INDEBTEDNESS

Borrowings

As at the close of business on 31 July, 2000, being the latest practicable date for the indebtedness statement prior to the printing of this prospectus, the Group had total outstanding short-term borrowings of approximately HK$35,352,000, comprising short-term bank borrowings of approximately HK$29,720,000, an unsecured and interest-free short-term loan from Jiangsu Tianqing of approximately HK$3,768,000 and amounts due to related companies of approximately HK$1,864,000. Short-term bank borrowings comprised short-term bank loans of approximately HK$14,177,000 guaranteed by Jiangsu Tianqing and short-term bank loans of approximately HK$15,543,000 secured by a mortgage on the property of the Group with net book value of approximately HK$26,247,000 as at 31 July, 2000. The loan from Jiangsu Tianqing is unsecured, interest-free and will be repaid by the Group in June 2001 using the Group's internally generated financial resources.

Foreign exchange risk

The Group earns revenue and incurs costs and expenses mainly in RMB. This will continue to be the case following the listing of the Shares on GEM. After listing of its shares on GEM, the Company's accounts will be stated in HK dollars and the payment of dividend will also be in HK dollars. The Group does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of RMB to other foreign currencies. The Directors believe that having regard to the working capital position of the Group and the convertibility of RMB to foreign currency in respect of current account items, the Group is able to meet its foreign exchange liabilities as they become due.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, neither the Company nor any of its subsidiaries at the close of business on 31 July, 2000 had any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

Foreign currency translation

All amounts referred to in this indebtedness statement and under "Liquidity, financial resources and capital structure" in this section which are denominated in foreign currencies have been translated into Hong Kong dollars at the relevant exchange rates prevailing at the close of business on 31 July 2000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 July, 2000, the Group had net current assets of approximately HK$62,623,000. Current assets comprised cash and bank balances of approximately HK$39,351,000, inventories of approximately HK$32,200,000, trade debtors of approximately HK$70,828,000, prepayments, deposits and other receivables of approximately HK$24,821,000, and amounts due from related companies of approximately HK$232,000. Current liabilities comprised short-term bank borrowings of approximately HK$29,720,000, loan from a related company of approximately HK$3,768,000, trade creditors of approximately HK$12,362,000, other payables and accrued liabilities of approximately HK$54,112,000, amounts due to related companies of approximately HK$1,864,000, and taxation payable of approximately HK$2,983,000.

Capital expenditure commitments

The capital expenditure commitments of the Group as at 31 July, 2000 in relation to workshop renovation and production facilities upgrading authorised by the relevant board of directors but not contracted for and contracted for but not provided in the financial statements amounted to approximately HK$15.26 million and approximately HK$13.72 million, respectively. Such capital expenditure commitments are expected to be funded by the Group's internal resources.

Financial resources

The Group generally finances its operations and meets its debt servicing with cash generated from its business operations and banking facilities provided by its principal bankers and loans from shareholders and related companies.

As at 31 July, 2000, the Group had aggregate banking facilities of approximately HK$37.3 million, of which approximately HK$18.8 million was guaranteed by Jiangsu Tianqing and HK$18.5 million was secured by the fixed asset of the Group. As at 31 July, 2000, approximately HK$14.2 million and approximately HK$15.5 million had been utilised in respect of the guaranteed and secured banking facilities, respectively. Jiangsu Tianqing has agreed to continue to provide the guarantee until the relevant bank loans are fully repaid by the Group.

As at 31 July, 2000, the Group had cash and bank balances of approximately HK$39.4 million and aggregate banking facilities of approximately HK$37.3 million with various banks, of which approximately HK$29.7 million had been utilised.

