2,233)</u>

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$60,385,000 (2002: HK\$32,230,000) to carry forward against future taxable income.

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

31 December 2003

27. DEFERRED TAXATION *(cont'd)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities	Revaluation of properties		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	1,751	3,984	—	—	1,751	3,984
Charged to consolidated profit and loss account	—	—	160	—	160	—
Credited from equity	(455)	(2,233)	—	—	(455)	(2,233)
As at 31 December	<u>1,296</u>	<u>1,751</u>	<u>160</u>	<u>—</u>	<u>1,456</u>	<u>1,751</u>

Deferred tax assets	Accelerated tax depreciation		Tax losses		Provisions		Others		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1 January	(3,460)	(2,600)	(279)	(236)	(1,001)	(1,001)	(793)	(917)	(5,533)	(4,754)
Charged to/ (credited from) consolidated profit and loss account	1,658	(860)	279	(43)	(1,042)	—	(11)	124	884	(779)
As at 31 December	<u>(1,802)</u>	<u>(3,460)</u>	<u>—</u>	<u>(279)</u>	<u>(2,043)</u>	<u>(1,001)</u>	<u>(804)</u>	<u>(793)</u>	<u>(4,649)</u>	<u>(5,533)</u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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27. DEFERRED TAXATION *(cont'd)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2003 HK\$'000	2002 HK\$'000
Deferred tax assets	(3,193)	(3,782)
Deferred tax liabilities	—	—
	<u>(3,193)</u>	<u>(3,782)</u>
The amounts shown in the consolidated balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	(3,193)	(3,782)
Deferred tax liabilities to be settled after more than 12 months	—	—
	<u>—</u>	<u>—</u>

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

31 December 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2003 HK\$'000	2002 HK\$'000
Operating profit	124,534	214,366
Interest income	(3,386)	(1,187)
Amortisation of intangible assets	11,266	8,671
Depreciation	17,572	10,546
Impairment of intangible assets	—	3,854
Provision for deposit for acquisition of technical know-how	—	4,463
Provision for impairment in value of club debenture	—	160
Gains on disposal of other investments	(296)	—
Unrealised gains on other investments	(190)	—
Decrease/(increase) in other deposits and club debenture	1,580	(845)
Decrease/(increase) in inventories	16,372	(48,006)
Decrease/(increase) in trade receivables	28,794	(61,903)
Increase in prepayments, deposits and other receivables	(11,209)	(5,992)
Decrease/(increase) in amounts due from/(to) related companies	1,767	(9,578)
(Increase)/decrease in pledged bank deposits to secure short term bank loans	(1,071)	483
Increase in trade and bills payable	17,067	8,794
Increase in accrued liabilities and other payables	6,550	4,597
(Decrease)/increase in short term bank loans of maturity greater than three months	(9,121)	4,676
Net cash inflow generated from operations	<u>200,229</u>	<u>133,099</u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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

(b) Analysis of changes in financing during the year

	Share capital and share premium <i>HK\$'000</i>	Long-term bank loans <i>HK\$'000</i>	Convertible bonds <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Finance lease payables <i>HK\$'000</i>
At 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	58,344	—	(58,344)	—	—
Inception of finance lease contracts	—	—	—	—	9,071
At 31 December 2002 and 1 January 2003	425,735	29,484	3,432	2,136	8,253
Minority interests' share of losses	—	—	—	(1,442)	—
Cash inflow/(outflow) from financing, net	285,330	(21,329)	—	—	(10,322)
Conversion of convertible bonds into shares (note (c)(i))	3,432	—	(3,432)	—	—
Inception of finance lease contracts (note (c)(ii))	—	—	—	—	9,328
At 31 December 2003	714,497	8,155	—	694	7,259

(c) Major non-cash transactions

- (i) During the year, the balance of convertible bonds of approximately HK\$3,432,000 has been converted into ordinary shares of the Company as detailed in note 23 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\$9,328,000.
- (iii) During the year, deposits for purchases of fixed assets of approximately HK\$40,788,000 were capitalised as fixed assets upon delivery of the fixed assets to the Group.

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

31 December 2003

29. 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 2003, the Group had future aggregate minimum lease receipts under the non-cancellable operating lease as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	1,680	1,680
Later than one year and not later than five years	840	2,520
	<u>2,520</u>	<u>4,200</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 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	5,727	9,058
Later than one year and not later than five years	4,278	9,493
	<u>10,005</u>	<u>18,551</u>

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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30. CAPITAL AND OTHER COMMITMENTS

At 31 December 2003, the Group had the following commitments in addition to the operating lease commitments as detailed in note 29:

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Capital commitments – contracted but not provided for:			
Purchase of land	12(b)	14,019	14,019
Purchases of other fixed assets	12(c)	23,638	16,834
Acquisition of technical know-how		—	3,903
		<u>37,657</u>	<u>34,756</u>
Other commitments for:			
Research and development projects undertaken by an independent third party in respect of the Group's products		—	9,673
Technical support services contract with an independent third party		—	560
Investment commitment of a subsidiary	15(a)(ii)	681	20,000
		<u>681</u>	<u>30,233</u>

The Company did not have any other major commitments at 31 December 2003 (2002: Nil).

31. CONTINGENT LIABILITIES

At 31 December 2003, 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\$29,245,000 (2002: HK\$45,094,000) as at the balance sheet date.