TRADING RECORD

Summary of combined results of the Group

The SFC has granted a waiver from strict compliance with paragraph 27 of Part I of the Third Schedule and paragraph 31 of Part II of the Third Schedule to the Companies Ordinance so that the Group is only required to include in this prospectus the financial results and information covering the two years ended 31 December, 1999 and the five months ended 31 May, 2000

The following is a summary of the combined results of the Group for each of the two years ended 31 December, 1999 and the five months ended 31 May, 2000. This summary has been prepared on the basis that the existing structure of the Group had been in place throughout the Track Record Period and should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31 December,		**Five months ended 31 May,**
	1998	**1999**	**2000**
	HK$'000	*HK$'000*	*HK$'000*
Turnover *(Note 1)*	237,972	305,776	151,227
Cost of sales	(74,080)	(82,161)	(31,870)
Gross profit	163,892	223,615	119,357
Less: Selling expenses	(84,114)	(112,838)	(59,754)
Administrative expenses	(36,147)	(44,698)	(18,511)
Finance charges	(4,400)	(3,721)	(1,176)
Other (expenses)/income	(331)	(1,825)	59
Add: Interest income	1,000	881	832
Profit before taxation	39,900	61,414	40,807
Taxation	—	(2,611)	(3,577)
Profit before minority interests	39,900	58,803	37,230
Minority interests	(17,796)	(22,969)	(15,752)
Profit attributable to shareholders	22,104	35,834	21,478
Dividends	—	24,820	—
Earnings per Share — basic *(Note 2)*	HK9.2 cents	HK14.9 cents	HK8.9 cents

Notes:—

1. Turnover represents the invoiced value of goods sold, net of discounts and returns, sales tax refunds and dividend income.

2. The calculation of the basic earnings per Share is based on the net profit attributable to shareholders during the Track Record Period and on the assumption that 240,000,000 Shares had been in issue throughout the Track Record Period.

(1) *The following table analyses the combined turnover of the Group by the types of products during the Track Record Period and is prepared on the same basis on which the above summary is prepared:—*

	Year ended 31 December, 1998	1999	Five months ended 31 May, 2000
	HK$'000	*HK$'000*	*HK$'000*
Sales of goods			
Biopharmaceutical products			
MOISTEN eyedrops	59,171	84,271	44,264
HEPUDIOD cream	3,379	6,604	3,586
IVIZ Sodium Hyaluronate	6,797	6,745	3,065
SOFAST Sodium Hyaluronate injection	3,840	7,541	4,727
C.P. JASPER	2,297	2,638	1,435
C.P. BRIGHT	2,709	4,021	2,366
FREDEX eyedrops	—	5,228	3,429
FRECOSERYL eyedrops	—	3,225	2,298
PILOCARPINE NITRATE eyedrops	—	316	228
	78,193	120,589	65,398
Modernised Chinese medicine			
Diammonii Glycyrrhizinatis injection	58,465	92,511	46,570
Diammonii Glycyrrhizinatis capsule	12,971	23,572	14,482
Polyporus polysaacharide injection	12,537	8,516	2,943
Pycno	—	257	120
Zegui Longshuang capsule	37	2,240	2,827
	84,010	127,096	66,942
Chemical medicine			
Carbamylcholine	1,604	1,835	903
Kairui	—	703	763
Foscarnet Disodium injection	180	4,508	4,657
Etidronate Disodium Yilin pills	2,837	4,429	3,765
Glycerin and Sodium Chloride	1,664	1,134	349
Tinidazoliet and Glucose injection	1,821	1,058	382
	8,106	13,667	10,819
Non-core products	61,167	40,511	12,903
Export products	2,467	4,536	1,758
	233,943	306,399	157,820
Less: Sales discount	(4,259)	(7,829)	(6,593)
Sales of goods, net of discount	229,684	298,570	151,227
Add: Sales tax refund	8,288	—	—
Dividend income	—	7,206	—
Total	237,972	305,776	151,227

The following is an analysis of the sales of goods and the gross profit by CTF and CTT during the Track Record Period:—

	Year ended 31 December, 1998	1999	Five months ended 31 May, 2000
	HK$'000	*HK$'000*	*HK$'000*
Sales of goods:—			
CTF	83,606	123,116	68,054
CTT	150,337	183,283	89,766
Subtotal	233,943	306,399	157,820
Sales discount — CTT	(4,259)	(7,829)	(6,593)
Total	229,684	298,570	151,227
Gross profit — from sales of goods			
CTF	73,350	104,909	59,253
CTT	82,254	111,500	60,104
Total	155,604	216,409	119,357

Management's discussions and analyses

General information

Turnover

The turnover of the Group during the Track Record Period was primarily derived from the sales of biopharmaceutical products and modernised Chinese medicine and chemical medicine in the PRC through CTF and CTT, respectively, and the dividend income received from Golden News.

Sales tax refunds

On 1 January, 1994, the PRC government abolished the commercial and industrial consolidated tax ("CICT") and introduced a new system of indirect taxes including value-added tax, business tax and consumption tax. Pursuant to a notice issued by the National People's Congress on 29 December, 1993, foreign investment enterprises established prior to 31 December, 1993 may, upon approval of the tax authorities, be entitled to a refund of the excess sales tax paid under the new tax legislation for a period of five years commencing from 1 January, 1994. CTF is entitled to such refund, but CTT is not entitled to such refund as it was established on 16 April, 1997.

Under the new tax legislation, CTF was subject to higher net sales tax payable when compared with sales tax calculated under CICT for the relevant period and has obtained approvals for such tax refunds on the excess sales tax paid over CICT that would otherwise be payable in accordance with the relevant tax rules.

As a result, CTF was refunded the excess sales tax paid for each of the two years ended 31 December, 1998.

Taxation

The Group is subject to Hong Kong and PRC taxation. However, no provision for Hong Kong profits tax had been made during the Track Record Period as the Group had no assessable profit arising in or derived from Hong Kong.

With regard to the Group's operations in the PRC, provision for the taxation of profits has been calculated at the corporate income tax rates during the Track Record Period. As both CTF and CTT are sino-foreign equity joint venture companies, they are entitled to a full exemption from payment of the PRC corporate income tax for the first two financial years making profit and a 50 per cent. reduction for the three financial years thereafter. CTF was exempt from the payment of the PRC corporate income tax during the two financial years ended 31 December, 1998 and currently enjoys a 50 per cent. tax reduction of the PRC corporate income tax from 1999 to 2001. As CTF was classified as a "High and New Technology Enterprise" and a "Foreign Invested Advanced Technology Enterprise" by the Scientific Technology Commission of Shandong Province on 17 December, 1993 and 3 July, 1997, respectively, the applicable income tax rate was 15 per cent., and the effective tax rate for the PRC corporate income tax during that period was 7.5 per cent. As long as CTF continues to be classified as a "High and New Technology Enterprise", it will be entitled to a reduced tax rate of 15 per cent. for and after the year ending 31 December, 2002 and thereafter.

CTT enjoyed its two years' tax exemption in during the two financial years ended 31 December, 1999. For the three years ending 31 December, 2002, CTT will be subject to the PRC corporate income tax at the rate of 12 per cent., which is one-half of the applicable PRC corporate income tax rate, because CTT is located in the coastal economic zone where the preferential tax rate of 24 per cent. applies.

1999 compared with 1998

Turnover

For the year ended 31 December, 1999, the turnover arising from the sales of goods of the Group reached approximately HK$298.6 million, representing a growth of approximately 30 per cent. as compared with the same for the year ended 31 December, 1998. Turnover arising from the sales of biopharmaceutical products of CTF was approximately HK$123.1 million and turnover arising from the sales of modernised Chinese medicine and chemical medicine of CTT was approximately HK$175.5 million.

The sales of biopharmaceutical products of CTF for the year ended 31 December, 1999 increased by approximately HK$39.5 million from that of 1998, representing a growth of approximately 47 per cent. The increase in sales was primarily due to the improved sales and distribution network of CTF. The number of representative offices increased from 20 to 30 with additional sales staff and improved sales skills.

The sales of modernised Chinese medicine and chemical medicine of CTT for the year ended 31 December, 1999 increased by approximately HK$29.5 million, as compared with the same in 1998, representing a growth of approximately 20 per cent. The increase in the turnover was primarily due to the following:—

— increasing selling price of Diammonii Ghycyrrhizinatis injection. The average selling price of Diammonii Ghycyrrhizinatis injection was RMB16 per unit during the year, representing an increase of RMB2, as compared with that in 1998, and the average selling price of Diammonii Ghycyrrhizinatis capsule was RMB12 per unit during the year, representing an increase of RMB2 compared with that in 1998;

— increase in the production volume of Diammonii Ghycyrrhizinatis;

— three new products, namely Etidronate Disodium, Foscarnet Disodium and Zegui Longshuang, were launched during the year; and

— increasing sales of CTT due to expanded sales and distribution network.