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

31 December 2003

32. 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 was entered into for a term of one year commencing from 1 March 2002 and was renewed for a term of one year commencing from 1 March 2003 at a monthly rental of HK\$83,000. Rental expenses paid to Oriental Fame during the year amounted to HK\$996,000 (2002: HK\$830,000). The commitment under the operating lease as at the balance sheet date has been included in note 29 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\$170,000 (2002: HK\$524,000) during the year.
- (c) During the year, Dongguan Proamine has purchased certain sewage treatment equipment from Shanghai Jindi Bio-Technology Engineering Co., Ltd. ("Shanghai GI") at a total contract sum of approximately HK\$1,757,000. Shanghai GI is a subsidiary of Bio-Treat in which the Group has an equity interest of 8%. As at 31 December 2003, approximately HK\$351,000 was paid to Shanghai GI and the remaining balance of approximately HK\$1,406,000 is unsecured, interest free and repayable on demand.
- (d) Dongguan Proamine has sales of biotechnology products totalling approximately HK\$20,238,000 (2002: HK\$18,204,000) to 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 trade receivable from 北京博康健 as at 31 December 2003 was approximately HK\$4,597,000 (2002: 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.
- (e) Dongguan Proamine has sales of biotechnology products totalling approximately HK\$21,763,000 (2002: 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 2003 was approximately HK\$4,716,000 (2002: 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.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

31 December 2003

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

- (f) On 30 June 2002, Dongguan Proamine entered into a tenancy agreement with Golden Idea Bio-Engineering (Dongguan) Co., Ltd. ("Dongguan GI"), a wholly owned subsidiary of Bio-Treat. Dongguan Proamine leases its investment properties located in the PRC to Dongguan GI. Rental income recognised during the year amounted to HK\$1,680,000 (2002: HK\$2,520,000). At 31 December 2003, the balance due from Dongguan GI was HK\$840,000 (2002: HK\$2,520,000) and is unsecured and 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 29(a) to the accounts.
- (g) On 2 May 2002, Global Bio-Eng entered into a licence agreement with GI Group as varied by a supplemental licence agreement dated 1 March 2003 pursuant to which Global Bio-Eng was granted a sole and exclusive right to utilise GI Group's BMS Biological Process Technology in wastewater treatment projects and to sell GI Group's BMS wastewater treatment and waste management products, in Hong Kong and Singapore for an initial term of ten years (commencing from 2 May 2002) with an option for renewal for up to five years (the "Terminated Licence Agreement"). Global Bio-Eng shall pay a royalty equivalent to 10% of all gross income either received or receivable by it in respect of the grant of the said licence and the supply of BMS wastewater treatment and waste management products.

On 30 October 2003, pursuant to the Restructuring Exercise as set out in note 14(a), Ocean Force, GI Group and Global Bio-Eng entered into a new licence agreement (the "New Licence Agreement") pursuant to which inter alia (i) the Terminated Licence Agreement was terminated with effect from 30 October 2003 and (ii) Ocean Force granted to Global Bio-Eng an exclusive right to utilise BMS wastewater treatment and waste management products in Hong Kong and Singapore for an initial term of 10 years (commencing 2 May 2002) with an option for renewal for up to five years. The commercial terms of the New Licence Agreement are substantially similar to that of the Terminated Licence Agreement.

Pursuant to the New Licence Agreement, Global Bio-Eng has to pay Ocean Force a total of HK\$936,000 (2002: Nil), being 10% of the income from the sale of equipment during this year. At 31 December 2003, the balance due to Ocean Force was HK\$936,000 (2002: Nil) and is unsecured and interest-free and repayable on demand.

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

31 December 2003

33. PENDING LITIGATION

A subsidiary of the Company has been involved in a litigation arising in the ordinary course of its business. After seeking legal advice, the directors are of the opinion that adequate provision has been made in the accounts to cover any potential liabilities arising from the litigation.

34. SUBSEQUENT EVENTS

Save as disclosed in other notes to the accounts, the Group has the following significant subsequent events:

- (a) On 19 January 2004, GCC entered into a Term Loan Facility Agreement (the "Agreement") with certain banks (the "Banks") for financing the general corporate funding requirements of the Group.

Maximum available facility under the Agreement is HK\$235,000,000, which can be drawn at a maximum number of three loans during the period from 19 January 2004 to 18 July 2004 (the "Availability Period") in accordance with the terms of the Agreement.

GCC shall repay the loans outstanding at the end of the Availability Period by four successive half-year instalments, the first instalment to be paid on the date falling 18 months after the date of the Agreement (i.e. 18 July 2005) and thereafter on the last day of each successive half-yearly period.

The outstanding loans will bear an interest at HIBOR plus 1% per annum and the interest payments will be made by the end of each interest period as selected by GCC at the time when it draws the loans pursuant to the Agreement. GCC may select an interest period of one, two, three or six months or any other period agreed between GCC and the Banks.

The Company has executed an irrevocable and unconditional guarantee in favour of the Banks with respect to this term loan facility offered to GCC.

On 5 February 2004, GCC borrowed HK\$100,000,000 from the Banks and it selected an interest period of six months as agreed with the Banks.

NOTES TO FINANCIAL STATEMENT *(cont'd)*

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34. SUBSEQUENT EVENTS *(cont'd)*

- (b) On 30 January 2004, the Company issued new convertible bonds of US\$4,080,000 (equivalent to approximately HK\$31,824,000) to Credit Suisse First Boston (Hong Kong) Limited. Please refer to details set out in note 23 to the accounts.
- (c) An aggregate of 3,878,200 ordinary shares were issued subsequent to the balance sheet date upon the exercise of the outstanding share options. Please refer to details set out in note 25(a) to the accounts.

35. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23 April 2004.