Gross profit

For the year ended 31 December, 1999, the gross profit of the Group, excluding the dividend income of approximately HK$7.2 million, was approximately HK$216.4 million, representing a growth of approximately 39 per cent., as compared with that of the Group for the year ended 31 December, 1998, of which the gross profit of CTF was approximately HK$104.9 million and the gross profit of CTT was approximately HK$111.5 million.

The gross profit of CTF for the year ended 31 December, 1999 increased by approximately HK$31.6 million, as compared with the same in 1998, representing a growth of approximately 43 per cent. The increase in gross profit was primarily due to the increase in sales. The gross profit margin of CTF was approximately 88 per cent. and approximately 85 per cent. for each of the two years ended 31 December, 1999, respectively.

The gross profit of CTT for the year ended 31 December, 1999 increased by approximately HK$29.2 million, as compared with the same in 1998, representing a growth of approximately 36 per cent. The increase was primarily due to the increase of sales of high gross margin products such as Diammonii Glycyrrhizinatis injection and capsule. The gross profit margin of CTT was approximately 56 per cent. and approximately 64 per cent. for each of the two years ended 31 December, 1999, respectively.

Selling expenses

For the year ended 31 December, 1999, the total amount of the selling expenses of the Group was approximately HK$112.8 million, representing approximately 37 per cent. of the total turnover of the Group. One of the major components of the selling expenses of the Group was marketing and promotional expenses. For each of the two years ended 31 December, 1999, the marketing and promotional expense amounted to approximately HK$52.5 million and approximately HK$74.5 million, respectively. These expenses were charged to profit and loss accounts as and when incurred.

The selling expenses of CTF for the year ended 31 December, 1999 was approximately HK$52.2 million, representing an increase of approximately HK$13.0 million, or approximately 33 per cent., as compared with that in 1998. The increase in the selling expenses was primarily due to the increase in the number of representative offices and sales personnel. In addition, there was an increase in the marketing and promotional expenses of approximately HK$9.8 millions because of the Group's efforts to strengthen the market awareness of its products.

The selling expenses of CTT for the year ended 31 December, 1999 was approximately HK$60.6 million, representing an increase of approximately HK$15.7 million, or approximately 35 per cent., as compared with that in 1998. The main reasons for such increase in selling expenses were attributable to the following:—

— promotional expenses for core products were higher than that for non-core products;

— additional marketing and promotion expenses were incurred for new products; and

— additional expenses were incurred for advertisement.

Administrative expenses

For the year ended 31 December, 1999, the total amount of the administrative expenses of the Group was approximately HK$44.7 million, representing approximately 15 per cent. of the total turnover of the Group.

The total amount of the administrative expenses of CTF for the year ended 31 December, 1999 was approximately HK$17.7 million, representing an increase of approximately HK$6.8 million, or approximately 62 per cent., as compared with that in 1998. The increase was mainly due to the transfer of 30 management staff from the sales department to the administration department to strengthen the administrative control on the marketing activities and an increase of the salary by approximately 15 per cent..

The administrative expenses of CTT for the year ended 31 December, 1999 was approximately HK$25.0 million, representing an increase of approximately 2 per cent. as compared with that in 1998.

Finance charges

For the year ended 31 December, 1999, the total amount of finance charges of the Group was approximately HK$3.7 million.

The total amount of finance charges of CTF was approximately HK$1.0 million, representing an increase of approximately HK$22,200, or approximately 2 per cent., as compared with that in 1998.

The total amount of finance charges of CTT for the year ended 31 December, 1999 was approximately HK$2.7 million, representing approximately 79 per cent. of the same for the year ended 31 December, 1998.

For the five months ended 31 May, 2000

Turnover

For the five months ended 31 May, 2000, the turnover of the Group was approximately HK$151.2 million, representing approximately 49 per cent. of the turnover of the Group for the year ended 31 December, 1999. The turnover of CTF and CTT was approximately HK$68 million and approximately HK$83 million, respectively.

The Directors consider that, based on the actual performance from January 2000 to May 2000, the turnover of CTF and CTT for the year ending 31 December, 2000 is expected to increase by approximately 33 per cent. and approximately 14 per cent., respectively, as compared with the annual turnover of 1999, because of the following reasons:—

— the sales strategy of CTF has been adjusted whereby the sales representatives have been divided into three teams: ophthalmic, new products and out-patient medicine. The training of the sales representatives was enhanced. The efforts in selling new products were strengthened, resulting in an overall increase in its sales. In particular, amongst those new products, the expected sales of SOFAST Sodium Hyaluronate injection, Fredex eyedrops and Frecoseryl eyedrops for the year ending 31 December, 2000 will increase, as compared with the sales in 1999. Owing to the Group's efforts in exploring provincial markets, the expected sales of Moisten eyedrops for the year ending 31 December, 2000 will maintain a relatively high growth rate; and

— the Group strengthened its efforts in advertising. The sales of out-patient medicine products, such as Moisten eyedrops, C.P. Bright eyedrops and Mioclear eyedrops (which was newly introduced), increased by the intensive advertising compaigns.

Gross profit

For the five months ended 31 May, 2000, the gross profit of the Group was approximately HK$119 million, representing approximately 53 per cent. of the aggregate gross profit for the year ended 31 December, 1999. The gross profit of CTF and CTT was approximately HK$59 million and approximately HK$60 million, respectively. The increase in the gross profit of these two companies was attributable to economics of production and the increase in the sales of products with high gross profit such as Diammonii Glycyrrhizinatis and Foscarnet Disodium injections.

Selling expenses

For the five months ended 31 May, 2000, the selling expenses incurred by the Group were approximately HK$60 million, representing approximately 53 per cent. of the total selling expenses for the year ended 31 December, 1999. The selling expenses incurred by CTF and CTT were approximately HK$31 million and approximately HK$29 million, respectively. The principal items comprising the selling expenses were advertising and promotional expenses and the salary for additional sales representatives recruited by the Group during the review period.

Administrative expenses

The administrative expenses incurred by the Company from January to May 2000 was HK$19 million, representing 42 per cent. of the total administrative expenses for the year ended 31 December, 1999. The administrative expenses incurred by CTF and CTT was HK$7 million and HK12 million, respectively.

Finance charges

The finance charges incurred by the Company from January 2000 to May 2000 was HK$1.2 million, representing 32 per cent. of the total finance charges for the year ended 31 December, 1999. The finance charges incurred by CTF and CTT was HK$0.2 million and HK$1.0 million, respectively.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Group has not advanced any money to any entity which exceeded 25 per cent. of the Group's audited combined net tangible assets, has not provided any financial assistance and guarantees to affiliated companies which exceeded 25 per cent. of the Group's audited combined net tangible assets, has not made any pledge over its shares by its controlling shareholder to secure debts, guarantees or support of other obligations of the Group, and has not entered into any loan agreements imposing specific performance obligations on the controlling shareholder. The Directors are not aware of any circumstances which give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

PROPERTY INTERESTS

Property owned in the PRC

The Group owns an industrial complex situated in Liangyungong in the PRC where the production workshops, as well as the head office of CTT are situated. At present, the land use right of the land upon which the industrial complex is located vest in Jiangsu Tianqing. According to the legal opinion given by the PRC legal advisors to the Company, if CTT intends to transfer, assign or sell such land use right or the real properties, it shall obtain further approvals from, and pay the land premium to, the relevant government authority for the land used by the Company and complete all relevant government procedures. Accordingly, the property has been valued as at 31 July, 2000 by DTZ Debenham Tie Leung Limited as having a value of HK$30,500,000 based on depreciated replacement costs approach. Particulars of the properties are set out in Appendix III to this prospectus.

Pursuant to the land lease contract entered into between Jiangsu Tianqing, the grantee of the land use rights of the site, and CTT on 1 May, 1997: (i) if the PRC government makes a requisition for the land on which the industrial complex of CTT is situated which causes cessation of the production activities and relocation of the production facilities, the PRC government may compensate Jiangsu Tianqing against all the economic loss incurred; and (ii) CTT may request Jiangsu Tianqing to transfer to it the sum of compensation received by Jiangsu Tianqing, and Jiangsu Tianqing shall act in accordance with such request. In addition, pursuant to the joint venture agreement dated 26 October, 1998 entered into between Jiangsu Tianqing and CTL, if the PRC government makes a requisition for the abovementioned land, CTT may be entitled to apply for other suitable piece of land and be compensated against all costs, expenses and losses incurred in relation to such relocation.

The building structure of the industrial complex has a total gross floor area of about 34,370.89 sq.m. (369,968 sq.ft.). Jiangsu Tianqing has obtained the Certificate for the Use of State-owned Land for the site, and CTT has obtained the Housing Title Certificate in respect of the industrial complex.

The Group owns twelve residential units situated in Jinan, Shandong Province, the PRC as CTF's staff quarters. Six of them have obtained Housing Title Certificates and have been valued as at 31 July, 2000 by DTZ Debenham Tie Leung Limited for a capital value of HK$1,900,000. As the relevant Housing Title Certificates for the remaining six units are in the process of being issued, no commercial value is assigned to them. According to the legal opinion given by the PRC legal advisers to the Company, CTF may transfer, sell, lease or mortgage the residential units after completion of the land granting procedure which is responsible by respective developer. Particulars of these premises are set out in Appendix III to this prospectus. The major shareholders of the Company have given an indemnity to the Company against any financial loss suffered by the Group arising from the failure of securing the transfer of the title of the residential units to the Group.

Property rented in Hong Kong

The office of the Company is situated at Unit F (also known as 09) on 41st Floor, Office Tower, Convention Plaza, Hong Kong. The premises have a saleable area of approximately 143.72 sq.m. (approximately 1,547 sq.ft.) and are leased from a company controlled by Mr. Tse Ping (the "Lessor"). A summary of the principal terms of the above lease agreement with the Lessor is set forth in the section headed "Connected transactions" in this prospectus.

Property valuation

The property interests attributable to the Group were valued at an aggregate amount of HK$19,345,000 as at 31 July, 2000 by DTZ Debenham Tie Leung Limited, an independent property valuer. The property valuation report and valuation certificate, prepared by DTZ Debenham Tie Leung Limited, of these property interests are set forth in Appendix III to this prospectus.

PROFIT FORECAST, DIVIDENDS POLICY AND WORKING CAPITAL

Profit forecast

The Directors forecast that, in the absence of unforeseen circumstances, and subject to the bases and assumptions set forth in Appendix II to this prospectus, the combined profit after taxation and minority interests but before extraordinary items of the Group for the year ending 31 December, 2000 will amount to not less than HK$39 million. The forecast has been prepared by the Directors based on the audited combined results of the Group for the five months ended 31 May, 2000, unaudited combined result for the month ended 30 June, 2000 and a forecast of the combined results of the Group for the remaining six months ending 31 December, 2000 and on the basis that the Group had been in existence throughout the entire year. The Directors are not aware of any extraordinary items which have arisen, or are likely to arise, during the year ending 31 December, 2000. The texts of letters from Ernst & Young, the reporting accountants of the Group, and from DBS Asia in respect of the profit forecast are set forth in Appendix II to this prospectus.

On the basis of the above profit forecast and the weighted average number of approximately 255,737,705 Shares expected to be in issue during the year ending 31 December, 2000, the forecast earnings per Share is approximately HK15.2 cents, representing a weighted average prospective price/earnings multiple of approximately 7.9 times based on the Issue Price. This does not take into account any Shares which may fall to be allotted and issued pursuant to the Over-allotment Option and the exercise of the options to be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares granted to the Directors referred to under "Written resolutions of the sole shareholder of the Company passed on 20 June, 2000 and 19 September, 2000" in Appendix V to this prospectus, or otherwise.

On the assumption that the Placing had been completed and a total of 300,000,000 Shares had been in issue on 1 January, 2000, the forecast fully diluted earnings per Share is approximately HK14.0 cents, representing a diluted fully price/earnings multiple of approximately 8.57 times based on the Issue Price.

Dividend policy

For the year ended 31 December, 1999, a total amount of dividend of HK$24,820,000 was declared. No special loan arrangement has been or is required to be made for the payment of the dividends.

The Directors are of the view that the amount of any dividends to be declared in the future will depend on, among other things, the Company's results of operations, cash flow and financial condition, operating and capital requirements, the amount of distributable profits based on the generally accepted accounting principles in Hong Kong and the PRC, the applicable laws and regulations and all other relevant factors. The Directors expect the interim and final dividends to be paid in around October and July of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

Working capital

The Directors are of the opinion that after taking into account the Group's present available banking facilities, internally generated funds and the estimated net proceeds from the Placing, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

The Company was incorporated on 2 February, 2000, and there was no reserve available for distribution as at 31 May, 2000.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the combined net assets of the Group as at 31 May, 2000, as shown in the Accountants' Report set forth in Appendix I to this prospectus, adjusted as described below:—

	Note	*HK$'000*
Audited combined net assets of the Group as at 31 May, 2000		48,888
Less: Goodwill as at 31 May, 2000		(4,163)
Audited combined net tangible assets of the Group as at 31 May, 2000		44,725
Capitalisation of the aggregate amount due to a shareholder and a company related to a shareholder as at 30 June, 2000	*(1)*	76,595
Combined profit after taxation and minority interests of the Group for the month ended 30 June, 2000 based on its unaudited management accounts		5,818
Surplus arising from valuation of the property interests of the Group as at 30 June, 2000, less amount attributable to minority interests — buildings	*(2), (3)*	2,546
Estimated net proceeds of the Placing		60,000
Adjusted net tangible assets		189,684
Adjusted net tangible asset value per Share	*(4)*	HK$0.63

Notes:—

(1) The total amount due to Mr. Tse Ping and a company related to Mr. Tse Ping was capitalised as further described under "Subsequent events" in the Accountants' Report set forth in Appendix I to this prospectus.

(2) According to the property valuation report set forth in Appendix III to this prospectus, the capital value of property no. 1 and 2 less the amount attributable to minority interests, was HK$19,345,000. The net book value of these properties as at 30 June, 2000, less the amount attributable to minority interests, was HK$16,799,000. Thus, the re-valuation surplus is HK$2,546,000, which will be incorporated in the consolidated financial statements of the Group for the year ending 31 December, 2000. This revaluation surplus increases the amount of depreciation for remaining six months ending 31 December, 2000 by approximately HK$57,000.

(3) The relevant title certificates of property no. 3 under Group I in the property valuation report set forth in Appendix III to this prospectus with a net book value of approximately HK$558,000 as at 30 June, 2000 are in the process of being transferred to the name of the Group's joint venture. As the relevant title has not been obtained, no commercial value was assigned to these buildings by DTZ Debenham Tie Leung Limited. For the purposes of the financial statements of the Group, the property is stated at its net book value as at 30 June, 2000 on the basis of the Directors' belief that no impairment to the value of this property to the Group has occurred. In the opinion of the PRC legal advisers to the Group,

there is no legal impediment for the Group to obtain good title to the property after compliance with the outstanding requisite procedures, and the Group would be entitled to transfer, dispose of, let or mortgage the property after such compliance. The major shareholders of the Company have given an indemnity to the Company against any financial loss to the Group arising from the failure of securing the transfer of the titles to the Group.

(4) The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of a total of 300,000,000 Shares expected to be in issue immediately following completion of the Placing, but takes no account any Shares which may fall to be allotted and issued pursuant to the Over-allotment Option and the exercise of the options to be granted under the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the general mandates for allotment and issue and repurchase of Shares granted to the Directors, particulars of which are set forth in Appendix V to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 May, 2000, being the date to which the latest audited combined financial statements of the Group were made up.